NEW ISSUE

BOOK-ENTRY ONLY
EXPECTED RATINGS: Moody's: Aaa
S&P: AAA
Fitch: AAA
(See "RATINGS" herein)

In the opinion of Hawkins, Delafield & Wood, Bond Counsel, under existing statutes and court decisions and assuming continuing compliance with certain tax covenants described herein, (a) interest on the Offered Veterans G.O. Bonds is excluded from gross income for Federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"), (b) interest on the Series BV Bonds is not treated as a preference item for purposes of calculating the alternative minimum tax imposed on individuals and corporations under the Code; such interest, however, is included in the adjusted current earnings of certain corporations for purposes of calculating the alternative minimum tax imposed on such corporations, and (c) interest on the Series BW Bonds is treated as a preference item for purposes of calculating the alternative minimum tax imposed on individuals and corporations under the Code. In addition, in the opinion of Bond Counsel, under existing statutes, interest on the Offered Veterans G.O. Bonds is exempt from State of California personal income taxes. See "TAX MATTERS" herein.

$86,225,000
STATE OF CALIFORNIA
VETERANS GENERAL OBLIGATION BONDS
$29,725,000 Series BV (Non-AMT)
$56,500,000 Series BW (AMT)

This offering consists of veterans general obligation bonds listed above (the "Offered Veterans G.O. Bonds") authorized by the voters of the State of California (the "State").

Interest is payable on June 1 and December 1 of each year, commencing December 1, 2001. The Offered Veterans G.O. Bonds may be purchased in book-entry form only in the principal amount of $5,000 or any integral multiples thereof. See APPENDIX C—"BOOK-ENTRY SYSTEM." The Offered Veterans G.O. Bonds are subject to redemption prior to maturity, including redemption at par. See "THE OFFERED VETERANS G.O. BONDS—Redemption."

MATURITIES, PRINCIPAL AMOUNTS, INTEREST RATES AND PRICES OR YIELDS
(see inside cover page)

The Offered Veterans G.O. Bonds are general obligations of the State to which the full faith and credit of the State are pledged. Principal of, premium, if any, and interest on the Offered Veterans G.O. Bonds are payable from any moneys in the General Fund of the State, subject only to the prior application of such moneys to the support of the public school systems and public institutions of higher education. State law requires funds for the payment of debt service on the Offered Veterans G.O. Bonds to be transferred to the General Fund from the Veterans Farm and Home Building Fund of 1943. See "AUTHORIZATION OF AND SECURITY FOR THE OFFERED VETERANS G.O. BONDS—Security For and Payment of Veterans G.O. Bonds."

The scheduled payment of principal of and interest on the Offered Veterans G.O. Bonds when due will be guaranteed under a municipal bond insurance policy to be issued concurrently with the delivery of the Offered Veterans G.O. Bonds by Financial Security Assurance Inc. ("FSA"). See "OFFERED VETERANS G.O. BONDS MUNICIPAL BOND INSURANCE POLICY."

FSA

This cover page contains certain information for quick reference only. It is *not* a summary of this issue. Investors must read the entire Official Statement to obtain information essential to the making of an informed investment decision.

The Offered Veterans G.O. Bonds (other than the Series BW Bonds maturing December 1, 2020, December 1, 2025, and December 1, 2029, which are not being reoffered hereby) are offered, when, as and if issued and received by the Underwriters set forth below, subject to certain conditions, including the receipt of certain legal opinions of The Honorable Bill Lockyer, Attorney General of the State of California, and of Hawkins, Delafield & Wood, Bond Counsel to the State. In connection with the issuance of the Offered Veterans G.O. Bonds, Public Resources Advisory Group has served as Financial Advisor, Quateman & Zidell LLP has served as Disclosure Counsel to the State, and Orrick, Herrington & Sutcliffe LLP has served as Special Counsel to the State regarding APPENDIX A. Certain legal matters will be passed upon for the Underwriters by their counsel, Kutak Rock LLP. The Offered Veterans G.O. Bonds will be available for delivery on or about April 26, 2001.

Honorable Philip Angelides
Treasurer of the State of California

Merrill Lynch & Co.

Bear, Stearns & Co. Inc.
Banc of America Securities LLC
Great Pacific Securities, Inc.
Pacific American Securities LLC

Dain Rauscher Incorporated
J.P. Morgan & Co.
Roberts & Ryan Investments Inc.
Sutro & Co. Incorporated

Lehman Brothers
Goldman, Sachs & Co.
Mischler Financial Group, Inc.
Salomon Smith Barney

Dated: April 19, 2001

MATURITIES, PRINCIPAL AMOUNTS, INTEREST RATES AND PRICES OR YIELDS

$29,725,000 Veterans General Obligation Bonds Series BV (Non-AMT)

$900,000 Serial Bonds

Date (December 1)	Maturity Principal Amount	Interest Rate	Price or Yield	CUSIP Number
2005	$ 100,000	3.95%	100%	13062NQT7
2006	100,000	4.10	100	13062NQU4
2007	100,000	4.25	100	13062NQV2
2008	100,000	4.40	100	13062NQW0
2009	100,000	4.50	100	13062NQX8
2010	100,000	4.60	100	13062NQY6
2011	100,000	4.70	100	13062NQZ3
2012	100,000	4.80	100	13062NRA7
2013	100,000	4.90	100	13062NRB5

$700,000 5.50% Term Bonds due December 1, 2020; Price: 100% CUSIP No. 13062NRC3

$500,000 5.55% Term Bonds due December 1, 2025; Price: 100% CUSIP No. 13062NRD1

$27,625,000 5.60% Term Bonds due December 1, 2032; Price: 100% CUSIP No. 13062NRE9

(plus accrued interest from April 1, 2001)

$56,500,000 Veterans General Obligation Bonds Series BW (AMT)

$8,940,000 Serial Bonds

Date (December 1)	Maturity Principal Amount	Interest Rate	Price or Yield	CUSIP Number
2005	$ 100,000	4.15%	100%	13062NRF6
2006	100,000	4.30	100	13062NRG4
2007	100,000	4.45	100	13062NRH2
2008	100,000	4.60	100	13062NRJ8
2009	100,000	4.70	100	13062NRK5
2010	1,975,000	4.85	100	13062NRL3
2011	2,060,000	4.95	100	13062NRM1
2012	2,155,000	5.05	100	13062NRN9
2013	2,250,000	5.15	100	13062NRP4

$5,120,000 5.55% Term Bonds due December 1, 2018; Price: 100% CUSIP No. 13062NRQ2

$9,280,000 5.60% Term Bonds due December 1, 2019; Price: 100% CUSIP No. 13062NRU3

$5,000,000 5.60% Term Bonds due December 1, 2020; Price: 100% CUSIP No. 13062NRR0 (Not Reoffered)

$14,250,000 5.65% Term Bonds due December 1, 2024; Price: 100% CUSIP No. 13062NRV1

$4,620,000 5.65% Term Bonds due December 1, 2025; Price: 100% CUSIP No. 13062NRS8 (Not Reoffered)

$6,300,000 5.70% Term Bonds due December 1, 2028; Price: 100% CUSIP No. 13062NRW9

$2,990,000 5.70% Term Bonds due December 1, 2029; Price: 100% CUSIP No. 13062NRT6 (Not Reoffered)

(plus accrued interest from April 1, 2001)

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Copies of this Official Statement may be obtained from:
HONORABLE PHILIP ANGELIDES
Treasurer of the State of California
P.O. Box 942809
Sacramento, California 94209-0001
(800) 900-3873

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OFFICIAL STATEMENT

$86,225,000
STATE OF CALIFORNIA
VETERANS GENERAL OBLIGATION BONDS
$29,725,000 Series BV (Non-AMT)
$56,500,000 Series BW (AMT)

INTRODUCTION

This Introduction contains only a brief summary of the terms of the State of California Veterans General Obligation Bonds listed above (the "Offered Veterans G.O. Bonds") and a brief description of the Official Statement; a full review should be made of the entire Official Statement, including the Appendices and information incorporated by reference. All statements contained in this introduction are qualified in their entirety by reference to the entire Official Statement. Summaries of provisions of the Constitution and laws of the State of California 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 Offered Veterans G.O. Bonds

The issuance of veterans general obligation bonds ("Veterans G.O. Bonds") is authorized by Bond Acts (defined below) approved by the voters of the State of California (the "State") and by resolutions of the Veterans Finance Committee of 1943. The Offered Veterans G.O. Bonds are authorized by specific Bond Acts and are being issued to finance, or to refinance obligations that were issued to provide funds for the financing of, contracts ("Contracts of Purchase") for the purchase of homes and farms for California military veterans under the Farm and Home Purchase Program (the "Program") of the Department of Veterans Affairs of the State (the "Department"). The Series BV Bonds are being issued for the purpose of replacing and refunding certain outstanding obligations of the State, thereby providing moneys to finance new Contracts of Purchase between the Department and eligible veterans. The Series BW Bonds are being issued to refund certain outstanding Veterans G.O. Bonds. See "THE OFFERED VETERANS G.O. BONDS – Purpose" and "– Identification and Authorization of the Offered Veterans G.O. Bonds."

The issuance of the Offered Veterans G.O. Bonds and the anticipated issuance of $39,840,000 Department's Home Purchase Revenue Bonds, 2001 Series A (the "2001 Revenue Bonds") in May 2001, and Veterans G.O. Bonds, Series BX and Series BY in a principal amount to be determined (the "Summer 2001 Veterans G.O. Bonds") in June 2001 are expected to result in moneys becoming available for new Contracts of Purchase. The Offered Veterans G.O. Bonds, the 2001 Revenue Bonds, and the Summer 2001 Veterans G.O. Bonds are separate bond issues, although the Offered Veterans G.O. Bonds and the 2001 Revenue Bonds are treated as a single issue for certain Federal tax purposes. The sales and issuances of the Offered Veterans G.O. Bonds, the 2001 Revenue Bonds, and the Summer 2001 Veterans G.O. Bonds are separate and independent. The Offered Veterans G.O. Bonds, the 2001 Revenue Bonds, and the Summer 2001 Veterans G.O. Bonds will each be offered and sold pursuant to a separate official statement, copies of which, when available, can be obtained from the Department (see "Additional Information"). See EXHIBIT 2 to APPENDIX B – "CERTAIN DEPARTMENT FINANCIAL INFORMATION AND OPERATING DATA – Contracts Of Purchase – Amounts Expected To Be Available To Fund Contracts of Purchase and Related Investments."

The Offered Veterans G.O. Bonds will be registered in the name of a nominee of The Depository Trust Company ("DTC") which will act as securities depository for the Offered Veterans G.O. Bonds. Purchases of beneficial interests in the Offered Veterans G.O. Bonds may be in book-entry form only, in the principal amount of $5,000 or any integral multiple thereof. Principal and interest are payable as specified on the front cover page and inside cover page of this Official Statement.

Security for and Sources of Payment for Veterans G.O. Bonds

The Offered Veterans G.O. Bonds are general obligations of the State to which the full faith and credit of the State are pledged (see "AUTHORIZATION OF AND SECURITY FOR THE OFFERED VETERANS G.O. BONDS – Security For and Payment of Veterans G.O. Bonds" herein). Principal of and interest on the Veterans G.O. Bonds are payable from moneys in the General Fund of the State Treasury (the "General Fund") (see APPENDIX A – "THE STATE OF CALIFORNIA – State Finances – The General Fund"), 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. The Bond Acts authorizing the Offered Veterans G.O. Bonds provide that the State shall collect annually, in the same manner and at the same time as it collects other State revenues, a sum sufficient, in addition to the ordinary revenues of the State, to pay the principal of and interest on the Offered Veterans G.O. Bonds. State law requires funds for the payment of debt service on the Offered Veterans G.O. Bonds to be transferred to the General Fund from the Veterans Farm and Home Building Fund of 1943 (the "1943 Fund"). See "AUTHORIZATION OF AND SECURITY FOR THE OFFERED VETERANS G.O. BONDS – Security For and Payment of Veterans G.O. Bonds" and APPENDIX B – "THE DEPARTMENT OF VETERANS AFFAIRS OF THE STATE OF CALIFORNIA, THE PROGRAM AND THE 1943 FUND."

Offered Veterans G.O. Bonds Are Insured Under a Municipal Bond Insurance Policy

Concurrently with, and as a condition precedent to, the issuance of the Offered Veterans G.O. Bonds, there will be delivered a municipal bond insurance policy (the "Offered Veterans G.O. Bonds Municipal Bond Insurance Policy") issued by Financial Security Assurance Inc. ("FSA") guaranteeing the scheduled payment of principal of and interest on the Offered Veterans G.O. Bonds. See "THE OFFERED VETERANS G.O. BONDS MUNICIPAL BOND INSURANCE POLICY" and APPENDIX H – "FORM OF OFFERED VETERANS G.O. BONDS MUNICIPAL BOND INSURANCE POLICY OF FINANCIAL SECURITY ASSURANCE INC."

Redemption

The Offered Veterans G.O. Bonds are subject to optional and special redemption prior to maturity. In addition, the Series BV Bonds maturing on December 1, 2020, December 1, 2025, and December 1, 2032 and the Series BW Bonds maturing on December 1, 2018, December 1, 2019, December 1, 2020, December 1, 2024, December 1, 2025, December 1, 2028, and December 1, 2029, respectively, are subject to mandatory redemption at par prior to their stated maturities, in part, from sinking fund payments made by the State. See "THE OFFERED VETERANS G.O. BONDS – Redemption."

Information Related to this Official Statement

The information set forth herein has been obtained from official sources which are believed to be reliable, but it 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 or the Department since the date hereof.

All financial and other information presented or incorporated by reference in this Official Statement has been provided by, respectively, the State or the Department from its records, *except* for information expressly attributed to other sources. The presentation of 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, respectively, the State or the Department. 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. Any statements made in this Official Statement involving matters of opinion, projections or estimates, whether expressly stated or not, are set forth as such and not as representations of fact.

A wide variety of other information, including financial information, concerning the State is available from State agencies, State agency publications and State agency websites. 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. See APPENDIX A–"THE STATE OF CALIFORNIA-Financial Statements."

The information in APPENDIX C–"BOOK-ENTRY SYSTEM" has been furnished by The Depository Trust Company and no representation is made by the State, the Underwriters, the Financial Advisor or the purchasers of the Offered Veterans G.O. Bonds as to the accuracy or completeness of such information.

Other than with respect to information concerning FSA contained under the caption "OFFERED VETERANS G.O. BONDS MUNICIPAL BOND INSURANCE POLICY" and APPENDIX H – "FORM OF OFFERED VETERANS G.O. BONDS MUNICIPAL BOND INSURANCE POLICY OF FINANCIAL SECURITY ASSURANCE INC." herein, none of the information in this Official Statement has been supplied or verified by FSA and FSA makes no representation or warranty, express or implied, as to (i) the accuracy or completeness of such information; (ii) the validity of the Offered Veterans G.O. Bonds; or (iii) the tax exempt status of the interest on the Offered Veterans G.O. Bonds.

This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of the Offered Veterans G.O. Bonds by any person in any jurisdiction in which it is unlawful for such person to make such an offer, solicitation or sale.

No dealer, broker, salesperson or other person has been authorized by the State to give any information or to make any representations other than those contained herein and, if given or made, such other information or representations must not be relied upon as having been authorized by the State. This Official Statement is not to be construed as a contract with the purchasers of the Offered Veterans G.O. Bonds.

IN CONNECTION WITH THE OFFERING OF THE OFFERED VETERANS G.O. BONDS (OTHER THAN THE SERIES BW BONDS MATURING DECEMBER 1, 2020, DECEMBER 1, 2025, AND DECEMBER 1, 2029 (THE "PLACED BONDS"), WHICH ARE NOT BEING REOFFERED HEREBY) THE UNDERWRITERS MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICES OF THE OFFERED VETERANS G.O. BONDS OFFERED HEREBY AT LEVELS ABOVE

THOSE WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

Tax Matters

In the opinion of Hawkins, Delafield & Wood, Bond Counsel to the State ("Bond Counsel"), under existing statutes and court decisions, assuming compliance by the State and the Department with certain tax covenants described therein, (i) interest on the Offered Veterans G.O. Bonds is excluded from gross income for Federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"), and such interest is exempt from personal income taxes of the State of California under present State law, (ii) interest on the Series BV Bonds is not treated as a preference item for purposes of calculating the alternative minimum tax imposed on individuals and corporations under the Code; such interest, *however*, is included in the adjusted current earnings of certain corporations for purposes of calculating the alternative minimum tax imposed on such corporations, and (iii) interest on the Series BW Bonds is treated as a preference item for purposes of calculating the alternative minimum tax imposed on individuals and corporations under the Code. See "TAX MATTERS" below, APPENDIX E – "CERTAIN FEDERAL TAX CODE REQUIREMENTS" and APPENDIX G – "LEGAL OPINION OF BOND COUNSEL."

Continuing Disclosure

The State Treasurer, on behalf of the State, will provide annually to certain nationally recognized municipal securities information repositories certain financial information and operating data relating to the State for each Fiscal Year in which any Offered Veterans G.O. Bonds are outstanding (the "Treasurer's Annual Report"), by not later than April 1 of the calendar year following the end of such Fiscal Year, commencing with the report for the 2000-2001 Fiscal Year, and to provide notices of the occurrence of certain other enumerated events if material. The Secretary of the Department will provide annually to certain nationally recognized municipal securities information repositories certain financial information and operating data relating to the Program for each Fiscal Year in which any Offered Veterans G.O. Bonds are outstanding (the "Department's Annual Report"), by not later than April 1 of the calendar year following the end of such Fiscal Year, commencing with the report for the 2000-2001 Fiscal Year. The specific nature of the information to be contained in the Treasurer's Annual Report and the Department's Annual Report or the notices of material events and certain other terms of the continuing disclosure obligations are summarized below under APPENDIX D – "SUMMARY OF CONTINUING DISCLOSURE CERTIFICATES."

Neither the State Treasurer nor the Secretary of the Department has failed to comply, in any material respect, with any "previous undertakings," as that term is used in Rule 15c2-12 promulgated under the Securities Exchange Act of 1934, as amended.

Additional Information

A variety of other information, including financial information, concerning the State is available from State agencies, State agency publications and State agency websites. No such information is a part of or incorporated into this Official Statement, except as expressly noted. Any such information that is inconsistent with the information set forth in this Official Statement should be disregarded. See APPENDIX A – "THE STATE OF CALIFORNIA – Financial Statements."

Questions regarding this Official Statement and the issuance of these securities may be addressed to the office of the Honorable Philip Angelides, Treasurer of the State of California, P.O. Box 942809, Sacramento, California 94209-0001, telephone (800) 900-3873. Questions regarding the Program should be addressed to the Bond Finance Division of the Department of Veterans Affairs, P.O. Box 942895, Sacramento, California 94295-0001, telephone (916) 653-2081.

AUTHORIZATION OF AND SECURITY FOR THE OFFERED VETERANS G.O. BONDS

Authorization

Each general obligation bond act authorizing the issuance of Veterans G.O. Bonds (each, a "Bond Act") incorporates by reference the State General Obligation Bond Law (the "Law"), which is set forth in Chapter 4 (commencing with Section 16720) of Part 3 of Division 4 of Title 2 of the California Government Code. The Law provides a procedure for the authorization, sale, issuance, use of proceeds, repayment and refunding of State general obligation bonds.

As of April 1, 2001, $676,835,000 of new issue Veterans G.O. Bonds will be authorized under Bond Acts but not issued. The Offered Veterans G.O. Bonds will use $29,250,000 of such $676,835,000 authorization. See APPENDIX B – "THE DEPARTMENT OF VETERANS AFFAIRS OF THE STATE OF CALIFORNIA, THE PROGRAM AND THE 1943 FUND – THE 1943 FUND – General".

Security For and Payment of Veterans G.O. Bonds

The Veterans G.O. Bonds are general obligations of the State, payable in accordance with the Bond Acts out of the General Fund. The full faith and credit of the State are pledged for the punctual payment of the principal of and the interest on the Veterans G.O. Bonds. All payments of principal, premium, if any, and interest on all State general obligation bonds, including the Offered Veterans G.O. Bonds, have an equal claim to the General Fund, subject only to the prior application of moneys in the General Fund to the support of the public school systems and public institutions of higher education. The Bond Acts provide that the State shall collect annually in the same manner and at the same time as it collects other State revenue an amount sufficient, in addition to the ordinary revenue of the State, to pay principal of and interest on the Veterans G.O. Bonds. The Bond Acts also contain a continuing appropriation from the General Fund of the sum annually necessary to pay the principal of and the interest on the Veterans G.O. Bonds as they become due and payable.

The Department's principal fund is the 1943 Fund described in APPENDIX B – "THE DEPARTMENT OF VETERANS AFFAIRS OF THE STATE OF CALIFORNIA, THE PROGRAM AND THE 1943 FUND – THE 1943 FUND." The Military and Veterans Code of the State (the "Veterans Code"), of which the Bond Acts are a part, requires that on the dates when funds are to be remitted to bondowners for the payment of debt service on Veterans G.O. Bonds in each fiscal year, there shall be transferred to the General Fund to pay the debt service on Veterans G.O. Bonds all of the money in the 1943 Fund (but not in excess of the amount of debt service then due and payable). If the money so transferred on the remittance dates is less than the debt service then due and payable, the balance remaining unpaid is required by the Veterans Code to be transferred to the General Fund out of the 1943 Fund as soon as it shall become available, together with interest thereon from the remittance date until paid, at the same rate of interest as borne by the applicable Veterans G.O. Bonds, compounded semiannually.

The Veterans Code does not grant any lien on the 1943 Fund or the moneys therein to the holders of any Veterans G.O. Bonds. As of April 1, 2001, there were outstanding $2,419,070,000 aggregate principal amount of Veterans G.O. Bonds, not including the Offered Veterans G.O. Bonds. Outstanding Home Purchase Revenue Bonds in the aggregate principal amount of $538,435,000 (as of April 1, 2001, and not including the 2001 Revenue Bonds) previously issued by the Department (collectively with any additional Home Purchase Revenue Bonds issued by the Department in the future, the "Revenue Bonds") are and will be special obligations of the Department payable solely from, and secured by a pledge of, an undivided interest in the assets of the 1943 Fund (other than proceeds of Veterans G.O. Bonds or any amounts in any rebate account) and any reserve accounts established for the benefit of Revenue Bonds. The Veterans Code provides that this undivided interest in the 1943 Fund is secondary and subordinate to any interest or right in the assets of the 1943 Fund of the people of the State and of the holders of the Veterans G.O. Bonds (that is, the right to payment or reimbursements of debt service on Veterans G.O. Bonds described in the preceding paragraph). If debt service payments to the General Fund are current and all reimbursement of debt service payments with interest as described in the preceding paragraph has been made, no holder or beneficial owner of Veterans G.O. Bonds has any right to restrict disbursements by the Department from the 1943 Fund for any lawful purpose, including payment of debt service on or redemptions and purchases of Revenue Bonds.

For additional information, see APPENDIX B – "THE DEPARTMENT OF VETERANS AFFAIRS OF THE STATE OF CALIFORNIA, THE PROGRAM AND THE 1943 FUND – THE 1943 FUND" and EXHIBIT 1 to APPENDIX B – "FINANCIAL STATEMENTS OF THE 1943 FUND FOR FISCAL YEARS 2000 AND 1999 AND INDEPENDENT AUDITORS' REPORT."

OFFERED VETERANS G.O. BONDS MUNICIPAL BOND INSURANCE POLICY

General

The Offered Veterans G.O. Bonds are expected to be the subject of an Offered Veterans G.O. Bonds Municipal Bond Insurance Policy described under this heading to be issued by FSA.

The information relating to FSA and the Offered Veterans G.O. Bonds Municipal Bond Insurance Policy contained below under the subcaption "Financial Security Assurance Inc." has been furnished by FSA and neither the State, the Department, nor the Underwriters have undertaken any independent investigation of FSA, its operations, or its municipal bond insurance. No representation is made herein as to the accuracy or adequacy of such information or as to the absence of material adverse changes in such information subsequent to the date hereof. Neither the State, the Department, nor the Underwriters make any representation as to the ability of FSA to make payments under the Offered Veterans G.O. Bonds Municipal Bond Insurance Policy. See Appendix H – "FORM OF OFFERED VETERANS G.O. BONDS MUNICIPAL BOND INSURANCE POLICY OF FINANCIAL SECURITY ASSURANCE INC."

Municipal Bond Insurance Policy

Concurrently with the issuance of the Offered Veterans G.O. Bonds, FSA will issue its Municipal Bond Insurance Policy for the Offered Veterans G.O. Bonds (the "Offered Veterans

G.O. Bonds Municipal Bond Insurance Policy"). The Offered Veterans G.O. Bonds Municipal Bond Insurance Policy guarantees the scheduled payment of principal of and interest on the Offered Veterans G.O. Bonds when due as set forth in the form of the Offered Veterans G.O. Bonds Municipal Bond Insurance Policy included in Appendix H to this Official Statement.

The Offered Veterans G.O. Bonds Municipal Bond Insurance Policy is not covered by any security or guaranty fund established under New York, California, Connecticut or Florida insurance law.

Financial Security Assurance Inc.

FSA is a New York domiciled insurance company and a wholly owned subsidiary of Financial Security Assurance Holdings Ltd. ("Holdings"). Holdings is an indirect subsidiary of Dexia, S.A., a publicly held Belgian corporation. Dexia, S.A., through its bank subsidiaries, is primarily engaged in the business of public finance in France, Belgium and other European countries. No shareholder of Holdings or FSA is liable for the obligations of FSA.

At December 31, 2000, FSA's total policyholders' surplus and contingency reserves were approximately $1,436,681,000 and its total unearned premium reserve was approximately $707,587,000 in accordance with statutory accounting principles. At December 31, 2000, FSA's total shareholders' equity was approximately $1,488,866,000 and its total net unearned premium reserve was approximately $582,709,000 in accordance with generally accepted accounting principles.

The financial statements included as exhibits to the annual and quarterly reports filed by Holdings with the Securities and Exchange Commission are hereby incorporated herein by reference. Also incorporated herein by reference are any such financial statements so filed from the date of this Official Statement until the termination of the offering of the Offered Veterans G.O. Bonds. Copies of materials incorporated by reference will be provided upon request to Financial Security Assurance Inc., 350 Park Avenue, New York, New York 10022, Attention: Communications Department (telephone: (212) 826-0100).

The Policy does not protect investors against changes in market value of the Offered Veterans G.O. Bonds, which market value may be impaired as a result of changes in prevailing interest rates, changes in applicable ratings or other causes. FSA makes no representation regarding the Offered Veterans G.O. Bonds or the advisability of investing in the Offered Veterans G.O. Bonds. FSA makes no representation regarding the Official Statement, nor has it participated in the preparation thereof, except that FSA has provided to the State and the Department the information presented under this caption for inclusion in the Official Statement.

THE OFFERED VETERANS G.O. BONDS

General

The Offered Veterans G.O. Bonds are or will be registered in the name of the nominee of The Depository Trust Company ("DTC"), which will act as securities depository for the Offered Veterans G.O. Bonds. Purchases of beneficial interests in the Offered Veterans G.O. Bonds may be made in book-entry form only, in the principal amount of $5,000 or any integral multiple thereof. See APPENDIX C – "BOOK-ENTRY SYSTEM."

The Offered Veterans G.O. Bonds are or will be dated the applicable dates and will mature on the dates and in the amounts set forth on the inside cover page hereof. Interest on the Offered Veterans G.O. Bonds will accrue from April 1, 2001 at the respective rates shown on the inside cover page of this Official Statement. Interest on the Offered Veterans G.O. Bonds is payable on June 1 and December 1 in each year (each, an "Interest Payment Date") commencing December 1, 2001 and shall be calculated on the basis of a 360-day year comprised of twelve thirty-day months.

Principal and interest 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 participants in DTC for disbursement to the beneficial owners of the Offered Veterans G.O. Bonds. The record date for the payment of interest on the Offered Veterans G.O. 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.

In reading this Official Statement it should be understood that while the Offered Veterans G.O. Bonds are in the Book-Entry-Only System, (i) all rights of ownership must be exercised through DTC and the Book-Entry-Only System, and (ii) notices that are to be given to registered owners by the State will be given only to DTC.

Purpose

Under the Program, the Department acquires residential property to be sold to eligible veterans under Contracts of Purchase between the Department and such veterans. Such acquisition is financed principally with the proceeds of Veterans G.O. Bonds and the Department's Revenue Bonds. The Series BV Bonds are being issued for the purpose of refunding certain outstanding Veterans G.O. Bonds on their maturity dates and the Series BW Bonds are being issued to refund the outstanding Veterans G.O. Bonds of Series BJ 5/6, on their June 1, 2001 mandatory tender date, thereby providing moneys to finance new Contracts of Purchase.

The Department expects to issue the $39,840,000 2001 Revenue Bonds in May 2001 and a principal amount to be determined of Summer 2001 Veterans G.O. Bonds in June 2001. The 2001 Revenue Bonds are being issued to refund certain maturing Revenue Bonds and certain optionally redeemable Veterans G.O. Bonds with bonds of significantly later maturity, thereby making the funds that would otherwise be utilized to pay such refunded bonds at future maturity dates available to finance Contracts of Purchase. The Summer 2001 Veterans G.O. Bonds are expected to be issued to refund certain outstanding Veterans G.O. Bonds at maturity and to refund outstanding Veterans G.O. Bonds which are subject to optional redemption in order to reduce interest costs and restructure the Department's debt service obligations.

See EXHIBIT 2 to APPENDIX B – "DEPARTMENT OF VETERANS AFFAIRS OF THE STATE OF CALIFORNIA, THE PROGRAM AND THE 1943 FUND – Certain Department Financial Information and Operating Data – Contracts of Purchase – Amounts Expected to be Available to Fund Contracts of Purchase and Related Investments."

Identification and Authorization of the Offered Veterans G.O. Bonds

The Series BV Bonds and the Series BW Bonds are each issued under two Bond Acts, authorized by the voters, as described below. See APPENDIX A – "THE STATE OF CALIFORNIA – State Indebtedness."

Authorization

$475,000 principal amount of Veterans General Obligation Bonds, Series BV1, authorized under the Veterans Bond Act of 1984.

$29,250,000 principal amount of Veterans General Obligation Bonds, Series BV2, authorized under the Veterans Bond Act of 1996.

$13,115,000 principal amount of Veterans General Obligation Bonds, Series BW1, authorized under the Veterans Bond Act of 1988.

$43,385,000 principal amount of Veterans General Obligation Bonds, Series BW2, authorized under the Veterans Bond Act of 1990.

Redemption

Sinking Fund Redemption

The Series BV Bonds maturing on December 1, 2020, December 1, 2025, and December 1, 2032 and the Series BW Bonds maturing on December 1, 2018, December 1, 2019, December 1, 2020, December 1, 2024, December 1, 2025, December 1, 2028, and December 1, 2029, respectively (the "Term Bonds"), are subject to redemption prior to their respective stated maturity dates, in part, by lot, from sinking fund payments, at a redemption price of 100 percent of the principal amount thereof, plus accrued interest to the date fixed for redemption, without premium, on the respective dates and in the respective amounts shown below.

SINKING FUND REDEMPTION SCHEDULE

December 1	Series BV Bonds Maturing December 1, 2020	Series BV Bonds Maturing December 1, 2025	Series BV Bonds Maturing December 1, 2032
2014	$100,000		
2015	100,000		
2016	100,000		
2017	100,000		
2018	100,000		
2019	100,000		
2020	100,000†		
2021		$100,000	
2022		100,000	
2023		100,000	
2024		100,000	
2025		100,000†	
2026			$ 100,000
2027			100,000
2028			4,830,000
2029			5,145,000
2030			5,520,000
2031			5,810,000
2032			6,120,000†

† Stated Maturity.

SINKING FUND REDEMPTION SCHEDULE

December 1	Series BW Bonds Maturing December 1, 2018	Series BW Bonds Maturing December 1, 2019	Series BW Bonds Maturing December 1, 2020	Series BW Bonds Maturing December 1, 2024	Series BW Bonds Maturing December 1, 2025	Series BW Bonds Maturing December 1, 2028	Series BW Bonds Maturing December 1, 2029
2014	$2,350,000	$ 10,000					
2015	2,470,000	10,000					
2016	100,000	2,110,000	$ 410,000				
2017	100,000	2,230,000	425,000				
2018	100,000†	2,355,000	450,000				
2019		2,565,000†	490,000				
2020			3,225,000†				
2021				$3,290,000	$ 100,000		
2022				3,465,000	110,000		
2023				3,650,000	115,000		
2024				3,845,000†	120,000		
2025					4,175,000†		
2026						$3,020,000	$1,380,000
2027						3,180,000	1,455,000
2028						100,000†	55,000
2029							100,000†

† Stated Maturity.

If less than all of the Term Bonds of the same maturity date are purchased or called for redemption (other than in satisfaction of sinking fund payments), the State Treasurer will credit the principal amount of such Term Bonds that are so purchased or redeemed against applicable remaining sinking fund payments relating to such Term Bonds (including the principal amounts due on the respective maturity dates, as shown above), as requested by the Department.

Optional Redemption

The Offered Veterans G.O. Bonds maturing on or after December 1, 2006 are subject to optional redemption prior to their respective stated maturity dates, at the option of the State upon request of the Department, in whole or in part (of any maturity and by lot within each maturity), on any date on or after June 1, 2006 at the redemption prices stated below, plus accrued interest to the date fixed for redemption:

Redemption Dates (both dates inclusive)	Redemption Price (as percentage of principal amount redeemed)
June 1, 2006 to May 31, 2007	101%
June 1, 2007 and thereafter	100%

Special Redemption from Unexpended Proceeds

The Offered Veterans G.O. Bonds are subject to special redemption on any date prior to their respective stated maturity dates, at the option of the State upon request of the Department, from moneys deposited in the GO Bond Series Proceeds Subaccount with respect to the Offered Veterans G.O. Bonds that have not been applied to finance Contracts of Purchase. Any such redemption may be in whole or in part (and of any maturity of either Series at the option of the State upon request of the Department and by lot within such maturity), at the principal amount thereof plus accrued interest to the date fixed for redemption, without premium.

Moneys are currently available through the issuance of Veterans G.O. Bonds and Revenue Bonds to finance Contracts of Purchase, and additional moneys may become available to finance Contracts of Purchase through the concurrent and future issuances or remarketings of Revenue Bonds and Veterans G.O. Bonds. Since the Department has full discretion, subject to eligibility requirements and the requirements of the Internal Revenue Code of 1954, as amended, or the Internal Revenue Code of 1986, as amended, as applicable (collectively, the "Federal Tax Code"), in applying the proceeds of all of these bonds to finance the Program, the proceeds of prior and future Veterans G.O. Bonds and Revenue Bonds, including the 2001 Revenue Bonds and the Summer 2001 Veterans G.O. Bonds, may be used to finance Contracts of Purchase before proceeds of the Offered Veterans G.O. Bonds. See APPENDIX B – "THE DEPARTMENT OF VETERANS AFFAIRS OF THE STATE OF CALIFORNIA, THE PROGRAM AND THE 1943 FUND – THE PROGRAM – Qualifying Veteran Status" and EXHIBIT 2 to APPENDIX B – "THE DEPARTMENT OF VETERANS AFFAIRS OF THE STATE OF CALIFORNIA, THE PROGRAM AND THE 1943 FUND – CERTAIN DEPARTMENT FINANCIAL INFORMATION AND OPERATING DATA."

Special Redemption from Excess Revenues

The Offered Veterans G.O. Bonds are subject to special redemption on any date prior to their respective stated maturity dates, at the option of the State upon request of the Department, from Excess Revenues (as defined below) derived from any Veterans G.O. Bonds or any Revenue

Bonds. Any such redemption may be in whole or in part (and of any maturity of any Series at the option of the State upon request of the Department and by lot within such maturity), at the principal amount thereof plus accrued interest to the date fixed for redemption, without premium.

"Excess Revenues" means, as of any date of calculation, Revenues in excess of Accrued Debt Service. Excess Revenues can include prepayments and repayments on Contracts of Purchase funded by Revenue Bonds and Veterans G.O. Bonds, and also includes Revenues which had been set aside to be recycled into new Contracts of Purchase. All payments on Contracts of Purchase are deposited in the 1943 Fund and applied to pay or reimburse debt service on the Veterans G.O. Bonds, to pay debt service on Revenue Bonds, to pay for mandatory redemptions of Veterans G.O. Bonds and Revenue Bonds, to pay Program and Department expenses, and to pay certain insurance claims. The Department, subject to applicable bond authorizing resolutions, may apply Excess Revenues to redeem any Veterans G.O. Bonds or Revenue Bonds eligible for redemption. The Department's decision to apply Excess Revenues to redeem bonds, to finance new Contracts of Purchase, or for any other permitted purpose depends on many factors, including applicable bond authorizing resolution requirements, demand for Contracts of Purchase, debt service cost savings, investment earnings, and Federal Tax Code requirements. See APPENDIX B – "THE DEPARTMENT OF VETERANS AFFAIRS OF THE STATE OF CALIFORNIA, THE PROGRAM AND THE 1943 FUND – THE 1943 FUND – Excess Revenues."

Certain of the outstanding Veterans G.O. Bonds are not subject to redemption prior to maturity. See EXHIBIT 2 to APPENDIX B – "THE DEPARTMENT OF VETERANS AFFAIRS OF THE STATE OF CALIFORNIA, THE PROGRAM AND THE 1943 FUND – CERTAIN DEPARTMENT FINANCIAL INFORMATION AND OPERATING DATA."

The Department's actual past prepayment experience for existing Contracts of Purchase is set forth in EXHIBIT 2 to APPENDIX B - "CERTAIN DEPARTMENT FINANCIAL INFORMATION AND OPERATING DATA - Contracts of Purchase - Contracts of Purchase Origination and Principal Repayment Experience." However, since the Department substantially reduced the interest rates on most existing Contracts of Purchase in January 1999, the prepayment experience reflected in the chart may not predict the future behavior of such Contracts of Purchase after the interest rate reduction.

For certain Revenue Bonds issued or to be issued after 1988, the Federal Tax Code prohibits repayments (including prepayments) of principal of Contracts of Purchase financed with the proceeds of an issue of such bonds to be used to make additional Contracts of Purchase after 10 years from the date of issuance of such bonds (or the date of issuance of original bonds in the case of refundings), after which date such amounts must be used to redeem such bonds of the issue, except for a $250,000 *de minimis* amount. See "TAX MATTERS – Federal Tax Matters – Proposed Federal Tax Legislation."

The Federal Tax Code requires a payment to the United States from certain veterans whose Contracts of Purchase are originated after December 31, 1990 with the proceeds of certain Revenue Bonds. Since such requirement remains in effect with respect to any Contracts of Purchase originated after December 31, 1990 with proceeds of the applicable Revenue Bonds, for a period ending nine years after the execution of such Contracts of Purchase, the Department is unable to predict what effect, if any, such requirement will have on the origination or prepayment of Contracts of Purchase to which such provision applies.

Notice of Redemption

When redemption is required while the Offered Veterans G.O. Bonds are in book-entry form, the State Treasurer is to give notice of redemption by mailing copies of such notice only to DTC (not to the beneficial owners of the Offered Veterans G.O. Bonds) not less than thirty or more than sixty 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 Offered Veterans G.O. Bonds. See APPENDIX C - "BOOK-ENTRY SYSTEM." The notice will state, among other things, that the Offered Veterans G.O. Bonds or a designated portion thereof (in the case of partial redemption of an Offered Veterans G.O. Bond) are to be redeemed, the dated date of the Offered Veterans G.O. Bonds, the redemption date, the Series and maturities of the Offered Veterans G.O. 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 Offered Veterans G.O. Bonds called for redemption. Notice of redemption will also be provided by mail to certain financial information services and securities depositories.

TAX MATTERS

Federal Tax Matters

The Offered Veterans G.O. Bonds are considered a single issue for Federal income tax purposes with the 2001 Revenue Bonds. The requirements of applicable Federal tax law must be satisfied with respect to each series of the Offered Veterans G.O. Bonds and the 2001 Revenue Bonds in order that interest on the Offered Veterans G.O. Bonds not be included in gross income for Federal income tax purposes retroactive to the date of issuance thereof. Proceeds of the Offered Veterans G.O. Bonds and the 2001 Revenue Bonds must be used to retire outstanding bonds within ninety days of their respective dates of issuance. Failure to so use all of such proceeds and to comply with other requirements of the Federal Tax Code could cause interest on the Offered Veterans G.O. Bonds to be included in gross income for Federal income tax purposes retroactive to their date of issuance.

Requirements Imposed on the Offered Veterans G.O. Bonds by the Federal Tax Code

The Federal Tax Code contains the following loan eligibility requirements which are applicable (with certain exceptions), in whole or in part, to Contracts of Purchase (or portions of Contracts of Purchase) entered into with respect to properties acquired with amounts allocable to qualified veterans' mortgage bonds and/or to qualified mortgage bonds. The Offered Veterans G.O. Bonds are qualified veterans' mortgage bonds and not qualified mortgage bonds, and the 2001 Revenue Bonds are pre-Ullman bonds (as such terms are defined in APPENDIX E). The 2001 Revenue Bonds are treated for Federal income tax purposes as refunding certain existing pre-Ullman bonds issued to finance the Program. The moneys which will be made available from the issuance of the Offered Veterans G.O. Bonds to finance Contracts of Purchase will be Qualified Veterans Mortgage Bond Proceeds, while the moneys which will be made available from the issuance of the 2001 Revenue Bonds to finance Contracts of Purchase will be Unrestricted Moneys (as such terms are defined in APPENDIX B). The loan eligibility requirements described in APPENDIX E - "CERTAIN FEDERAL TAX CODE REQUIREMENTS" do not apply to Unrestricted Moneys. These requirements also do not apply to the Contracts of Purchase to be allocated to the 2001 Revenue Bonds for Federal income tax purposes following payment of the bonds being

refunded by the 2001 Revenue Bonds. The Federal Tax Code establishes other requirements described below which will apply to the 2001 Revenue Bonds.

The first general requirement of the Federal Tax Code which is applicable to qualified veterans' mortgage bonds is that the aggregate amount that may be issued must not exceed the volume limit based upon statutory formula. The Offered Veterans G.O. Bonds are in compliance with such requirement.

The Federal Tax Code requires that the effective interest rate on mortgage loans financed with the lendable proceeds of qualified mortgage bonds and qualified veterans' mortgage bonds may not exceed the yield on the issue by more than 1.125% (1.50% for pre-Ullman bonds, see "Yield Limitations and Rebate" in APPENDIX E) and that certain investment earnings on non-mortgage investments, calculated based upon the extent such investment earnings exceed the amount that would have been earned on such investments if the investments were invested at a yield equal to the yield on the issue, be rebated to the United States or to veterans. The Department has covenanted to comply with these requirements and has established procedures to determine the amount of excess earnings, if any, that must be rebated to the United States or to veterans. See APPENDIX B - "THE DEPARTMENT OF VETERANS AFFAIRS OF THE STATE OF CALIFORNIA, THE PROGRAM AND THE 1943 FUND - THE PROGRAM - Contracts of Purchase" for discussions of provisions of the Veterans Code which affect the Department's ability to establish and to change interest rates on Contracts of Purchase.

The Federal Tax Code states that an issuer will be treated as meeting the arbitrage restrictions on mortgage loans if it in good faith attempted to meet such requirement and any failure to meet such requirement was due to inadvertent error after taking all reasonable steps to comply with such requirement. See APPENDIX E - "CERTAIN FEDERAL TAX CODE REQUIREMENTS."

Opinion of Bond Counsel

In the opinion of Bond Counsel (expected to be delivered in substantially the form set forth with respect to the Offered Veterans G.O. Bonds in APPENDIX G), under existing statutes and court decisions and assuming continuing compliance with certain tax covenants described herein, (i) interest on the Offered Veterans G.O. Bonds is excluded from gross income for Federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"), (ii) interest on the Series BV Bonds is not treated as a preference item for purposes of calculating the alternative minimum tax imposed on individuals and corporations under the Code; such interest, *however*, is included in the adjusted current earnings of certain corporations for purposes of calculating the alternative minimum tax imposed on such corporations, and (iii) interest on the Series BW Bonds is treated as a preference item for purposes of calculating the alternative minimum tax imposed on individuals and corporations under the Code. In addition, in the opinion of Bond Counsel, under existing statutes, interest on the Offered Veterans G.O. Bonds is exempt from State of California personal income taxes.

In rendering the foregoing opinions, Bond Counsel has assumed and continues to assume compliance by the State and the Department with and enforcement by the State and the Department of the documents authorizing the issuance of the Offered Veterans G.O. Bonds and the 2001 Revenue Bonds and the applicable Program Documents (as such term is defined in APPENDIX E). Bond Counsel has expressed and expresses no opinion as to the exclusion from gross income of interest on any Offered Veterans G.O. Bonds subsequent to any date on which action is taken

pursuant to the documents authorizing the issuance of the Offered Veterans G.O. Bonds, for which action such documents related to such Series require a legal opinion to the effect that taking such action will not adversely affect such exclusion, unless such firm delivers an opinion as of such date to such effect.

In rendering its opinions, Bond Counsel expresses no opinion regarding any other Federal or state tax consequences with respect to the Offered Veterans G.O. Bonds. Bond Counsel renders its opinions under existing statutes and court decisions as of the issue date, and assumes no obligation to update its opinion after the issue date to reflect any future action, fact or circumstance, or change in law or interpretation, or otherwise. In rendering its opinions, Bond Counsel expresses no opinion on the effect of any action taken after the date of the opinion or not taken in reliance upon an opinion of other counsel on the exclusion from gross income for Federal income tax purposes of interest on the Offered Veterans G.O. Bonds, or under state and local tax law.

Certain Collateral Federal Tax Consequences

The following is a brief discussion of certain Federal income tax matters with respect to the Offered Veterans G.O. Bonds under existing statutes. It does not purport to deal with all aspects of Federal taxation that may be relevant to a particular owner of an Offered Veterans G.O. Bond. Prospective investors, particularly those who may be subject to special rules, are advised to consult their own tax advisors regarding the Federal tax consequences of owning and disposing of the Offered Veterans G.O. Bonds.

As noted above, interest on the Series BW Bonds is, and interest on the Series BV Bonds is not, a preference item in determining the tax liability of individuals, corporations, and other taxpayers subject to the alternative minimum tax imposed by Section 55 of the Internal Revenue Code of 1986, as amended. Interest on the Offered Veterans G.O. Bonds must also be taken into account in determining the tax liability of foreign corporations subject to the branch profits tax imposed by Section 884 of the Code.

Prospective Owners of Offered Veterans G.O. Bonds should be aware that the ownership of such obligations may result in collateral Federal income tax consequences to various categories of persons, such as corporations (including S corporations and certain foreign corporations), financial institutions, property and casualty insurance companies, individual recipients of Social Security or Railroad Retirement benefits, and individuals otherwise eligible for the earned income tax credit and to taxpayers deemed to have incurred or continued indebtedness to purchase or carry obligations the interest on which is not included in gross income for Federal income tax purposes.

Legislation affecting municipal bonds is frequently considered by the United States Congress. There can be no assurance that legislation enacted or proposed after the date of issuance of the Offered Veterans G.O. Bonds will not have an adverse effect on the tax-exempt status or market price of the Offered Veterans G.O. Bonds.

Proposed Federal Tax Legislation

Legislation has been introduced in the United States House of Representatives by two Congressmen, with seven co-sponsors, which among other things would repeal the 10-Year Rule (as defined in APPENDIX E) for principal prepayments and principal repayments received after the date of enactment of the proposed legislation (the "House Bill"). On April 3, 2001, Senators Orrin Hatch (R-Utah) and John Breaux (D-La.), members of the Finance Committee of the United States

Senate, with four co-sponsors, introduced a bill identical to the House Bill (the "Senate Bill"). The House Bill, the Senate Bill, and another House bill introduced by a Congressman with six co-sponsors, would also amend the purchase price limits established under the Federal Tax Code. There can be no assurance that such legislation will be enacted or that it will be enacted in its present form, or that other legislation regarding the 10-Year Rule or purchase price limits or other matters affecting the Federal Tax Code will not be introduced or enacted.

State Tax Matters

In the opinion of Bond Counsel to be rendered with respect to the Offered Veterans G.O. Bonds on the date of delivery thereof, interest on the Offered Veterans G.O. Bonds is exempt from personal income taxes of the State of California under State law in effect on the respective dates of such opinions. A complete copy of the proposed form of opinion to be rendered with respect to the Offered Veterans G.O. Bonds is contained in APPENDIX G.

LEGAL OPINIONS

The proposed form of the opinion of the Attorney General of the State of California as to the validity of the Offered Veterans G.O. Bonds is included in APPENDIX F. A copy of the proposed form of the opinion of Bond Counsel as to the validity of the Offered Veterans G.O. Bonds and treatment of interest thereon for Federal income tax purposes, is included in APPENDIX G.

The Attorney General undertakes no responsibility for the accuracy, completeness or fairness of this Official Statement.

Certain legal matters will be passed upon by Quateman & Zidell LLP, Disclosure Counsel to the State, and by Orrick, Herrington & Sutcliffe LLP, Special Counsel to the State regarding APPENDIX A. Certain legal matters will be passed upon for the Underwriters by their counsel, Kutak Rock LLP.

LITIGATION

The Attorney General has advised that there is not now pending (with service of process on the Department completed) or known to the Attorney General of the State to be threatened any litigation seeking to restrain or enjoin the sale, issuance, execution or delivery of the Offered Veterans G.O. Bonds or in any manner affecting the validity of the Offered Veterans G.O. Bonds or any proceedings of the State taken with respect to the foregoing, except as follows.

As stated above, payment of the debt service on general obligation bonds of the State is contained as a continuing appropriation in the Bond Acts approved by the voters. In June 1998, a complaint was filed in Los Angeles County Superior Court in the case of *Howard Jarvis Taxpayers Association v. Kathleen Connell* challenging the authority of the State Controller to make payments in the absence of a State budget. The lawsuit did not specifically attack the validity of the Bond Acts or the continuing appropriations of funds to pay principal and interest on general obligation bonds. The Superior Court judge, however, issued a preliminary injunction preventing the State Controller from making payments, including those made pursuant to continuing appropriations, while the State's annual budget act had not yet been enacted. As permitted by the State Constitution, the Legislature immediately enacted and the Governor signed an emergency appropriations bill that allowed continued payment of various state obligations, including debt

service. This litigation is now pending before the Court of Appeal. See APPENDIX A – "THE STATE OF CALIFORNIA – LITIGATION" for more information about the status of this case.

The Attorney General and Bond Counsel will render an opinion that the conclusion of the Superior Court judge in the *Jarvis* case (which is now stayed pending appeal) questioning the validity of continuing appropriations, if and to the extent it would apply to the payment of debt service on the Offered Veterans G.O. Bonds, is without merit and that the California appellate courts would hold that the appropriations for debt service on the Offered Veterans G.O. Bonds contained in the Bond Acts are valid under the State Constitution and that the State Controller may make payments pursuant to such appropriations. While there can be no assurance as to the outcome of the litigation, the State believes that moneys will be available in due course on a timely basis to make all future payments of debt service on the Offered Veterans G.O. Bonds.

While at any given time, including the present, there are numerous civil actions pending against the State (including, but not limited to, those discussed in APPENDIX A), that could, if determined adversely to the State, affect the State's expenditures and, in some cases, its revenues, the Attorney General of the State is of the opinion that no pending actions are likely to have a material adverse effect on the State's ability to pay principal of, premium, if any, and interest on the Offered Veterans G.O. Bonds when due. See APPENDIX A – "THE STATE OF CALIFORNIA – LITIGATION."

There may, from time to time, be litigation affecting the Department that does not directly relate to the Veterans G.O. Bonds, which may nonetheless relate to the 1943 Fund. See APPENDIX B – "THE DEPARTMENT OF VETERANS AFFAIRS OF THE STATE OF CALIFORNIA, THE PROGRAM AND THE 1943 FUND – THE 1943 FUND – Debbs Litigation" for a discussion of certain litigation relating to the Department and the 1943 Fund.

UNDERWRITING

The Offered Veterans G.O. Bonds (other than the Placed Bonds, which are being sold to an institutional investor) are being purchased by the Underwriters listed on the cover page. The Underwriters have jointly and severally agreed to purchase the Offered Veterans G.O. Bonds (other than the Placed Bonds) for a purchase price of the aggregate principal amount thereof plus accrued interest. In connection therewith the Department will pay a fee to the Underwriters of $581,193.25. The initial public offering prices of the Offered Veterans G.O. Bonds (other than the Placed Bonds) may be changed from time to time by the Underwriters.

The purchase contract relating to the Offered Veterans G.O. Bonds (other than the Placed Bonds) provides that (i) the Underwriters will purchase all of the Offered Veterans G.O. Bonds (other than the Placed Bonds) if any of the Offered Veterans G.O. Bonds (other than the Placed Bonds) are purchased, and (ii) the obligation to make such purchase is subject to certain terms and conditions set forth in such purchase contract including, among others, the approval of certain legal matters by counsel.

In connection with the sale of the Placed Bonds to an institutional investor, the underwriting firms listed on the cover page will receive a placement fee of $101,663.00.

FINANCIAL STATEMENTS

Attached as EXHIBIT 1 to APPENDIX A are the General Purpose Financial Statements of the State of California (the "Financial Statements") for the Fiscal Year ended June 30, 2000. The Financial Statements have been examined by the California State Auditor to the extent indicated in the California State Auditor's report appearing in APPENDIX A. Certain unaudited financial information for the six months ended December 31, 2000 is included as EXHIBIT 2 to APPENDIX A. See APPENDIX A – EXHIBIT 2 – STATE CONTROLLER'S "STATEMENT OF GENERAL FUND CASH RECEIPTS AND DISBURSEMENTS, December 2000."

INDEPENDENT AUDITORS

Attached as EXHIBIT 1 to APPENDIX B are the Financial Statements for the Veterans Farm and Home Building Fund of 1943 for the years ended June 30, 2000 and 1999. These statements have been audited by Deloitte & Touche LLP, independent auditors, as indicated in their report appearing in APPENDIX B.

RATINGS

The Underwriters' obligation to purchase the Offered Veterans G.O. Bonds is conditioned upon the Offered Veterans G.O. Bonds receiving ratings of "Aaa" by Moody's Investors Service ("Moody's"), "AAA" by Standard & Poor's Credit Market Services, a division of The McGraw-Hill Companies ("S & P"), and "AAA" by Fitch Such ratings will be based on the issuance of the Offered Veterans G.O. Bonds Municipal Bond Insurance Policy. 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. For example, S & P has placed the State's general obligation and General Fund appropriation-backed debt ratings on CreditWatch with negative implications, Moody's has changed its rating outlook for the State's general obligation bonds from stable to negative, and Fitch has placed the State general obligation bonds and State lease-backed obligations on rating watch negative. A revision or withdrawal of any such credit rating could have an effect on the market price of the Offered Veterans G.O. Bonds. After the Offered Veterans G.O. Bonds are rated, the State Treasurer intends to provide appropriate periodic credit information to the bond rating agencies to promote maintenance of the ratings on the Offered Veterans G.O. Bonds.

ADDITIONAL INFORMATION

The purpose of this Official Statement is to supply information to prospective buyers of the Offered Veterans G.O. Bonds. Public Resources Advisory Group has served as Financial Advisor in connection with the issuance of the Offered Veterans G.O. Bonds.

All financial and statistical data contained herein have been taken or constructed from State (including Department) records, except for information expressly attributed to other sources. The presentation of 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, including the Department. 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. Any statements made in this Official Statement involving matters of opinion, projections or estimates, whether expressly stated or not, are set forth as such and not as representations of fact.

STATE OF CALIFORNIA

By: /s/ Philip Angelides
Treasurer of the State of California

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APPENDIX A

THE STATE OF CALIFORNIA

Honorable Philip Angelides
Treasurer of the State of California

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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 Constitution guarantees the electorate the right to make basic decisions, including amending the Constitution and local government charters. In addition, the State voters may directly influence State government through the initiative, referendum and recall processes.

California's Legislature consists of a forty-member Senate and an eighty-member Assembly. Assembly members are elected for two-year terms, and Senators are elected for four-year terms. Assembly members are limited to three terms in office and Senators to two terms. 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 Bureau of State Audits, headed by the 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.

The Governor is the chief executive officer of the State and is elected for a four-year term. 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 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	Gray Davis	Democrat	1998
Lieutenant Governor	Cruz Bustamante	Democrat	1998
Treasurer	Philip Angelides	Democrat	1998
Attorney General	Bill Lockyer	Democrat	1998
Controller	Kathleen Connell	Democrat	1994
Secretary of State	Bill Jones	Republican	1994
Superintendent of Public Instruction	Delaine Eastin	Democrat	1994
Insurance Commissioner	Harry Low	Democrat	appointed

The current term for each office expires in January 2003. Persons elected to statewide offices are limited to two terms in office.

The executive branch is principally administered through thirteen major agencies and departments: Business, Transportation and Housing Agency, Child Development and Education Agency, Environmental Protection Agency, Department of Finance, Department of Food and Agriculture, Health and Human Services Agency, Department of Industrial Relations, Resources Agency, State and Consumer Services Agency, Department of Veterans Affairs, Technology, Trade and Commerce Agency, and Youth and Adult Correctional Agency. 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.

California has a comprehensive system of public higher education comprised of three sectors: 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. Approximately 44,556 degrees were awarded in the 1999-00 school year. About 167,000 full-time students were enrolled at the nine UC campuses and the Hastings College of Law in the 1999-00 school year. The California State University System, provides undergraduate and graduate degrees to students. Approximately 69,200 degrees were awarded in the 1999-00 school year. About 282,000 full-time students were enrolled at the 23 campuses in the 1999-00 school year. The third sector consists of 108 campuses operated by 72 community college districts which provide associate degrees and certificates. Approximately 90,000 associate degrees and certificates were awarded in the 1999-00 school year. About 1.6 million students were enrolled in California's community colleges in the fall of 2000.

Employee Relations

In 2000-01, the State work force is estimated to be comprised of approximately 316,000 personnel years, of which approximately 108,000 personnel years represent employees of institutions of higher education. Of the remaining 208,000 personnel years, approximately 162,000 are subject to collective bargaining and approximately 46,000 are excluded from collective bargaining. The California State Employees' Association (CSEA) represents nine of the 21 collective bargaining units, or approximately 52 percent of those employees subject to 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. The chosen employee organization has the right to represent its members, except that once an employee organization is recognized as the exclusive representative of a bargaining unit, only that organization may represent employees in that unit.

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 agreement is reached, to prepare a memorandum of understanding 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.

Since existing Memoranda of Understanding will expire on or before July 2, 2001, the State will begin collective bargaining with all 21 collective bargaining units in the Spring of 2001. The State has not experienced a major work stoppage in more than 20 years.

RECENT DEVELOPMENTS REGARDING NATURAL GAS AND ELECTRICITY

Background

During the past year California has experienced difficulties with the prices and supplies of natural gas and electricity in much of the State. These difficulties are likely to continue for several years. The State Department of Finance believes that the potential economic impacts of the utility situation, including increased energy costs, are mitigated by the fact that California is a relatively energy-efficient state, ranking 49th among the 50 states in energy expenditures as a percent of gross product, according to US Department of Energy data for 1997. Nonetheless, the Department believes there is potential for economic disruption during the summer peak in electricity demand if power supplies are interrupted, and that longer term business investment and location decisions may be adversely affected by potential disruptions. At the same time, the Department believes efforts to expand electric generating capacity and natural gas transmission pipelines as well as efforts to reduce demand in the short run should help relieve these concerns over the next several years.

Investor-Owned Utilities

The three major investor-owned electric utilities in California are net buyers of electricity. The utilities have been purchasing electricity at fluctuating short-term and spot wholesale prices while the retail prices that they can charge their residential and small business customers are capped at specified levels. Beginning in mid-2000, power purchase costs exceeded retail charges and the utilities have reported substantial resulting losses. One result has been that the creditworthiness of the utilities has deteriorated, adversely affecting their ability to purchase electricity and, in the case of Pacific Gas & Electric Company ("PG&E"), natural gas. PG&E and the second largest utility in the State, Southern California Edison Company ("SCE"), reported publicly that they have, since January 2001, defaulted on some of their obligations, and that it is possible they may be forced into bankruptcy.

On April 6, 2001, PG&E filed for voluntary protection under Chapter 11 of the federal Bankruptcy Code. The bankruptcy proceedings (the "PG&E Bankruptcy") are pending in U.S. Bankruptcy Court in San Francisco, California. During the PG&E Bankruptcy, PG&E's operations will continue under current management, while the Bankruptcy Court decides on the allocation of PG&E's available cash flow and assets among its various creditors. PG&E or other parties to the PG&E Bankruptcy may seek to have the Bankruptcy Court take actions which affect prices charged to end use customers for electricity or affect existing contracts for purchase or sale of electricity.

Energy Purchases and Sales by the DWR

Shortages of electricity resulted in rolling blackouts in January 2001 affecting millions of Californians. On January 17, 2001, the Governor determined that the electricity available from California's utilities was insufficient to prevent widespread and prolonged disruption of electric service in California and proclaimed a state of emergency to exist in California under the California Emergency Services Act (the "Act"). Under the Act the Governor has directed all agencies of the State government to utilize and employ State personnel, equipment, and facilities for the performance of any and all activities designed to prevent or alleviate the emergency. The

Act permits the Governor to direct the expenditure of any appropriated funds legally available to perform the activities required under a proclamation. The Governor directed the State Department of Water Resources ("DWR") to enter into contracts and arrangements for the purchase and sale of electric power as necessary to assist in mitigating the effects of the emergency. The Act also authorizes the Governor to commandeer or utilize any private property or personnel deemed by him necessary in carrying out his responsibilities and requires the State to pay the reasonable value of the use of such property. The Governor has used this authority to seize certain power purchase contracts of investor-owned utilities. The Governor's proclamation under the Act was followed by the enactment on February 1, 2001, of legislation pertaining to the DWR power purchase program (Chapter 4, Statutes of 2001, referred to herein as "AB 1X") and related orders of the California Public Utilities Commission ("PUC") commencing in March, 2001.

The DWR has been purchasing substantial amounts of electricity at fluctuating short-term and spot wholesale prices since January 17, 2001, for resale to retail end use customers of the investor-owned utilities. The DWR's purchases are designed to supplement the amount of electricity produced by the utilities' own generating assets and purchased by the utilities through their own contracts. Electricity purchased by the DWR has been delivered to retail end use customers through the transmission and distribution systems of the investor-owned utilities and payment is to be collected from retail end use customers by the utilities, segregated and held in trust for the DWR, and remitted to the DWR. The DWR believes that its rates (described below) and the servicing agreements with the utilities have been and will be structured so that the utilities do not and will not have any claim, including in bankruptcy proceedings, to the revenue from retail end use customers.

The DWR has also started entering into long-term contracts for purchase of electricity. These long-term contracts are intended to reduce reliance on short-term and spot market purchases in meeting the State's needs. The DWR's authority to enter into such contracts pursuant to AB 1X currently expires in January 2003. State officials project that electricity purchases by the DWR as a creditworthy entity and the other efforts of the State to stabilize the wholesale power market (described below) will ultimately lower the wholesale cost of electricity in California.

The DWR's expenditures for electricity purchases for the period January 17-April 18, 2001 aggregated approximately $4.9 billion. Retail end use customer payments for electricity furnished by the DWR currently aggregate substantially less than the DWR's cost of purchasing that electricity, and such a shortfall will continue until revenues from rates charged to end use customers for electricity cover expenses for purchases of electricity (and related financing costs).

Proceedings are underway to increase rates for the electricity supplied by the DWR. The CPUC recently approved substantial electricity rate increases for end use customers of PG&E and SCE. Further CPUC action will be necessary to implement the increases and determine the portion of the rate increases due to the DWR. In addition, AB 1X separately authorizes the DWR to recover from rates charged to retail end use customers sufficient revenues to meet all of its obligations, including the costs of power purchases and debt service. The CPUC is authorized to enter into an agreement with the DWR to implement those rates. Proceedings are underway to establish the DWR's revenue requirement under AB 1X and implement the agreement between the CPUC and the DWR. The amount and timing of rate increases payable to the DWR may be affected by rehearings and appeals of the CPUC's orders and the PG&E Bankruptcy, and thus the

impact on revenues of the DWR is difficult to predict.

Funding for the DWR Power Purchase Program

AB 1X authorizes the DWR to issue revenue bonds (including interim notes) to fund its power purchase program. The revenue bonds are to be repaid from a dedicated revenue stream derived from retail end use customer payments for electricity as described under "Energy Purchases and Sales by the DWR." The principal amount of revenue bonds to be issued, the timing of the bond sale or sales and details of the bonds are being determined by the DWR and, as to certain matters, the CPUC (as provided by AB 1X). The CPUC recently established an upper limit on the bond program authorized by AB 1X of approximately $13 billion. All actions of the CPUC may be affected by rehearings and appeals and the PG&E Bankruptcy. The DWR plans its first issue of revenue bonds (in the form of interim notes) as soon as practicable. The revenue bonds authorized by AB 1X will not be a liability of or backed by the General Fund, and neither the faith and credit nor the taxing power of the State will be pledged to pay those revenue bonds.

The DWR expenditures for electricity purchases to date have been funded by advances from the State, primarily from the State's General Fund. AB 1X requires the DWR to repay those advances (with interest) from the proceeds of the DWR revenue bonds. AB 1X states that it is the intent of the Legislature that such repayment be made as soon as practicable. It is the intention of the DWR to make those repayments from the proceeds of sale of the revenue bonds. The State's right to repayment of advances from the General Fund made to the DWR after the issuance of the DWR interim notes will be subordinate to the payment of debt service on the interim notes. Accordingly, advances from the General Fund made after the issuance of the interim notes will not be repaid until long-term revenue bonds are issued to retire the interim notes.

The Administration projects that the State has sufficient available resources to continue to support the DWR's electricity purchases at least through the summer of 2001. See "State Finances—The General Fund—Inter-Fund Borrowings." If continuing electricity purchases affected available resources to pay for normal State operations, the State could issue short-term obligations to maintain adequate cash reserves. The State has regularly issued short-term obligations to meet its cash flow needs. See "State Indebtedness—Cash Flow Borrowings."

Delays beyond mid-2001 in issuing the DWR revenue bonds would permit certain of DWR's power purchase agreements to be terminated by the sellers and could thus increase reliance on short-term and spot market purchases of electricity, resulting in higher electricity purchase costs for the DWR.

The Administration does not plan to make advances from the State to assist the DWR in making electricity purchases subsequent to the sale by the DWR of all of the revenue bonds authorized by AB 1X. Alternative sources of additional funding for the DWR program (if needed) would be rate increases and additional revenue bonds.

Executive and Legislative Initiatives

The Governor has stated that the State is focusing its efforts in four main areas: (1) increasing the energy supply through expedited plant construction and other sources of power

generation; (2) decreasing energy demand and increasing efficiency; (3) expanding the use of long-term energy contracts rather than relying upon the spot market; and (4) maintaining the financial viability of California's public utilities. Over the last two years, nine power plant projects have received permits to start construction, and six plants are currently under construction. In addition, there are 14 plants moving through the permitting process. As these new facilities become operational, the increased supply of power is expected to lower the cost of power in the wholesale market. In addition, the Governor has issued a series of Executive Orders to streamline the review process for new peaking power facilities; reduce administrative hurdles to accelerate power plant construction; promote development of renewable energy systems; increase the hours of operation of existing facilities; and provide for rebates as a reward for significant conservation efforts. Consumers who reduce energy consumption by at least 20 percent between June and September 2001 will receive a commensurate rate reduction in subsequent months.

The Governor has conducted negotiations with the three major investor-owned utilities in California concerning the above-mentioned efforts to maintain the financial viability of the utilities. A memorandum of understanding ("MOU") has been reached with SCE (but not the other utilities) as to such matters as financing undercollections of power purchase costs, the purchase of high-voltage transmission lines, and future power purchases and sales. The MOU with SCE is subject to conditions such as the enactment of authorizing legislation and CPUC approval.

Legislation was enacted in April, 2001, authorizing $850 million in State expenditures for energy conservation efforts, including funds to weatherize homes of low-income residents, funds for rebates on energy-efficient appliances, incentives for businesses that cut consumption, and public information campaigns.

The State Legislature is considering various bills dealing with energy matters, including bills that would authorize one or more State agencies to build, purchase or obtain by eminent domain electricity generation or transmission facilities or natural gas transmission facilities, and to encourage energy conservation programs. These agencies would have the power to issue revenue bonds for these purposes. Legislation is also being considered that could assist the investor-owned utilities to refinance their deficits incurred in the recent purchases of wholesale power.

Natural Gas Supplies

California imports about 85 percent of its natural gas. Limited gas transmission pipeline capacity into California and a major pipeline break in New Mexico during the summer of 2000, coupled with increases in wholesale prices for natural gas in the United States, have resulted in substantial price increases that are being passed on to business and residential consumers. Pipeline expansion is planned but will not be complete for several years. Nationwide, relatively high prices for natural gas are likely to persist for several years. Supplies of natural gas in northern and central California are also being affected by the financial difficulty of the utility company serving that region. Shortages of natural gas supplies could adversely affect the economy, and particularly generation of electricity, much of which is fueled by natural gas.

Litigation

A number of lawsuits have been filed concerning various aspects of the current energy situation. These include disputes over rates set by the CPUC; responsibility for electricity and natural gas purchases made by the investor-owned utilities and the California Independent System Operator (which continues to purchase some electricity); and antitrust and fraud claims against various parties. See "Litigation" below for a discussion of certain of these lawsuits and further discussion of the PG&E Bankruptcy.

Prospects

While the State hopes that the measures described above, coupled with conservation, load management and improved energy efficiency, will avoid future disruptions of the supply of electricity or natural gas to the public, lower wholesale energy prices and promote the financial recovery of the State's investor-owned utilities, the situation continues to be fluid and subject to many uncertainties. There can be no assurance that there will not be future disruptions in energy supplies or related developments which could adversely affect the State's economy, and which could in turn affect State revenues, or the health and comfort of its citizens.

STATE INDEBTEDNESS

General

The State Treasurer is responsible for the sale of debt obligations of the State and its various authorities and agencies. The State has always paid the principal of and interest on its general obligation bonds, general obligation commercial paper, lease-purchase debt and short-term obligations, including revenue anticipation notes and revenue anticipation warrants, when due.

Capital Facilities Financing

General Obligation Bonds - The State Constitution prohibits the creation of general obligation indebtedness of the State unless a bond law is approved by a majority of the electorate voting at a general election or a direct primary. General obligation bond acts provide that debt service on general obligation bonds shall be appropriated annually from the General Fund and all debt service on general obligation bonds is paid from the General Fund. Under the State Constitution, debt service on general obligation bonds is the second charge to the General Fund after the application of moneys in the General Fund to the support of the public school system and public institutions of higher education. See "State Finances – State Expenditures" below. Certain general obligation bond programs receive revenues from sources other than the sale of bonds or the investment of bond proceeds.

As of February 1, 2001, the State had outstanding $22,565,721,000 aggregate principal amount of long-term general obligation bonds, and unused voter authorizations for the future issuance of $12,623,474,000 of long-term general obligation bonds. This latter figure consists of $5,300,559,000 of authorized commercial paper notes, described below (of which $774,170,000 was outstanding), which had not yet been refunded by general obligation bonds, and $7,322,915,000 of other authorized but unissued general obligation debt (including the most

recent voter authorizations). See the table "Authorized and Outstanding General Obligation Bonds" under "State Debt Tables" following page A-44.

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. As of February 1, 2001, there was no variable rate indebtedness outstanding; however, the State plans to issue such indebtedness in the future.

Commercial Paper Program - Pursuant to legislation enacted in 1995, voter approved general obligation indebtedness may be issued either as long-term bonds, or, for some but not all bond acts, as commercial paper notes. Commercial paper notes may be renewed or may be refunded by the issuance of long-term bonds. The State issues long-term general obligation bonds from time to time to retire its general obligation commercial paper notes. Pursuant to the terms of the bank credit agreement presently in effect supporting the general obligation commercial paper program, not more than $1.5 billion of general obligation commercial paper notes may be outstanding at any time; this amount may be increased or decreased in the future. Commercial paper notes are deemed issued upon authorization by the respective Finance Committees, whether or not such notes are actually issued. As of February 1, 2001, the Finance Committees had authorized the issuance of up to $5,300,559,000 of commercial paper notes; as of that date $774,170,000 aggregate principal amount of general obligation commercial paper notes was outstanding.

Lease-Purchase Debt - In addition to general obligation bonds, the State builds and acquires capital facilities through the use of lease-purchase borrowing. Under these arrangements, the State Public Works Board, another State or local agency or a joint powers authority issues bonds to pay for the construction of facilities such as office buildings, university buildings or correctional institutions. These facilities are leased to a State agency or the University of California under a long-term lease which provides the source of payment of the debt service on the lease-purchase bonds. In some cases, there is not a separate bond issue, but a trustee directly creates certificates of participation in the State's lease obligation, which are marketed to investors. Under applicable court decisions, such lease arrangements do not constitute the creation of "indebtedness" within the meaning of the Constitutional provisions which require voter approval. For purposes of this section of the Official Statement and the tables following, "lease-purchase debt" or "lease-purchase financing" means principally bonds or certificates of participation for capital facilities where the rental payments providing the security are a direct or indirect charge against the General Fund and also includes revenue bonds for a State energy efficiency program secured by payments made by various State agencies under energy service contracts. Certain of the lease-purchase financings are supported by special funds rather than the General Fund (see "State Finances--Sources of Tax Revenue"). The table does not include equipment leases or leases which were not sold, directly or indirectly, to the public capital markets. The State had $6,683,927,218 General Fund-supported lease-purchase debt outstanding at February 1, 2001. The State Public Works Board, which is authorized to sell lease revenue bonds, had $2,308,544,000 authorized and unissued as of February 1, 2001.

Non-Recourse Debt - 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 private users of facilities financed by the revenue bonds. 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. There are 17 agencies and authorities authorized to issue revenue obligations (excluding lease-purchase debt). State agencies and authorities had $28,674,361,510 aggregate principal amount of revenue bonds and notes which are non-recourse to the General Fund outstanding as of February 1, 2001, as further described in the table "State Agency Revenue Bonds and Conduit Financing" under "State Debt Tables" following page A-44.

Detailed tables showing the State's long-term debt appear after page A-44.

Cash Flow Borrowings

As part of its cash management program, the State has regularly issued short-term obligations to meet cash flow needs. The following table shows the amount of revenue anticipation notes ("Notes") issued over the past five fiscal years. See "Prior Fiscal Years' Financial Results" and "Current State Budgets" on page A-26, below. The State does not plan to issue revenue anticipation notes for the 2000-01 fiscal year.

State of California Revenue Anticipation Notes Issued
Fiscal Years 1995-96 to 1999-2000

Fiscal Year	Type	Principal Amount (Billions)	Date of Issue	Maturity Date
1995-1996	Notes	$2.0	April 25, 1996	June 28, 1996
1996-1997	Notes Series A-C	3.0	August 6, 1996	June 30, 1997
1997-1998	Notes	3.0	September 9, 1997	June 30, 1998
1998-1999	Notes	1.7	October 1, 1998	June 30, 1999
1999-2000	Notes Series A-B	1.0	October 1, 1999	June 30, 2000

SOURCE: State of California, Office of the Treasurer.

STATE FINANCES

The Budget Process

The State's fiscal year begins on July 1 and ends on June 30. The State operates on a budget basis, using a modified accrual system of accounting, 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, the annual proposed Governor's Budget cannot provide for projected expenditures in excess of projected revenues and balances available from prior fiscal years. Following the submission of the Governor's Budget, the Legislature takes up the proposal.

Under the State Constitution, money may be drawn from the Treasury only through an appropriation made by law. The primary source of the annual expenditure authorizations is the

Budget Act as approved by the Legislature and signed by the Governor. The Budget Act must be approved by a two-thirds majority vote of each House of the Legislature. 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. Bills containing appropriations (except for K-14 education) must be approved by a two-thirds majority vote in each House of the Legislature and be signed by the Governor. Bills containing K-14 education appropriations only require a simple majority vote. Continuing appropriations, available without regard to fiscal year, may also be provided by statute or the State Constitution. There is litigation pending concerning the validity of such continuing appropriations. See "Litigation" below.

Funds necessary to meet an appropriation need not be in the State Treasury at the time such appropriation is enacted; revenues may be appropriated in anticipation of their receipt.

The General Fund

The moneys of the State are segregated into the General Fund and over 900 special funds, including bond, trust and pension 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 Exhibit 1 to this Appendix A. The General Fund may be expended as a consequence of appropriation measures enacted by the Legislature and approved by the Governor, as well as appropriations pursuant to various constitutional authorizations and initiative statutes.

The Special Fund for Economic Uncertainties

The Special Fund for Economic Uncertainties ("SFEU") is funded with General Fund revenues and was established to protect the State from unforeseen revenue reductions and/or unanticipated expenditure increases. Amounts in the SFEU may be transferred by the State Controller to the General Fund as necessary to meet cash needs of the General Fund. 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 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 §16418) contains a continuous appropriation from the General Fund authorizing the State Controller to transfer to the SFEU, as of the end of each fiscal year, the lesser of (i) the unencumbered balance in the General Fund and (ii) the difference between the State's "appropriations subject to limitation" for the fiscal year then ended and its "appropriations limit" as defined in Section 8 of Article XIII B of the State Constitution and established in the Budget Act for that fiscal year, as jointly estimated by the State's Legislative Analyst's Office and the Department of Finance. For a further description of Article XIII B, see "State Appropriations Limit" below. 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 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 the caption "Current State Budgets" below for information concerning the recent balances in the SFEU and projections of the balances for the current and upcoming 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 reserve amount.

Inter-Fund Borrowings

Inter-fund borrowing is used to meet temporary imbalances of receipts and disbursements in the General Fund. As of June 30, 2000, the General Fund had no outstanding loans from the SFEU, General Fund special accounts or other special funds.

In the event the General Fund is or will be exhausted, the State Controller is required to notify the Governor and the Pooled Money Investment Board (the "PMIB," consisting of the State 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 from such special funds, 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 from a special fund which will interfere with the objective for which such special fund was created, or from certain specific funds. When moneys transferred to the General Fund in any fiscal year from any special fund pursuant to the inter-fund borrowing mechanism exceed ten percent of the total additions 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 Pooled Money Investment Account.

Although any determination of whether a proposed borrowing from one of the special funds is permissible, any such determination must be made with regard to the facts and circumstances existing at the time of the proposed borrowing. The Attorney General of the State 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 and the payment of debt service on general obligation bonds of the State.

At the November 1998 election voters approved Proposition 2. This proposition requires the General Fund to repay loans made from certain transportation special accounts (such as the State Highway Account) at least once per fiscal year, or up to 30 days after adoption of the annual budget act. Since the General Fund may reborrow from the transportation accounts soon after the annual repayment is made, the proposition is not expected to have any adverse impact on the State's cash flow.

The following chart shows internal borrowable resources available for temporary loans to the General Fund on June 30 of each of the fiscal years 1997-98 through 1999-00 and estimates for 2000-01 and 2000-02:

Internal Borrowable Resources
(Cash Basis)
(Millions)

	June 30				
	1998	**1999**	**2000**	**2001***	**2002***
Available Internal Borrowable Resources	$6,866.8	$8,720.0	$9,427.2	$12,494.2	$11,536.4
Outstanding Loans □From Special Fund for Economic Uncertainties	-0-	-0-	-0-	-0-	894.3
From Special Funds and Accounts	-0-	-0-	-0-	-0-	-0-
Total Outstanding Internal Loans	-0-	-0-	-0-	-0-	894.3
Unused Internal Borrowable Resources	$6,866.8	$8,720.0	$9,427.2	$12,494.2	$10,642.1

*Estimated

SOURCE: State of California, Office of the State Controller and State of California, Department of Finance. Information for the fiscal years ended June 30, 1998 through June 30, 2000 are actual figures. For the fiscal years ending June 30, 2001 and June 30, 2002, these figures were estimated as of January 10, 2001 by the Department of Finance.

Investment of Funds

Moneys on deposit in the State's Centralized Treasury System are invested by the Treasurer in the Pooled Money Investment Account (the "PMIA"). As of January 31, 2001, the PMIA held approximately $33.43 billion of State moneys, and $14.83 billion of moneys invested for about 2,847 local governmental entities through the Local Agency Investment Fund ("LAIF"). The assets of the PMIA as of January 31, 2001, are shown in the following table:

Analysis of the Pooled Money Investment Account Portfolio*

Type of Security	Amount (Millions)	Percent of Total
U.S. Treasury Bills and Notes	$ 6,074	12.6%
Commercial Paper (corporate)	12,312	25.5
Certificates of Deposits	4,469	9.3
Corporate Bonds	2,634	5.5
Federal Agency Securities	14,108	29.2
Bankers Acceptances	--	--
Bank Notes	1,470	3.0
Loans Per Government Code	3,001	6.2
Time Deposits	4,433	9.2
Repurchases	--	--
Reverse Repurchases	(244)	(0.5)
	$48,259	100%

*Totals may not add due to rounding.
SOURCE: State of California, Office of the 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 (consisting of the State Treasurer, the State Controller and the Director of Finance). 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 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 flow date which is approximate to the maturity of the reinvestment. The PMIA does not hold any investments in obligations of California investor-owned utilities.

The average life of the investment portfolio of the PMIA as of January 31, 2001 was 190 days.

Pension Trusts

The pension contribution liability for the three principal retirement systems in which the State participates, the California Public Employee's Retirement System ("CalPERS"), the California State Teachers' Retirement System ("CalSTRS") and the University of California Retirement System ("UCRS"), is included in the financial statements of the State and described in Note 23 of Notes to the Financial Statements attached as Exhibit 1 and presented on Tables 29 and 30 in Note 23.

The three largest defined benefit retirement plans contained in the retirement systems and the State's share of the excess of the actuarial value of assets over the actuarial accrued liability of those plans at June 30, 1999 was reported to be as follows:

Name of Plan	Excess of Actuarial Value of Assets Over Actuarial Accrued Liabilities
Public Employees' Retirement Fund	$12.143 billion
State Teachers' Retirement Fund	3.652 billion
University of California Retirement Plan	12.959 billion

Because the actuarial value of assets exceeded the actuarial accrued liability of the plans as shown in this table, the net pension obligation of the State as of June 30, 2000 was reported as zero for each of the three plans. Accordingly, at present, State contributions to the three plans consist only of current contributions calculated as a percentage of employee compensation. There is no assurance that this situation will continue because investment returns and other factors affecting the assets and liabilities of the plans will change over time, and at some point in the future, as in the past, the State may have to make payments to the retirement systems to cover actuarial accrued liabilities in excess of the actuarial value of assets.

Details concerning the three largest plans and information concerning the other plans contained in the retirement systems is included in Note 23 of Notes to the Financial Statements.

Welfare Reform

The Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (P.L. 104-193, the "Law") fundamentally reformed the nation's welfare system. The Law includes provisions to: (i) convert Aid to Families with Dependent Children ("AFDC"), an entitlement program, to Temporary Assistance for Needy Families ("TANF"), a block grant program with lifetime time limits on TANF recipients, work requirements and other changes; (ii) deny certain federal welfare and public benefits to legal noncitizens (subsequent federal law has amended this provision), allow states to elect to deny additional benefits (including TANF) to legal noncitizens, and generally deny almost all benefits to illegal immigrants; and (iii) make changes in the Food Stamp program, including to reduce maximum benefits and impose work requirements. The block grant formula under the Law is operative through federal fiscal year 2002.

Chapter 270, Statutes of 1997, embodies California's response to the federal welfare reforms. Effective January 1, 1998, California Work Opportunity and Responsibility to Kids ("CalWORKs") replaced the former AFDC and Greater Avenues to Independence ("GAIN") programs. Consistent with the federal law, CalWORKs contains time limits on the receipt of welfare aid, both lifetime as well as current period. The centerpiece of CalWORKs is the linkage of eligibility to work participation requirements. Administration of the CalWORKs program is largely at the county level, and the counties receive financial incentives for success in this program. Beginning in 2000-01, county performance incentive earnings are subject to Budget Act appropriation. The 2000 Budget Act included $250 million for incentives. It was anticipated that this entire amount, plus an additional appropriation in 2001-02, would be needed to pay county incentives earned prior to 2000-01. However, it is now estimated that the 2000-01 appropriation alone will be more than sufficient to pay the entire amount earned prior to

2000-01, leaving $153 million for other purposes. Under the provisions of the 2000 Budget Act, this funding would remain available for incentive payments. However, as there is increased demand for employment services in 2001-02, the Administration is proposing urgency legislation to specify that only incentives earned prior to 2000-01 will be paid from the amount appropriated in the 2000 Budget Act and allow the $153 million to be carried over into 2001-02 to augment county employment services by $91.6 million and the general TANF reserve by $61.4 million. At this time, no funding is included in the 2001-02 CalWORKs budget for new incentive earnings.

Welfare caseloads have continued to decline with the implementation of the CalWORKs program. The 2001-02 CalWORKs caseload is projected to be 494,000, down from 521,000 cases in 2000-01 and a high of 921,000 cases in 1994-95. The longer-term impact of the new federal law and CalWORKs is being evaluated by the RAND Corporation, with a series of reports to be furnished and the final report due October 2001.

The 2000-01 CalWORKs budget reflects California's success in meeting the federally-mandated work participation requirements for federal fiscal years 1997, 1998, and 1999. Having met that goal, the federally-imposed maintenance-of-effort ("MOE") level for California was reduced from 80 percent of the federal fiscal year 1994 baseline expenditures for the former AFDC program ($2.9 billion) to 75 percent ($2.7 billion). It is expected that California will continue to meet the work participation goal in federal fiscal year 2000 and beyond. Recently the State successfully appealed a federal decision that California did not meet the 1997 work participation requirement. As a result, the State's MOE requirement is reduced on a one-time basis by an additional $153.9 million (General Fund) for 2000-01, saving a corresponding amount for use in other programs.

In addition, California has received a TANF High Performance Bonus award of $36.1 million. This one-time bonus is awarded to states for their successes in moving welfare recipients to work and sustaining their participation in the workforce.

In 2001-02, California will continue to meet, but not exceed, the federally-required $2.7 billion combined State and county MOE requirement. The Governor's Budget includes total CalWORKs-related expenditures of $7.0 billion for 2001-02, including child care transfer amounts for the Department of Education and the general TANF Block Grant reserve.

Local Governments

The primary units of local government in California are the counties, which range in population from 1,200 in Alpine County to nearly 9,900,000 in Los Angeles County. Counties are responsible for the provision of many basic services, including indigent health care, welfare, jails and public safety in unincorporated areas. There are also 475 incorporated cities, and thousands of special districts formed for education, utility and other services. The fiscal condition of local governments has been constrained since "Proposition 13" was enacted 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. Counties, in particular, have had fewer options to raise revenues than many other local government entities, and have been required to maintain many services.

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 taking over the principal responsibility for funding K-12 schools and community colleges. During the recession of the early 1990's, the Legislature eliminated most of the remaining components of post-Proposition 13 aid to local government entities other than K-14 education districts 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. See "Litigation" below for a discussion of a lawsuit brought by counties against the State challenging these actions.

The 2000 Budget Act and related legislation provide significant assistance to local governments, including $212 million for one-time discretionary funding to local governments, $539 million for various local public safety programs, including the Citizens' Option for Public Safety ("COPS") program to support local front-line law enforcement, sheriffs' departments for jail construction and operations, and district attorneys for prosecution, $400 million for deferred maintenance of local streets and roads, $115 million in assistance for housing, $204 million for mental health and social services and $85 million for environmental protection. In addition, legislation was enacted in 1999 to provide annual relief to cities based on 1997-98 costs of jail booking and processing fees paid to counties. For 2000-01, cities will receive approximately $38 million in booking fees. The 2001-02 Governor's Budget proposes to increase the one-time discretionary funding for local governments to $250 million and continue funding local law enforcement technology grants as well as the COPS and county juvenile crime prevention programs.

Historically, funding for the State's trial court system was divided between the State and the counties. In 1997, 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. Since then, the county general purpose contribution for court operations was reduced by $386 million and cities are retaining $62 million in fine and penalty revenue previously remitted to the State.

The entire statewide welfare system has been changed in response to the change in federal welfare law enacted in 1996 (see "Welfare Reform" above). Under the CalWORKs 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, and their costs for administrative and supportive services are capped at the 1996-97 levels. Counties are also given financial incentives if, at the individual county level or statewide, the CalWORKs program produces savings associated with specified standards. Counties will still be required to provide "general assistance" aid to certain persons who cannot obtain welfare from other programs.

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, most State subventions to local governments, 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 State's Appropriations Limit in each year is based on the 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 State's Appropriations Limit for the past three fiscal years, the current fiscal year and an estimate for 2001-02. Because of the extraordinary surge of revenues in 1999-00, the State has exceeded its Appropriations Limit in that year. However, until all pertinent fiscal information is available for the fiscal year 1999-00, the actual overage amount is still an estimate. As of the release of the 2001-02 Governor's Budget, the Department of Finance projects the State's Appropriations Limit for 2000-01 will be $3.655 billion under the State Appropriations Limit in fiscal year 2000-01 and $5.444 billion under in fiscal year 2001-02. No refund of taxes will occur unless the State exceeds its Appropriations Limit in 2000-01.

State Appropriations Limit
(Millions)

	Fiscal Years				
	1997-98	1998-99	1999-00	2000-01	2001-02
State Appropriations Limit	$44,778	$47,573	$50,673	$54,073	$58,961*
Appropriations Subject to Limit	(40,743)	(43,777)	(51,375)*	(50,418)*	(53,517)*
Amount (Over)/Under Limit	$ 4,035	$ 3,796	$ (702)*	$ 3,655*	$ 5,444*

*Estimated/Projected
SOURCE: State of California, Department of Finance.

Proposition 98

On November 8, 1988, 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 State Appropriations Limit, primarily by guaranteeing K-14 schools a minimum share of General Fund revenues. Proposition 98 (as modified by Proposition 111, enacted on June 5, 1990) guarantees K-14 schools the greater of (a) in general, a fixed percent of General Fund revenues ("Test 1"), (b) the amount appropriated to K-14 schools in the prior year, adjusted for changes in the cost of living (measured as in Article XIII B by reference to State per capita personal income) and enrollment ("Test 2"), or (c) a third test, which replaces Test 2 in any year 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"). Under Test 3, schools receive the amount appropriated in the prior year adjusted for changes in enrollment and per capita General Fund revenues, plus an additional small adjustment factor. If Test 3 is used in any year, the difference between Test 3 and Test 2 becomes a "credit" to schools and the basis of payments in future years when per capita General Fund revenue growth exceeds per capita personal income growth. Proposition 98 implementing legislation adopted prior to the end of the 1988-89 fiscal year, determined the K-14 schools' funding guarantee under Test 1 to be 40.3 percent of the General Fund tax revenues, based on 1986-87 appropriations. However, that percent has been adjusted to approximately 35 percent to account for a subsequent redirection of local property taxes, since such redirection directly affects the share of General Fund revenues to schools.

Proposition 98 permits the Legislature by two-thirds vote of both houses, with the Governor's concurrence, to suspend the K-14 schools' minimum funding formula for a one-year period. Proposition 98 also contains provisions for the transfer of certain State tax revenues in excess of the Article XIII B limit to K-14 schools (see "State Finances--State Appropriations Limit" above).

During the recession in the early 1990s, General Fund revenues were less than originally projected for several years, so that the original Proposition 98 appropriations were higher than the minimum percentage provided in the law. The Legislature designated the "extra" Proposition 98 payments in one year as a "loan" from future years' Proposition 98 entitlements with the intention that "extra" payments would not be included in the Proposition 98 "base" for

calculating future years' entitlements. As a result, per-pupil Proposition 98 funding remained approximately $4,200 between fiscal years 1991-92 and 1993-94.

In 1992, a lawsuit titled *California Teachers' Association v. Gould* was filed, challenging the validity of these off-budget loans. A settlement of the lawsuit in 1996 requires both the State and K-14 schools to share in the repayment of $1.76 billion prior years' emergency loans to schools. The State is repaying $935 million by forgiveness, while schools will repay $825 million. The State's share of the repayment is reflected as an appropriation above the current Proposition 98 base calculation. The schools' share of the repayment is reflected as part of the appropriations and counts toward satisfying the Proposition 98 guarantee or from "below" the current base. Repayments are spread over the eight-year period of 1994-95 through 2001-02 to mitigate any adverse fiscal impact.

Substantially increased General Fund revenues, above initial budget projections, in the fiscal years 1994-95 through 2000-01 have resulted in retroactive increases in Proposition 98 appropriations from subsequent fiscal years' budgets. Because of the State's increasing revenues, per-pupil funding at the K-12 level has increased by more than 71 percent from the level in place in 1991-92, to an estimated $7,174 per pupil in average daily attendance ("ADA") in 2001-02. Since General Fund revenue growth is expected to continue in 2001-02, the Governor proposes new initiatives to lengthen the middle school year, advance technology in high schools, expand after school programs and enhance school accountability. Additional initiatives include professional development in reading and mathematics, principal training, intensive algebra instruction and a loaned teacher tax credit program. See "Current State Budgets" for further discussion of education funding.

Sources of Tax Revenue

The following is a summary of the State's major revenue sources. Further information on State revenues is contained under "Current State Budgets" and "State Finances -- Recent Tax Receipts" below.

Personal Income Tax

The California personal income tax, which in 1999-00 contributed about 55 percent of General Fund revenues and transfers, is closely modeled after the federal income tax law. It is imposed on net taxable income (gross income less exclusions and deductions). The tax is progressive with rates ranging from 1.0 percent to 9.3 percent. 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.

Taxes on capital gains realizations, which have in part been linked to stock market performance, have become a larger component of personal income taxes in the last few years. For the 2000 tax year, capital gains are projected to be 17 percent of the total personal income tax liability compared to an average of 8.5 percent for the period 1985-95.

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.

Sales Tax

The sales tax is imposed upon retailers for the privilege of selling tangible personal property in California. Sales tax accounted for about 29 percent of General Fund revenue and transfers in 1999-00. 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. Pursuant to federal law, out-of-state sales to Californians over the Internet are not taxed by the State at this time.

The breakdown of the basic 7.00 percent rate imposed on a statewide basis in 2001 is:

- 4.75 percent represents the State General Fund tax rate (expected to increase back to 5.00 percent effective January 1, 2002, due to the sales tax trigger described below).
- 2.00 percent is dedicated to cities and counties.
- 0.25 percent is dedicated to county transit systems.

Legislation in July 1991 raised the sales tax rate by 1.25 percent to its current level. Of this amount, 0.25 percent was added to the General Fund tax rate, and the balance was dedicated to cities and counties. One-half percent was a permanent addition to counties, but with the money earmarked to trust funds to pay for health and welfare programs whose administration was transferred to counties. Another 0.5 percent of the State General Fund tax rate that was scheduled to terminate after June 30, 1993, was extended until December 31, 1993, and allocated to local agencies for public safety programs. Voters in a special election on November 2, 1993, approved a constitutional amendment to permanently extend this 0.5 percent sales tax for local public safety programs.

Pursuant to law, 0.25 percent of a basic 5.00 percent State tax rate may be terminated upon certification by the Director of Finance by November 1 in any year that the balance in the budget reserve for two consecutive years will exceed 4 percent of General Fund revenues. The 0.25 percent rate can be reinstated if the Director of Finance subsequently determines that the reserve will not exceed 4 percent of General Fund revenues. Pursuant to this law, a 0.25 percent cut in the State sales tax occurred on January 1, 2001 but will be reinstated as of January 1, 2002 if the estimated budget reserve at June 30, 2002 is less than 4 percent of General Fund revenues. See "Current State Budgets—Fiscal Year 2000-01 Budget" below.

Bank and Corporation Tax

Bank and corporation tax revenues, which comprised about 9 percent of General Fund revenues and transfers in 1999-00, 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 alternative minimum tax (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 two years of incorporation.

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

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 nonadmitted insurance at 3 percent and ocean marine insurers at 5 percent of underwriting profits. Insurance taxes comprised approximately 2 percent of General Fund revenues and transfers in 1999-00.

Other Taxes

Other General Fund major taxes and licenses include: Estate, Inheritance and Gift Taxes, Cigarette Taxes, Alcoholic Beverage Taxes, Horse Racing Revenues and trailer coach license fees. These other sources totaled approximately 5.0 percent of General Fund revenues and transfers in fiscal year 1999-00.

Special Fund Revenues

The California Constitution and statutes specify the uses of certain revenue. Such receipts are accounted for in various special funds. In general, special fund revenues comprise three categories of income:

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

2. Charges for special services to specific functions, including such items as business and professional license fees.

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

Motor vehicle related taxes and fees accounted for about 52 percent of all special fund revenues and transfers in 1999-00. Principal sources of this income are motor vehicle fuel taxes, registration and weight fees and vehicle license fees. During fiscal year 1999-00, $8.3 billion was derived from the ownership or operation of motor vehicles. This was 3.7 percent below the

1998-99 level, due to tax reductions enacted for vehicle license fees. About $4.4 billion of this revenue was returned to local governments. The remainder was available for various State programs related to transportation and services to vehicle owners. These amounts (as well as those shown below in the table "Comparative Yield of State Taxes--All Funds") include the additional fees and taxes derived from the passage of Proposition 111 in June 1990.

Vehicle License Fee

Vehicle license fees, over and above the costs of collection and refunds authorized by law, are constitutionally defined local revenues. Chapter 322, Statutes of 1998 ("Chapter 322"), established a vehicle license fee offset program, scheduled to be implemented in successive stages if General Fund revenues met certain targets. Pursuant to Chapter 322, vehicle license fees were reduced (offset) by 25 percent beginning January 1, 1999. Later legislation increased the offset to 35 percent for calendar years 2000-2002. The 35 percent offset is expected to reduce vehicle license fee revenues by $1.858 billion in fiscal year 2000-01, $1.916 billion in 2001-02 and $3.019 billion in 2002-03 (this last figure includes one half of the 2002-03 fiscal year at a 67.5 percent offset).

Under Chapter 322, continuous appropriation from the General Fund backfills the vehicle license fee revenue that local governments would otherwise lose due to the fee reductions. If in any year the Legislature fails to appropriate enough funds to fully backfill the then-applicable vehicle license fee offset, the percentage offset will be reduced to assure that local governments are not disadvantaged.

In response to revenue growth, the Legislature provided an additional 32.5 percent vehicle license fee reduction for calendar years 2001 and 2002 to be returned to vehicle owners in the form of rebates at an estimated cost of $2.052 billion in fiscal year 2000-01, $578 million in 2001-02 and $880 million in 2002-03. Total tax relief, as estimated in the 2001-02 Governor's Budget, by the vehicle license fee offset and rebates is $3.9 billion in fiscal year 2000-01 and $2.5 billion in 2001-02. Pursuant to the original legislation, Chapter 322, the vehicle license fee offset will be permanently set at 67.5 percent as of January 1, 2003. The annual cost of the payments to local governments to replace the offset is estimated at about $3.9 billion per calendar year, adjusted thereafter as vehicle sales activity changes.

Taxes on Tobacco Products

On November 8, 1988, voters approved Proposition 99, which imposed, as of January 1, 1989, an additional 25 cents per pack excise tax on cigarettes, and a new, equivalent excise tax on other tobacco products. The initiative requires that funds from this tax be allocated to anti-tobacco education and research and indigent health services, and environmental and recreation programs.

Proposition 10, approved in 1998, increased the excise tax imposed on distributors selling cigarettes in California to 87 cents per pack effective January 1, 1999. At the same time, this proposition imposed a new excise tax on cigars, chewing tobacco, pipe tobacco, and snuff at a rate equivalent to the tax increase on cigarettes of 50 cents per pack. In addition, the higher excise tax on cigarettes automatically triggered an additional increase in the tax on other tobacco products effective July 1, 1999, with the proceeds going to the Cigarette and Tobacco Products Surtax Fund. Thus, this Proposition increased the total excise tax on other tobacco products by

an amount equivalent to an increase in the cigarette tax of one dollar per pack. There is litigation pending challenging the enactment of these new taxes. See "Litigation."

The State excise tax on cigarettes of 87 cents per pack and other tobacco product taxes are earmarked as follows:

- Fifty cents of the per-pack tax on cigarettes, and the equivalent rate levied on non-cigarette tobacco products, go to the California Children and Families First Trust Fund and are allocated primarily for early childhood development programs.

- 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. This portion of the excise tax was imposed on January 1, 1989, as voters approved Proposition 99 of 1988.

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

- The remaining two cents of the per-pack tax is deposited into the Breast Cancer Fund. Legislation enacted in 1993 added the additional per pack excise tax for the purpose of funding breast cancer research.

Tobacco Litigation

In 1998, the State signed a settlement agreement with the four major cigarette manufacturers. The State agreed to drop its lawsuit and not to sue in the future. Tobacco manufacturers agreed to billions of dollars in payments and restrictions in marketing activities. Under the settlement, the companies agreed to pay California governments approximately $22 billion over a period of 25 years. Beyond 2025, payments of approximately $1 billion per year will continue in perpetuity. Under the settlement, half of the moneys will be paid to the State and half to local governments (all counties and the cities of San Diego, Los Angeles, San Francisco and San Jose). The 2000 Budget Act includes the receipt of $383 million of settlement money to the General Fund in fiscal year 2000-01.

The specific amount to be received by the State and local governments is subject to adjustment. Details in the settlement allow reduction of the companies' payments for decreases in cigarette sales and certain types of federal legislation. Settlement payments can increase due to inflation or increases in cigarette sales. The "first annual" payment, received in April 2000, was 13.8 percent lower than the base settlement amount due to reduced sales. Future payment estimates have been reduced by a similar percentage. If any of the companies goes into bankruptcy, the State could seek to terminate the agreement with respect to those companies filing bankruptcy actions thereby reinstating all claims against those companies. The State may then pursue those claims in the bankruptcy litigation, or as otherwise provided by law. Also, several parties have brought a lawsuit challenging the settlement and seeking damages; see "Litigation" below.

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 four years and the current fiscal year.

Trend of State Taxes

Fiscal Year	Taxes per Capita(a) General Fund	Taxes per Capita(a) Total	Taxes per $100 of Personal Income General Fund	Taxes per $100 of Personal Income Total
1997-98	$1,634.24	$1,953.78	$6.25	$7.52
1998-99	1,731.65	2,074.55	6.30	7.54
1999-00(b)	2,048.59	2,390.84	7.06	8.24
2000-01(c)	2,151.46	2,509.37	6.76	7.88
2001-02(c)	2,202.54	2,554.31	6.66	7.72

(a) Data reflect population figures benchmarked to the 1990 Census.
(b) Preliminary.
(c) Estimated.
SOURCE: State of California, Department of Finance.

The following table gives the actual and estimated growth in revenues by major source for the last four years and the current fiscal year.

COMPARATIVE YIELD OF STATE TAXES—ALL FUNDS
1997-98 THROUGH 2001-02
(Modified Accrual Basis)
(Thousands of Dollars)

Year Ending June 30	Sales and Use(a)	Personal Income	Bank and Corporation (b)	Tobacco(c)	Inheritance, Estate and Gift	Insurance	Alcoholic Beverages	Horse Racing	Motor Vehicle Fuel(d)	Motor Vehicle Fees(e)
1998	21,331,691	27,927,940	5,836,881	644,297	780,197	1,221,285	270,947	81,930	2,853,846	5,660,574
1999	22,890,693	30,894,865	5,724,237	976,512	890,490	1,253,972	273,112	61,185	3,025,226	5,610,374
2000	25,525,788	39,578,237	6,638,898	1,216,651	928,146	1,299,777	282,166	44,130	3,069,694	5,263,245
2001(f)	25,022,940(g)	43,305,000	6,865,000	1,188,000	968,000	1,330,000	288,000	42,078	3,136,879	5,199,885
2002(f)	26,158,680(g)	44,810,000	6,931,000	1,170,600	1,022,000	1,353,000	291,000	42,078	3,220,720	5,448,536

(a) For fiscal years 1997-98 through 1999-00, numbers include local tax revenue from the 0.5 percent rate increase that the voters passed in November 1993, for local public safety services. For fiscal years 2000-01 and 2001-02 the estimates do not include this revenue. The 0.5% rate is equivalent to about $2 billion.
(b) Includes the corporation income tax.
(c) Proposition 10 (November 1998) increased the cigarette tax to $0.87 per pack and added the equivalent of $1.00 tax to other tobacco products.
(d) Motor vehicle fuel tax (gasoline), use fuel tax (diesel and other fuels), and jet fuel.
(e) Registration and weight fees, motor vehicle license fees and other fees. Due to the offset program, 1998-99 vehicle license fee values reflect a 25 percent reduction for 1999. The values reflect a 35 percent reduction for 2000-02.
(f) Estimated. See "Current State Budgets."
(g) As stated in footnote (a), the figures for fiscal years 2000-01 through 2001-02 do not include voter approved local revenue.

SOURCE: Fiscal years 1997-98 through 1999-2000: State of California, Office of the State Controller.
Fiscal years 2000-01 and 2001-02: 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.

GOVERNMENTAL COST FUNDS
(Budgetary Basis)
Schedule of Expenditures by Function and Character
Fiscal Years 1995-96 to 1999-00
(Thousands)

	1995-96	1996-97	1997-98	1998-99	1999-00
Function					
Legislative, Judicial, Executive					
Legislative	$ 187,768	$ 196,642	$ 209,690	$ 219,814	$ 323,323
Judicial	704,112	716,712	766,932	1,346,131	1,372,681
Executive	691,264	961,025	919,606	958,189	1,241,219
State and Consumer Services	749,368	734,238	771,444	829,745	856,096
Business, Transportation and Housing					
Business and Housing	243,185	115,089	136,558	136,893	156,499
Transportation	3,334,648	3,650,506	3,924,428	4,462,905	5,549,520
Trade and Commerce	51,280	63,789	62,235	130,796	488,489
Resources	1,179,481	1,310,074	1,323,860	1,695,323	1,858,844
Environmental Protection	505,206	507,156	605,584	600,060	689,678
Health and Welfare	17,275,117	17,987,919	18,059,611	19,616,132	21,806,291
Correctional Programs	3,638,672	3,606,674	3,901,296	4,181,474	4,412,542
Education					
Education–K through 12	16,773,927	19,916,015	21,574,341	22,783,975	26,356,838
Higher Education	5,844,282	6,599,573	7,022,658	7,838,117	8,553,343
General Government					
General Administration	672,935	743,024	764,615	859,703	982,923
Debt Service	2,153,682	2,048,475	1,979,211	1,988,176	2,072,960
Tax Relief	474,179	454,509	453,030	450,213	1,840,129
Shared Revenues	3,346,240	3,690,512	3,892,036	4,151,197	3,677,687
Other Statewide Expenditures	202,158	133,309	1,373,823	891,070	580,307
Expenditure Adjustment for Encumbrances	(7,691)	(190,609)	(162,630)	(461,310)	(628,506)
Credits for Overhead Services by General Fund	(130,016)	(147,019)	(125,678)	(144,041)	(170,594)
Statewide Indirect Cost Recoveries	(48,730)	(23,307)	(48,963)	(32,791)	(37,423)
Total	$57,841,067	$63,074,306	$67,403,687	$72,501,771	$81,891,846
Character					
State Operations	$17,341,247	$17,924,850	$20,199,031	21,092,849	22,864,874
Local Assistance	39,973,320	44,686,447	46,666,925	50,734,442	58,369,828
Capital Outlay	526,500	463,009	537,731	674,480	657,144
Total	$57,841,067	$63,074,306	$67,403,687	$72,501,771	$81,891,846

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

PRIOR FISCAL YEARS' FINANCIAL RESULTS

Following a severe recession beginning in 1990, the State's financial condition improved markedly during the fiscal years starting in 1995-96, due to a combination of better than expected revenues, slowdown in growth of social welfare programs, and continued spending restraint based on actions taken in earlier years. The State's cash position also improved, and no external deficit borrowing occurred over the end of the last five fiscal years.

The economy grew strongly during the fiscal years beginning in 1995-96, and as a result, the General Fund took in substantially greater tax revenues (around $2.2 billion in 1995-96, $1.6 billion in 1996-97, $2.4 billion in 1997-98, $1.7 billion in 1998-99, and $8.2 billion in 1999-2000) than were initially planned when the budgets were enacted. These additional funds were largely directed to school spending as mandated by Proposition 98, to make up shortfalls from reduced federal health and welfare aid in 1995-96 and 1996-97 and to fund new program initiatives, including education spending above Proposition 98 minimums, tax reductions, aid to local governments and infrastructure expenditures.

The combination of resurging exports, a strong stock market, and a rapidly-growing economy in 1999 and early 2000 resulted in unprecedented growth in General Fund revenues during fiscal year 1999-2000. The latest estimates from the Department of Finance indicate revenues of about $71.9 billion, an increase of over 20 percent over final 1998-99 revenues and $8.9 billion higher than projected for the 1999 Budget Act. The latest estimates indicate expenditures of $66.5 billion in 1999-2000, a $2.8 billion increase over the 1999 Budget Act, but the result still left a record balance in the Special Fund for Economic Uncertainties at June 30, 2000 of over $8.7 billion.

CURRENT STATE BUDGETS

The discussion below of the fiscal year 2000-01 and 2001-02 budgets and the table under "Summary of State Revenues and Expenditures" are based on estimates and projections of revenues and expenditures for the current and upcoming fiscal years and must not be construed as statements of fact. These estimates and projections are based upon various assumptions as updated in the 2000 Budget Act and 2001-02 Governor's Budget, which may be affected by numerous factors, including future economic conditions in the State and the nation, and there can be no assurance that the estimates will be achieved. See "Current State Budgets– Revenue and Expenditure Assumptions" below.

Fiscal Year 2000-01 Budget

2000 Budget Act. The 2000 Budget Act, signed by the Governor on June 30, 2000, was enacted on time for the second consecutive year. The spending plan assumed General Fund revenues and transfers of $73.9 billion, a 3.8 percent increase over 1999-00 estimates. The 2000 Budget Act appropriated $78.8 billion from the General Fund, a 17.3 percent increase over 1999-00 and reflected the use of $5.5 billion from the Special Fund for Economic Uncertainties available from surpluses in the prior year. In order not to place undue pressure on future budget years, about $7.0 billion of the increased spending in 2000-01 was for one-time expenditures and investments.

At the time the 2000 Budget Act was signed, the Department of Finance estimated the June 30, 2001 SFEU balance to be $1.781 billion. In addition, the Governor held back $500 million as a set-aside for litigation costs. The Governor vetoed just over $1 billion in General Fund and Special Fund appropriations from the Budget approved by the Legislature, in order to achieve the budget reserve. Because of the State's strong cash position, the Administration announced that it would not undertake a revenue anticipation note borrowing in 2000-01.

The 2000 Budget Act also included Special Fund expenditures of $15.6 billion and Bond Fund expenditures of $5.0 billion. Special Fund revenues are estimated at $16.5 billion.

Some of the major features of the 2000 Budget Act were the following:

1. Proposition 98 funding for K-12 schools was increased by $3.0 billion in General Fund moneys over revised 1999-2000 levels, $1.4 billion higher than the minimum Proposition 98 guarantee. Per pupil spending is estimated at $6,701 per ADA, an 11 percent increase from the 1999 Budget Act. Of the 2000-01 funds, over $1.8 billion is allowed for discretionary spending by school districts. Major new programs included money for high school scholarship to high-achieving students, English language and literacy, improving teacher quality, funding teacher bonuses and salaries for beginning teachers, increasing investments in technology and funding professional development institutes. The 2000 Budget Act also includes an income tax credit to compensate credentialed teachers for the purchase of classroom supplies and a $350 million repayment of prior years' loans to schools, as part of the settlement of the *CTA v. Gould* lawsuit. See also "State Finances – Proposition 98" above.

2. Funding for higher education increased substantially above the revised 1999-2000 level. General Fund support was increased by $486 million (17.9 percent) for the University of California and $279 million (12.7 percent) for the California State University system. In addition, Community Colleges funding increased by $497 million (9.0 percent). Undergraduate fees at UC and CSU and the per-unit charge at Community Colleges will be unchanged. The Budget Act anticipates enrollment increases in all sectors, and an expansion of financial aid.

3. Increased funding of $2.7 billion General Fund for health and human services.

4. Significant moneys were devoted for capital outlay. A total of $2.0 billion of General Fund money was appropriated for transportation improvements, supplementing gasoline tax revenues normally used for that purpose. This was part of a $6.9 billion Transportation Congestion Relief Program to be implemented over six years. In addition, the Budget Act included $570 million from the General Fund in new funding for housing programs.

5. A total of about $1.5 billion of tax relief was enacted as part of the budget process. The vehicle license fee reduction, started in 1998, was accelerated to the final 67.5 percent level for calendar year 2001, two years ahead of schedule. The acceleration will cost the General Fund about $887 million in fiscal year 2000-01 and $1.426 billion in fiscal year 2001-02. A one-time Senior Citizens Homeowner and Renters Tax Assistance program will cost about $154 million. A personal income tax credit for teachers will cost $218 million and a refundable credit for child care expenses will cost $195 million. Several other targeted tax cuts, primarily for businesses, were also approved, at a cost of $89 million in 2000-01.

6. A one-time appropriation of $200 million, to be split between cities and counties, was made to offset property tax shifts during the early 1990s. Additionally, $121 million was appropriated to the COPS program for support of local law enforcement, and $75 million in one-time funding was provided for local law enforcement agencies to purchase high technology equipment.

Subsequent Developments. The Legislature passed a number of bills with fiscal impacts on the General Fund in 2000-01, which were not included in the 2000-01 Budget, prior to the end of its session on August 31, 2000. Among these were bills to expedite the licensing of new power plants ($57.5 million), to establish a juvenile crime prevention program ($122 million) and to augment the Senior Citizens Property Tax Assistance Program ($60 million). Another bill would enhance retirement benefits for both active and retired teachers. Excess assets and normal cost surplus in the program would fund the costs of enhanced benefits and also provide a $100 million General Fund savings for 2000-01 from reduced contributions to the State Teachers Retirement System.

Based on results through the first quarter of fiscal year 2000-01, the Department of Finance estimated that revenues were sufficiently strong to make it likely that the State would end the fiscal year at June 30, 2001 with a balance in the budget reserve greater than 4 percent of General Fund revenues. Based on this estimate, since the reserve for the year ended June 30, 2000 was also above 4 percent of General Fund revenues, the Governor announced on October 25, 2000 that, pursuant to provisions in the law enacted in 1991 when the State sales tax rate was last raised, the State sales tax rate would be reduced by 0.25 percent for a period of at least one calendar year, effective January 1, 2001. This reduction will result in approximately $553 million less General Fund revenue in the last half of fiscal year 2000-01 and approximately $600 million less in the first half of fiscal year 2001-02. If the General Fund reserve falls below 4 percent of General Fund revenue in the future, the sales tax rate could be raised by 0.25%. See "State Finances—Sources of Tax Revenue—Sales Tax" above.

The 2001-02 Governor's Budget (the "2002 Governor's Budget"), released on January 10, 2001, provides updated 2000-01 revenue and expenditure estimates. General Fund revenues in 2000-01 are estimated to be $76.9 billion, $3.0 billion above the 2000 Budget Act estimates. Expenditures in 2000-01 are estimated to be $79.7 billion, about $900 million above the Budget Act estimates. The Department of Finance estimates the June 30, 2001 SFEU balance, the budget reserve, will be approximately $5.85 billion, a substantial increase over the Budget Act estimate of $1.78 billion. However, current surpluses in the General Fund are being used to respond to the energy situation. See "Recent Developments Regarding Natural Gas and Electricity" above.

Fiscal Year 2001-02 Budget

The 2002 Governor's Budget estimates 2001-02 General Fund revenues and transfers to be about $79.4 billion, or 3.3 percent higher than the revised 2000-01 estimate. This estimate assumes a slowing economy, still showing moderate growth short of a recession. The estimate also accounts for a $600 million drop in sales tax revenues as a result of the 0.25 percent sales tax reduction which took effect on January 1, 2001, and will remain in effect at least until December 31, 2001. The Governor proposed $82.9 billion in expenditures, a 3.9 percent increase over the revised 2000-01 estimate. The Governor proposed budget reserves in 2001-02 of $2.4 billion. Of this amount, $500 million is intended for unplanned litigation costs.

The 2002 Governor's Budget proposed to use $3.7 billion of the new resources since the 2000 Budget Act for one-time expenditures, including $1 billion for energy initiatives, $772 million for capital outlay projects, $250 million in fiscal relief to local government, $200 million for new housing initiatives, and a variety of other proposals. With regard to ongoing programs, the 2001-02 Governor's Budget proposed substantial additions in Proposition 98 funding for K-12 education (an 8.1 percent increase over the revised 2000-01 spending level) and funding for all units of higher education, funding for health and welfare programs to cover anticipated caseloads, and a modest increase in youth and adult corrections funding. The final expenditure program for 2001-02 will be determined by June 2001 by the Legislature and Governor. The Department of Finance will publish an update of revenues and expenditures for the current year and of revenues for the upcoming fiscal year in May 2001.

On February 21, 2001, the Legislative Analyst's Office ("LAO") released its analysis of the 2002 Governor's Budget. The LAO Analysis generally agreed with the Governor's Budget projections of revenues, but warned that the economic picture (and hence revenues and expenditures in 2001-02) was unsettled, given several potentially negative factors, including the ongoing energy difficulties in the State, a cyclical slowdown in the high technology sector, the overall national economic slowdown, and the sharp decline in the stock market since mid-2000. See "Recent Developments Regarding Natural Gas and Electricity" above and "Revenue and Expenditure Assumptions" below. The LAO Analysis recommended that the Legislature defer major new spending decisions until after the updated fiscal report due in May 2001.

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Summary of State Revenues and Expenditures

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE–GENERAL FUND (Budgetary Basis)(a) FISCAL YEARS 1997-98 THROUGH 2001-02 (Millions)

	1997-98	1998-99	1999-00	Estimated[b] 2000-01[c]	Proposed 2001-02[c]
Fund Balance–Beginning of Period	$ 639.8	$ 2,792.5	$ 3,907.7	$ 9,639.7	$ 6,557.3
Restatements					
Prior Year Revenue, Transfer Accrual Adjustments	(165.3)	(147.1)	(204.6)	(0.8)	--
Prior Year Expenditure, Accrual Adjustments	498.1	162.3	217.1	(272.1)	--
Fund Balance–Beginning of Period, as Restated	$ 972.6	$ 2,807.7	$ 3,920.2	$ 9,366.8	$ 6,557.3
Revenues	$54,797.7	$58,935.1	$71,555.6	$76,885.4	$79,350.0
Other Financing Sources					
Transfers from Other Funds	132.0	93.9	423.3	13.4	84.5
Other Additions	154.4	339.4	48.1	--	--
Total Revenues and Other Sources	$55,084.1	$59,368.4	$72,027.0	$76,898.8	$79,434.5
Expenditures					
State Operations	$14,042.1	$14,775.8	$15,942.8	$17,851.1	$19,961.5
Local Assistance	38,990.4	42,260.3	49,974.7	59,384.8	61,185.3
Capital Outlay	57.2	235.7	186.2	2,472.5	1,706.4
Other Uses					
Transfer to Other Funds	174.5	996.6	203.8	--[d]	--[d]
Total Expenditures and Other Uses	$53,264.2	$58,268.4	$66,307.5	$79,708.4	$82,853.2
Revenues and Other Sources Over or (Under) Expenditures and Other Uses --	$ 1,819.9	$ 1,100.0	$ 5,719.5	$ (2,809.6)	$(3,418.7)
Fund Balance					
Reserved for Encumbrances	$ 478.7	$ 592.0	$ 701.3	$ 701.3	$ 701.3
Reserved for Unencumbered Balances of Continuing Appropriations[e]	122.8	697.6	1,115.2	912.5	413.8
Reserved for School Loans[f]	1,259.7	1,009.7	699.7	349.7	--
Unreserved–Undesignated[g]	931.3	1,608.4	7,123.5	4,593.8	2,023.5
Fund Balance–End of Period	$ 2,792.5	$ 3,907.7	$ 9,639.7	$ 6,557.3	$ 3,138.6

Footnotes on following page.

SOURCE: Fiscal years 1997-98 to 1999-00: State of California, Office of the State Controller.
Fiscal years 2000-01 and 2001-02: State of California, Department of Finance.

(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 audited general purpose financial statements of the State contain a description of the differences between the budgetary basis and the GAAP basis of accounting. See "Financial Statements" below.

(b) Estimates are shown net of reimbursements and abatements.

(c) Estimated as of the 2001-02 Governor's Budget released on January 10, 2001. The final 2001-02 Budget will depend on agreements between the Legislature and the Governor.

(d) "Transfer to Other Funds" is included either in the expenditure totals detailed above or as "Transfer from Other Funds."

(e) For purposes of determining whether the General Fund budget, in any given fiscal year, is in a surplus or deficit condition, Chapter 1238, Statutes of 1990, amended Government Code Section 13307. As part of the amendment, the unencumbered balances of continuing appropriations which exist when no commitment for an expenditure is made should be an item of disclosure, but the amount shall not be deducted from the fund balance. Accordingly, the General Fund condition included in the 2001-02 Governor's Budget includes the unencumbered balances of continuing appropriations as a footnote to the statement ($1.483 billion in 1999-00, $912.5 million in 2000-01 and $413.8 million in 2001-02). However, in accordance with Government Code Section 12460, the State's Budgetary/Legal Basis Annual Report reflects a specific reserve for the unencumbered balance for continuing appropriations.

(f) During 1995, a reserve was established in the General Fund balance for the $1.7 billion of previously recorded school loans which had been authorized by Chapter 703, Statutes of 1992 and Chapter 66, Statutes of 1993. These loans are to be repaid from future General Fund appropriations. See "State Finances - Proposition 98" above for a discussion of the settlement of the *CTA v. Gould* lawsuit. This accounting treatment is consistent with the State's audited financial statements prepared in accordance with GAAP.

(g) Includes Special Fund For Economic Uncertainties (SFEU). The State Controller reports the balance in the SFEU as of June 30, 2000, to be $3.777 billion. This amount includes a preliminary computation by the State Controller of the transfer pursuant to Government Code §16418(e) (see "State Finances – The Special Fund for Economic Uncertainties" above) based on the State Appropriations Limit information contained in the 2000-01 Governor's Budget. The Department of Finance and the Legislative Analyst's Office will jointly make a final computation of the amount of transfer based on the updated State Appropriations Limit calculation as reflected in the 2001-02 Governor's Budget. 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," "Reserved for School Loans," and "Unreserved-Undesignated." The 2001-02 Governor's Budget projects the SFEU to be $5.849 billion on June 30, 2001, and $1.937 billion on June 30, 2002. Additionally, the Budget includes a set-aside for legal contingencies of $7.0 million in 2000-01 and $500.0 million in 2001-02. If not expended, this set-aside will become part of the SFEU.

Revenue and Expenditure Assumptions

The table below presents the Department of Finance's budget basis statements of major General Fund revenue sources and expenditures for the 1999-00 fiscal year and the 2000-01 Governor's Budget estimates for the 2000-01 and 2001-02 fiscal years.

Revenues (Millions)

	Fiscal Years			
Source	**1999-00[a][b] Actual**	**2000-01[c] Enacted**	**2000-01[a] Revised**	**2001-02[a] Proposed**
Personal Income Tax	$39,575	$41,339	$43,305	$44,810
Sales and Use Tax	21,137	21,318	21,980	23,441
Bank and Corporation Tax	6,639	6,800	6,865	6,931
Insurance Tax	1,300	1,321	1,330	1,353
All Other	3,280[d]	3,084[e]	3,419	2,899[f]
Total Revenues and Transfers	$71,931	$73,862	$76,899	$79,434

Expenditures (Millions)

	Fiscal Years			
Function	**1999-00[a][b] Actual**	**2000-01[c] Enacted**	**2000-01[a] Revised**	**2001-02[a] Proposed**
K-12 Education	$27,588	$30,603	$30,311	$32,540
Health and Human Services	17,531	20,284	20,362	21,645
Higher Education	8,021	9,445	9,395	10,342
Youth and Adult Correctional	4,748	5,179	5,181	5,389
Legislative, Judicial and Executive	2,288	2,616	2,669	2,654
Tax Relief	1,842	4,488	4,694	3,108
Resources	1,184	1,599	2,040	2,494
State and Consumer Services	481	533	527	646
Business, Transportation and Housing	394	2,586	2,582	1,870
All Other	2,417	1,483	1,947	2,165
Total Expenditures	$66,494	$78,816	$79,708	$82,853

(a) 2001-02 Governor's Budget, January 10, 2001.
(b) Figures for 1999-00, prepared by the Department of Finance, are slightly different than the figures on page A-30, prepared by the State Controller's Office, because of certain differences in accounting methods used by the two offices.
(c) 2000 Budget Act, June 30, 2000.
(d) Includes $515 million from tobacco litigation settlement payment.
(e) Includes $393 million from tobacco litigation settlement payment.
(f) Includes $468 million from tobacco litigation settlement payment.

SOURCE: State of California, Department of Finance.

The Revenue and Expenditure assumptions set forth have been based upon certain estimates of the performance of the California and national economies in calendar years 2001 and 2002. In the 2001-02 Governor's Budget, released on January 10, 2001, the Department of Finance projected that the California economy will continue to grow, but at a more moderate pace in 2001, followed by more robust gains in 2002. An estimated 21 percent of 2000-01 General Fund revenue may be associated with stock options and stock market capital gains. The Governor's budget assumes these revenue sources will decline by 10 percent in the 2001-02 fiscal year. Depending on future stock price movements, the assumed change in these revenue sources could be more or less than assumed. The economic expansion has been marked by strong growth in high technology manufacturing and business services (including software, computer programming and the Internet), nonresidential construction, entertainment and tourism-related industries. Growth in 2000 was greater than earlier years in the economic expansion, with 3.6 percent year-over-year increase in nonfarm payroll employment. Unemployment, now less than 5 percent, is at the lowest rate in over 30 years. Taxable sales in 2000 were estimated at more than 11 percent above 1999 levels. Continued economic improvement in Asia (Japan excluded), ongoing strength in NAFTA partners Mexico and Canada, and solid growth in Europe are expected to further increase California-made exports in 2001 and 2002. Nonresidential construction has been strong for the past four years. New residential construction has increased since lows of the early 1990s recession, but remains lower than during the previous economic expansion in the 1980s.

The State appears to have avoided the sharp slowdown in economic growth that affected much of the rest of the nation in the latter months of 2000. In the fourth quarter, United States gross domestic product growth slowed to a 1.4 percent annual rate from over 5 percent in the first half of 2000. The nation added only 138,000 jobs in the fourth quarter, of which 124,400 or 90 percent were in the State. Despite well-publicized problems among segments of the computer services industry ("dot-coms"), unemployment in the Silicon Valley area reached record lows in December 2000, including a 1.3 percent rate in Santa Clara County and 1.2 percent in neighboring San Mateo. Statewide, initial unemployment claims reached a 13-year low in January 2001.

Nonetheless, the State eventually could be affected by the nationwide slowdown. Prospects for the nation's economy have deteriorated since the budget forecast was prepared in late November. The budget forecast of 3 percent US economic growth in 2001 was in line with the December 10 Blue Chip Economic Indicators consensus of 3.1 percent growth. By the February 10 survey, the consensus forecast had slipped a full percentage point to 2.1 percent real growth. The energy situation poses an additional risk to the State's economy. Although the State is a very energy efficient economy, a factor that would tend to mitigate the effects of the current energy problem, reliability of supply is important in several key industries, including computer services, electronics manufacturing and biotechnology. Slower than expected economic growth could adversely affect projected revenue growth for 2001-02 and subsequent years.

The Department set out the following estimates for the State's economic performance which were used in predicting revenues and expenditures for the 2001-02 Governor's Budget. Also shown was the Department's previous forecast for 2001 and 2002, contained in the 2000 May Revision.

	For 2001		For 2002	
	May Revision[a]	Governor's Budget[b]	May Revision[a]	Governor's Budget[b]
Nonfarm wage and salary employment (000)	14,877	14,929	15,274	15,333
Percent Change	2.6%	2.8%	2.7%	2.7%
Personal income ($ billions)	$1,135	$1,171	$1,198	$1,253
Percent Change	5.4%	5.7%	5.6%	6.9%
Housing Permits (Units 000)	169	155	182	167
Consumer Price Index (% change)	3.6%	3.1%	3.6%	2.5%

(a) 2000 May Revision: May 15, 2000.
(b) 2001-02 Governor's Budget: January 10, 2001.
SOURCE: State of California, Department of Finance.

FINANCIAL STATEMENTS

Audited General Purpose Financial Statements of the State of California (the "Financial Statements") for the year ended June 30, 2000 are attached as Exhibit 1 to this Appendix A. Such Financial Statements will be filed with all of the Nationally Recognized Municipal Securities Information Repositories, and are incorporated by reference into this Appendix. Potential investors may obtain or review a copy of the Financial Statements from the following sources:

1. By accessing the Internet Website of the State Controller (www.sco.ca.gov) and clicking on the icons for "Publications;" "State and Local Government Financial Reports;" and "Comprehensive Annual Financial Report –2000" in that order or by contacting the Office of the State Controller at (916) 445-2636.

2. By accessing the Internet Website of the State Treasurer (www.treasurer.ca.gov) and clicking on the icons for "Financial Information" and "Audited General Purpose Financial Statements" in that order, or by contacting the Office of the State Treasurer at (800) 900-3873.

Certain unaudited financial information for the period July 1 – December 31, 2000 is also included as Exhibit 2 to Appendix A.

Periodic reports on revenues and/or expenditures during the fiscal year are issued by the Administration, the State Controller's Office and the Legislative Analyst's Office. The Department of Finance issues a monthly Bulletin which reports the most recent revenue receipts as reported by State departments, comparing them to budget projections. The Administration also formally updates its budget projections three times during each fiscal year, in January, May, and at 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 Official Statement. Investors are cautioned that interim financial information is not necessarily indicative of results for a fiscal year.

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. Since 1994, California's economy has been performing strongly after suffering a deep recession between 1990-93.

Fuel and other energy prices have risen sharply in recent months. The State Department of Finance notes that the State and national economies are much more energy-efficient than during the energy crises of the 1970s and early 1980s, and that, adjusted for inflation, motor fuel prices are still 20 percent below the 1981 level. See "Recent Developments Regarding Natural Gas and Electricity" above.

Population and Labor Force

The State's July 1, 1999 population of over 34 million represented over 12 percent of the total United States population.

California's population is concentrated in metropolitan areas. As of the April 1, 1990 census, 96 percent resided in the 23 Metropolitan Statistical Areas in the State. As of July 1, 1998, the 5-county Los Angeles area accounted for 49 percent of the State's population, with over 16.0 million residents, and the 10-county San Francisco Bay Area represented 21 percent, with a population of over 7.0 million.

The following table shows California's population data for 1994 through 1999.

Population 1994-99

Year	California Population[a]	% Increase Over Preceding Year	United States Population[a]	% Increase Over Preceding Year	California as % of United States
1994	31,790,000	0.9%	260,327,000	1.0%	12.2%
1995	32,063,000	0.9	262,803,000	0.9	12.2
1996	32,383,000	1.0	265,229,000	0.9	12.2
1997	32,957,000	1.8	267,784,000	0.9	12.3
1998	33,494,000	1.6	270,248,000	0.9	12.4
1999	34,036,000	1.6	272,691,000	0.9	12.5

(a) Population as of July 1.

SOURCE: U.S. Department of Commerce, Bureau of the Census; 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 1993 to 2000.

Labor Force
1993-00

	Labor Force Trends (Thousands)		Unemployment Rate (%)	
Year	**Labor Force**	**Employment**	**California**	**United States**
1993	15,360	13,918	9.4%	6.9%
1994	15,450	14,122	8.6	6.1
1995	15,412	14,203	7.8	5.6
1996	15,512	14,392	7.2	5.4
1997	15,947	14,943	6.3	4.9
1998	16,337	15,368	5.9	4.5
1999	16,597	15,732	5.2	4.2
2000	17,091	16,246	4.9	4.0

SOURCE: State of California, Employment Development Department.

Employment, Income, Construction and Export Growth

The following table shows California's nonagricultural employment distribution and growth for 1990 and 2000.

Payroll Employment By Major Sector
1990 and 2000

	Employment (Thousands)		% Distribution of Employment	
Industry Sector	**1990**	**2000**	**1990**	**2000**
Mining	38.9	23.3	0.3%	0.2%
Construction	605.3	733.6	4.8	5.1
Manufacturing				
Nondurable goods	720.6	726.5	5.7	5.0
High Technology	686.0	513.9	5.4	3.5
Other Durable Goods	690.3	703.8	5.5	4.8
Transportation and Utilities	623.9	745.6	4.9	5.1
Wholesale and Retail Trade	3,002.2	3,300.8	23.7	22.7
Finance, Insurance And Real Estate	824.6	823.2	6.5	5.7
Services	3,395.3	4,626.8	26.8	31.9
Government				
Federal	362.1	274.4	2.9	1.9
State and Local	1,712.7	2,046.9	13.5	14.1
TOTAL NONAGRICULTURAL	12,661.9	14,518.8	100%	100%

SOURCE: State of California, Employment Development Department and State of California, Department of Finance.

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

Total Personal Income 1993-99[a]

	California		
Year	Millions	% Change[b]	California % of U.S.
1993.....	$714,107	1.8%	12.8%
1994[c].....	735,104	2.9	12.5
1995.....	771,470	4.9	12.5
1996.....	812,404	5.3	12.4
1997.....	862,114	6.1	12.4
1998.....	924,253	7.2	12.5
1999.....	991,382	7.3	12.7

(a) Historical personal income series revised by BEA, released May 17, 2000, & September 12, 2000.
(b) Change from prior year.
(c) Reflects Northridge earthquake, which caused an estimated $15 billion drop in personal income.
Note: Omits income for government employees overseas.

SOURCE: U.S. Department of Commerce, Bureau of Economic Analysis (BEA).

Per Capita Personal Income 1993-99[a]

Year	California	% Change[b]	United States	% Change[b]	California % of U.S.
1993.....	$ 22,927	0.9%	$21,718	3.0%	105.6%
1994[c].....	23,473	2.4	22,581	4.0	104.0
1995.....	24,496	4.4	23,562	4.3	104.0
1996.....	25,563	4.4	24,651	4.6	103.7
1997.....	26,759	4.7	25,874	5.0	103.4
1998.....	28,280	5.7	27,322	5.6	103.5
1999.....	29,910	5.8	28,542	4.5	104.8

(a) Historical personal income series revised by BEA, released May 17, 2000 & September 12, 2000.
(b) Change from prior year.
(c) Reflects Northridge earthquake, which caused an estimated $15 billion drop in personal income.
Note: Omits income for government employees overseas.

SOURCE: U.S. Department of Commerce, Bureau of Economic Analysis (BEA).

The following tables show California's residential and nonresidential construction authorized by permits for selected years.

Residential Construction Authorized by Permits

Year	Units Total	Units Single	Units Multiple	Valuation [a] (millions)
1995	85,293	68,689	16,604	$13,879
1996	94,283	74,923	19,360	15,289
1997	111,716	84,780	26,936	18,752
1998	125,707	94,298	31,409	21,976
1999	140,137	101,711	38,426	25,783
2000p/	148,459	105,507	42,952	28,088

(a) Valuation includes additions and alterations.
p/ Preliminary
SOURCE: Construction Industry Research Board

Nonresidential Construction
(Thousands of dollars)

Year	Commercial	Industrial	Other	Additions and Alterations	Total
1995	$2,308,912	$ 732,877	$1,050,684	$4,062,271	$ 8,154,744
1996	2,751,909	1,140,575	1,152,425	4,539,219	9,584,128
1997	4,271,378	1,598,428	1,378,220	5,021,792	12,269,818
1998	5,419,251	2,466,530	1,782,337	5,307,901	14,976,019
1999	5,706,719	2,256,166	2,350,213	6,269,194	16,582,292
2000p/	6,970,433	2,202,548	2,190,117	7,239,412	18,602,510

p/ Preliminary
SOURCE: Construction Industry Research Board

The following table shows California's export growth for the period from 1995 through 2000.

Exports Through California Ports
(In millions)

Year	Exports [a]	% Change
1995	$ 116,825.5	22.2%
1996	124,120.0	6.2
1997	131,142.7	5.7
1998	116,282.4	-11.3
1999[b]	122,092.8	5.0
2000[b]	148,554.6	21.7

(a) "free along ship" Value Basis
(b) Preliminary estimates.
SOURCE: U.S. Department of Commerce, Bureau of the Census

LITIGATION

The State is a party to numerous legal proceedings. The following are the most significant pending proceedings, as reported by the Office of the Attorney General. See "Litigation" in the main body of this Official Statement.

On June 24, 1998, plaintiffs in *Howard Jarvis Taxpayers Association et al.* v. *Kathleen Connell* filed a complaint for certain declaratory and injunctive relief challenging the authority of the State Controller to make payments from the State Treasury in the absence of a State budget. On July 21, 1998, the trial court issued a preliminary injunction prohibiting the State Controller from paying moneys from the State Treasury for fiscal year 1998-99, with certain limited exceptions, in the absence of a State budget. The preliminary injunction, among other things, prohibited the State Controller from making any payments pursuant to any continuing appropriation. On July 22 and 27, 1998, various employee unions which had intervened in the case appealed the trial court's preliminary injunction and asked the Court of Appeal to stay the preliminary injunction. On July 28, 1998, the Court of Appeal granted the unions' requests and stayed the preliminary injunction pending the Court of Appeal's decision on the merits of the appeal. On August 5, 1998, the Court of Appeal denied the plaintiffs' request to reconsider the stay. Also on July 22, 1998, the State Controller asked the California Supreme Court to immediately stay the trial court's preliminary injunction and to overrule the order granting the preliminary injunction on the merits. On July 29, 1998, the Supreme Court transferred the State Controller's request to the Court of Appeal. The matters are now pending before the Court of Appeal. Briefs have been submitted; no date has yet been set for oral argument.

The State is involved in ongoing litigation, *Hayes v. Commission on State Mandates*, related to State mandate test claims, initially filed in 1980 and 1981, concerning the costs of providing special education programs and services to disabled children. After 20 years of litigation, on October 26, 2000, the Governor announced that the parties had agreed, in principle, to a settlement under which schools would receive (1) $520 million in retroactive payments -- $270 million immediately, plus $25 million for the next 10 years, and (2) $100 million per year for ongoing costs. All school districts, county offices of education, and Special Education Local Planning Areas have approved the settlement and legislation ratifying the settlement has been proposed.

In January of 1997, California experienced major flooding with preliminary estimates of property damage of approximately $1.6 to $2.0 billion. In *McMahon v. State*, a substantial number of plaintiffs have joined suit against the State, local agencies, and private companies and contractors seeking compensation for the damages they suffered as a result of the 1997 flooding. After various pre-trial proceedings, the State filed its answer to the plaintiffs' complaint in January of 2000. No trial date has been set. The State is vigorously defending the action.

The State is involved in a lawsuit related to contamination at the Stringfellow toxic waste site. In *United States, California* v. *J.B. Stringfellow, Jr., et al.*, the State is seeking recovery for past costs of cleanup of the site, a declaration that the defendants are jointly and severally liable for future costs, and an injunction ordering completion of the cleanup. However, the defendants have filed a counterclaim against the State for alleged negligent acts, resulting in significant findings of liability against the State as owner, operator, and generator of wastes taken to the site. The State has appealed the rulings. Present estimates of the cleanup range from $400 million to $600 million. Potential State liability falls within this same range. However, all or a portion of

any judgment against the State could be satisfied by recoveries from the State's insurance carriers. The State has filed a suit against certain of these carriers. The trial on the coverage action is not expected to begin until 2002.

The State is a defendant in *Paterno v. State of California,* a coordinated action involving 3,000 plaintiffs seeking recovery for damages caused by the Yuba River flood of February 1986. The trial court found liability in inverse condemnation and awarded damages of $500,000 to a sample of plaintiffs. The State's potential liability to the remaining plaintiffs ranges from $800 million to $1.5 billion. In 1992, the State and plaintiffs filed appeals. In August 1999, the Court of Appeal issued a decision reversing the trial court's judgment against the State and remanding the case for retrial on the inverse condemnation cause of action. The California Supreme Court denied plaintiffs' petition for review. Retrial is presently underway in Yuba County.

In *County of San Bernardino* v. *State Department of Health Services* and *Barlow Respiratory Hospital v. State Department of Health Services,* which are being tried together in state court, plaintiffs seek mandamus relief requiring the State to retroactively increase out-patient Medi-Cal reimbursement rates. Plaintiffs in *Orthopedic Hospital v. Belshe,* a federal court action, seek the same relief on a prospective basis. Plaintiffs in the state court action have estimated that the retroactive damages could exceed $500 million. Should prospective relief be granted, the State's costs could increase by more than $100 million per year in future years. The State is vigorously defending these cases. The trial in the *County of San Bernardino* and *Barlow* cases is scheduled to have three phases: law, fact and remedy phases. The state court litigation has been stayed pending settlement negotiations which have resulted in settlement of all three cases for $350 million in retroactive payments and a 30 percent increase in reimbursement rates beginning July 1, 2001, with 3.33 percent increases in each of the following three years. This settlement is subject to approval by the United States Department of Health and Human Services, Health Care Financing Administration.

The State is involved in three refund actions, *California Assn. Of Retail Tobacconists (CART), et al.* v. *Board of Equalization, et al., Cigarettes Cheaper!, et al.* v. *Board of Equalization, et al.* and *McLane/Suneast, et al. v. Board of Equalization, et al.,* that challenge the constitutionality of Proposition 10, which the voters passed in 1998 to establish the Children and Families Commission and local county commissions and to fund early childhood development programs. *CART* and *Cigarettes Cheaper!* allege that Proposition 10, which increases the excise tax on tobacco products, violates 11 sections of the California Constitution and related provisions of law. McLane/Suneast challenges only the "double tax" aspect of Proposition 10. Trial of these three consolidated cases commenced on September 15, 2000, and concluded on November 15, 2000. A final statement of decision issued on December 7, 2000, and judgment in favor of all defendants as to all 30 consolidated counts was entered on January 9, 2001. The McLane/Suneast and U.S. Tobacco plaintiffs timely appealed all "double tax" issues, and the CART plaintiffs and Cigarettes Cheaper! plaintiffs timely appealed these and all other issues. Due to the facial challenge, there is exposure as to the entire $750 million per year collected under Proposition 10 together with interest, which could amount to several billion dollars by the time the case is finally resolved.

In *FORCES Action Project et al. v. State of California et al.*, various smokers rights groups challenge the tobacco settlement as it pertains to California, Utah and the City and County of San Francisco. Plaintiffs assert a variety of constitutional challenges, including that the settlement represents an unlawful tax on smokers. Motions to dismiss by all defendants,

including the tobacco companies, were eventually converted to summary judgment motions by the court and heard on September 17, 1999. On January 5, 2000, the court dismissed the complaint for lack of subject matter jurisdiction because the plaintiffs lacked standing to sue. The court also concluded that the plaintiffs' claims against the State and its officials are barred by the 11th Amendment. Plaintiffs have appealed. Briefing has been completed. No date has been set for oral argument.

Arnett v. *California Public Employees Retirement System, et. al.* was filed by seven former employees of the State of California and local agencies, seeking back wages, damages and injunctive relief. Plaintiffs are former public safety members who began employment after the age of 40 and are recipients of Industrial Disability Retirement ("IDR") benefits. Plaintiffs contend that the formula which determines the amount of IDR benefits violates the federal Age Discrimination in Employment Act of 1967 ("ADEA"). Plaintiffs contend that, but for their ages at hire, they would receive increased monthly IDR benefits similar to their younger counterparts who began employment before the age of 40. CalPERS has estimated the liability to the State as approximately $315.5 million were the plaintiffs to prevail. The District Court dismissed the complaint for failure to state a claim. On August 17, 1999, the Ninth Circuit Court of Appeals reversed the District Court's dismissal of the complaint. The State sought further review in the United States Supreme Court. On January 11, 2000, the United States Supreme Court in *Kimel v. Florida Board of Regents*, held that Congress did not abrogate the sovereign immunity of the states when it enacted the ADEA. Thereafter, on January 18, 2000, the Supreme Court granted the petition for writ of certiorari in *Arnett,* vacated the judgment of the Ninth Circuit, and remanded the case to the Ninth Circuit for further proceedings consistent with *Kimel*. In turn, the Ninth Circuit remanded the case to the District Court. Thereafter, the EEOC intervened in this action. In December 2000, the State filed a motion for summary judgment based on sovereign immunity and constitutional grounds. The court is expected to rule on the State's motion on April 20, 2001. In the meantime, the court scheduled settlement discussions, and is in the process of resetting a trial date.

On March 30, 2000, a group of students, parents, and community based organizations brought suit, on behalf of the school children of the Los Angeles Unified School District, against the State Allocation Board ("SAB"), the State Office of Public School Construction ("OPSC") and a number of State officials (*Godinez, et al. v. Davis, et al.*) in the Superior Court in the County of Los Angeles. The lawsuit principally alleges SAB and OPSC have unconstitutionally and improperly allocated new public school construction funds to local school districts for new public school construction as authorized by the Class Size Reduction Kindergarten-University Public Education Facilities Bond Act (hereafter referred to as "Proposition 1A"). Plaintiffs seek only prospective relief, alleging that the current SAB method of allocating new construction funds is neither reasonable nor fair to large, urban school districts. The Plaintiffs allege the present allocation method does not dispense new construction funds on a priority of greatest need basis. On December 13, 2000, the parties reached an agreement under which plaintiffs and intervenors agree that the regulations adopted by the State Allocation Board at its meeting of that date, adequately address the needs of LAUSD. Assuming no future substantive changes in the regulations, the lawsuit will not go forward and will eventually be dismissed. On or about December 8, 2000, a related lawsuit was filed in Sacramento County Superior Court by the Coalition for Adequate School Housing ("CASH"). That case has since been transferred to Los Angeles County Superior Court. CASH seeks a writ of mandate against the State Allocation Board to prevent the distribution of new school construction funds according to the newly adopted regulations. CASH seeks distribution of the new school construction funds on a first

come, first served basis. The SAB has filed an answer. The Attorney General is of the opinion that neither the Godinez nor the CASH lawsuit affects the validity of any State bonds, nor the authority of the State to issue bonds under the current authorization granted by the finance committees.

In *Charles Davis v. California Health and Human Services Agency*, the plaintiff has brought a class action under a number of federal acts, including the Americans with Disabilities Act, seeking declaratory and injunctive relief, alleging that persons who are institutionalized with disabilities at a San Francisco run 1,200 bed skilled nursing facility (Laguna Honda) who require long term care should be assessed as to whether they can be treated at home or in community-based facilities, and then provided appropriate care. The State has filed an answer. At this early stage in the proceedings, it is difficult to assess the financial impact of a judgment against the State. However, should the plaintiff prevail, the State's liability could exceed $400 million. The State is vigorously defending this action.

In *Stephen Sanchez, et al. v. Grantland Johnson et al.,* the plaintiffs have brought a class action in Federal District Court for the Northern District of California, seeking declaratory and injunctive relief, alleging, in part, that provider rates for community-based services for developmentally disabled individuals are discriminatory under the Americans with Disabilities Act, and violate Social Security Act, Civil Rights Act and the Rehabilitation Act, because they result in unnecessary institutionalization of developmentally disabled persons. The State has filed a responsive pleading and is vigorously contesting this case. At this early stage in the proceedings, it is difficult to assess the financial impact of a judgment against the State. However, should the plaintiffs prevail, the State's liability could exceed $400 million.

In *California Independent Systems Operator v. Reliant Energy Services et. al.* (U.S. District Court, E.D. Cal), the California Independent Systems Operator ("ISO") sued Reliant Energy and three other energy producers (Williams, AES, and Dynegy) because they were threatening to no longer comply with an ISO tariff that required them to supply energy when requested by ISO during a "System Emergency." The ISO filed an application for a temporary restraining order ("TRO") and preliminary injunction. The State of California acting through its Electricity Oversight Board intervened in the action in support of the ISO. On February 7, 2001, the District Court issued a TRO preventing the energy producers from refusing to supplying power under the ISO tariff, even if they were not paid for the power ordered by Southern California Edison Company ("SCE") and Pacific Gas & Electric Company ("PG&E"). Pursuant to a stipulation among the parties, the TRO was dissolved and the four generators agreed to continue supplying power to the ISO, subject to termination on 48 hours' notice in the event of a favorable ruling by the Federal Energy Regulatory Commission ("FERC") on an Amendment to the ISO tariff proposed by the generators which would address the issues in the lawsuit. However, as of March 19, 2001, Reliant refused to extend the stipulation and on March 21, 2001, the court granted the ISO's motion for preliminary injunction against Reliant and denied Reliant's motion to dismiss the ISO complaint. Reliant filed an emergency motion with the 9th Circuit Court of Appeals for a stay of the preliminary injunction pending appeal, requesting a decision by April 4, 2001.

On April 5, 2001, the Court of Appeals granted the stay based in part, on jurisdictional arguments. On April 6, 2001, the FERC rejected the ISO's position that a tariff authorizing energy producers to refuse to supply power pursuant to ISO dispatch orders where the purchaser could not demonstrate creditworthiness, did not apply to emergency power and expressly found

that the creditworthy criterion applied to all power purchases. Since these rulings, some power producers have indicated their unwillingness to provide emergency power pursuant to ISO dispatch orders unless payment is guaranteed by a creditworthy purchaser such as the State.

In the same action, Reliant Energy has filed a third-party complaint against the California Department of Water Resources (the "Department") seeking a declaration that AB 1X should be read to require the Department to pay for all power delivered to the ISO by energy producers, regardless of the price. Reliant Energy has filed a motion for TRO to include DWR based on the third-party complaint.

On March 21, 2001, the District Court granted the Department's motion to dismiss Reliant's third-party complaint, thereby rejecting the argument that the Department must purchase all power requirements of the State regardless of the cost.

In *Hendricks v. Hannigan*, (San Diego Superior Court), plaintiff challenged implementation of Senate Bill 7x by the Director of the Department of Water Resources on the ground that it provided for a gift of public funds. Defendant's demurrer was sustained without leave to amend and the complaint was dismissed. Plaintiff filed a notice of appeal on January 29, 2001.

In *Duke Energy Trading and Marketing v. Davis, et al.*, (U.S. District Court, C.D. Cal.), the plaintiff challenges the Governor's orders commandeering SCE and PG&E block forward market contracts held by the California Power Exchange on the ground that the orders violated the Supremacy Clause and other constitutional provisions. Duke Energy seeks a TRO and injunction barring the Governor from taking any action against Duke Energy under the authority of the Executive Orders and a declaration that Duke Energy has no obligation to deliver power under the block forward contracts. The hearing on the TRO, seeking an order restraining the ISO from requiring the energy producer to supply energy under the contracts, has been taken off calendar. Pursuant to an interim settlement, Duke Energy will deliver power to the Department and the parties will engage in settlement negotiations through April 30, 2001. If no settlement is reached, a hearing will be held on the plaintiff's motion for a preliminary injunction and other motions on April 30, 2001. If needed, a trial on factual issues is set to commence May 15, 2001. While it is difficult to predict the effect of an adverse ruling, such ruling could cause power costs to increase substantially, in the near term.

The Power Exchange has informally demanded payment from the State in the amount of approximately $651.7 million for the SCE Block Forward Contracts and approximately $347.9 million for the PG&E Block Forward Contracts. The State disputes this valuation. The Emergency Services Act requires that the Power Exchange pursue administrative remedies by filing a claim with the California Victim Compensation and Government Claims Board.

In *Duke Energy Trading and Marketing v. California Independent Systems Operator et al.* (U.S. District Court C.D. Cal), filed February 14, 2001, plaintiff alleges that the ISO/DWR are continuing to buy power for SCE and PG&E even though the utilities do not meet the creditworthiness requirements of the ISO tariff and that this constitutes a "taking" of property in violation of the 5th and 14th amendments to the United States Constitution. Duke seeks declaratory relief and injunctive relief. Pursuant to stipulation, the action is stayed and Duke is required to continue to supply power pursuant to ISO orders. The ISO, with the support of DWR, filed its motion for transfer of venue to the Eastern District and noticed the motion for hearing on

April 30, 2001. ISO and DWR need not respond to the complaint until 15 days after the transfer motion is resolved. While it is difficult to predict the effect of an adverse ruling, such ruling could cause power costs to increase substantially, in the near term.

The Power Exchange has filed a claim with the Victim Compensation and Government Claims Board seeking compensation from the State as a result of the commandeering of the SCE and PG&E block forward contracts. The claim asserts the value of the SCE contracts to be approximately $682.5 million and the value of the PG&E contracts to be approximately $380.2 million for a total claim of approximately $1.0627 billion. The State disputes the amount of this claim. In addition, SCE and PG&E have filed claims with the Board seeking unspecified amounts of compensation in the form of damages resulting from the commandeering of the block forward contracts. The Board has consolidated the briefing and hearing of these three claims. The briefing schedule and hearing date have not been set by the Board.

PG&E Bankruptcy. On April 6, 2001, PG&E filed a voluntary Chapter 11 bankruptcy petition in U.S. Bankruptcy Court for the Northern District of California in San Francisco (*In re Pacific Gas and Electric*, U.S. Bankruptcy Court, N.D. Cal.). The following Monday, PG&E filed an adversary proceeding in the bankruptcy court seeking declaratory and injunctive relief against the California Public Utilities Commission and its current Commissioners in their respective capacity (collectively "CPUC") to prevent the CPUC from implementing or enforcing any order that requires PG&E to transfer any under collection in its Transition Revenue Account to its Transition Cost Balancing Account on the grounds that such orders are illegal, improper and automatically stayed pursuant to provisions of the federal Bankruptcy Code. PG&E also seeks a declaration that it has an additional 60 days within which to comply with orders requiring the filing of tariffs. The State has 180 days from April 6, 2001 to assess claims it may have as a creditor of PG&E, including but not limited to, income and property taxes, regulatory fees, fines or penalties, and environmental claims. The impact of the bankruptcy filing and the adversary proceeding on the State is uncertain. See "Recent Developments Regarding Natural Gas and Electricity" above.

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-purchase bonds, and authorized and outstanding State revenue bonds. For purposes of these tables, "General Fund bonds," also known as "non-self liquidating bonds," are general obligation bonds expected to be paid from the General Fund without reimbursement from any other fund. Although the principal of general obligation commercial paper notes in the "non-self liquidating" category is legally payable from the General Fund, the State expects that principal of such commercial paper notes will be paid only from the issuance of new commercial paper notes or the issuance of long-term general obligation bonds to retire the commercial paper notes. Interest on "non-self liquidating" general obligation commercial paper notes is payable from the General Fund.

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

The following tables do not include the $600,000,000 of general obligation bonds and $354,430,000 of general obligation refunding bonds which were issued on March 13, 2001. As of March 28, 2001, the State had $581,670,000 of general obligation commercial paper notes outstanding, reflecting a reduction of $600,000,000 in the amount outstanding, due to the use of the proceeds of the sale of general obligation bonds to pay commercial paper notes.

AUTHORIZED AND OUTSTANDING GENERAL OBLIGATION BONDS

As of February 1, 2001
(Thousands)

	Voter Authorization Date	Voter Authorization Amount	Bonds Outstanding	CP Program Authorized (a)	Unissued (b)
GENERAL FUND BONDS (Non-Self Liquidating)					
California Earthquake Safety and Housing Rehabilitation Bond Act of 1988.....	6/7/88	$ 150,000	$ 95,505	$ n.a.	$ 0
California Library Construction and Renovation Bond Act of 1988.....	11/8/88	75,000	49,095	1,225	1,900
California Library Construction and Renovation Bond Act of 2000.....	3/7/00	350,000	0	1,400	348,600
California Park and Recreational Facilities Act of 1984.....	6/5/84	370,000	170,330	n.a.	1,100
California Parklands Act of 1980.....	11/4/80	285,000	50,270	n.a.	0
California Safe Drinking Water Bond Law of 1976.....	6/8/76	175,000	56,590	n.a.	2,500
California Safe Drinking Water Bond Law of 1984.....	11/6/84	75,000	33,650	n.a.	0
California Safe Drinking Water Bond Law of 1986.....	11/4/86	100,000	68,855	n.a.	0
California Safe Drinking Water Bond Law of 1988.....	11/8/88	75,000	50,240	6,265	2,000
California Wildlife, Coastal, and Park Land Conservation Act of 1988.....	6/7/88	776,000	480,240	n.a.	14,980
Class Size Reduction Public Education Facilities Bond Act of 1998 (Hi Ed).....	11/3/98	2,500,000	242,680	463,000	1,793,000
Class Size Reduction Public Education Facilities Bond Act of 1998 (K-12).....	11/3/98	6,700,000	3,820,890	2,837,300	0
Clean Air and Transportation Improvement Bond Act of 1990.....	6/5/90	1,990,000	1,176,010	149,925	315,300
Clean Water and Water Conservation Bond Law of 1978.....	6/6/78	375,000	65,105	n.a.	0
Clean Water and Water Reclamation Bond Law of 1988.....	11/8/88	65,000	47,080	0	0
Clean Water Bond Law of 1970.....	11/3/70	250,000	5,000	n.a.	0
Clean Water Bond Law of 1974.....	6/4/74	250,000	10,230	n.a.	0
Clean Water Bond Law of 1984.....	11/6/84	325,000	104,700	n.a.	0
Community Parklands Act of 1986.....	6/3/86	100,000	51,170	n.a.	0
County Correctional Facility Capital Expenditure and Youth Facility Bond Act of 1988.....	11/8/88	500,000	315,600	0	0
County Correctional Facility Capital Expenditure Bond Act of 1986.....	6/3/86	495,000	260,210	n.a.	0
County Jail Capital Expenditure Bond Act of 1981.....	11/2/82	280,000	90,100	n.a.	0
County Jail Capital Expenditure Bond Act of 1984.....	6/5/84	250,000	84,500	n.a.	0
Earthquake Safety and Public Buildings Rehabilitation Bond Act of 1990.....	6/5/90	300,000	122,365	155,000	0
Fish and Wildlife Habitat Enhancement Act of 1984.....	6/5/84	85,000	35,455	n.a.	3,000
Hazardous Substance Cleanup Bond Act of 1984.....	11/6/84	100,000	37,085	n.a.	0
Higher Education Facilities Bond Act of 1986.....	11/4/86	400,000	179,200	n.a.	0
Higher Education Facilities Bond Act of 1988.....	11/8/88	600,000	301,385	4,705	7,000
Higher Education Facilities Bond Act of June 1990.....	6/5/90	450,000	258,725	7,000	1,000
Higher Education Facilities Bond Act of June 1992.....	6/2/92	900,000	674,585	17,410	8,700
Housing and Homeless Bond Act of 1988.....	11/8/88	300,000	111,705	n.a.	0
Housing and Homeless Bond Act of 1990.....	6/5/90	150,000	78,365	n.a.	0
Lake Tahoe Acquisitions Bond Act.....	8/2/82	85,000	37,905	n.a.	0

AUTHORIZED AND OUTSTANDING GENERAL OBLIGATION BONDS
(Continued)

	Voter Authorization		Bonds	CP Program	
	Date	Amount	Outstanding	Authorized (a)	Unissued (b)
New Prison Construction Bond Act of 1981	6/8/82	$ 495,000	$ 108,500	$ n.a.	$ 0
New Prison Construction Bond Act of 1984	6/5/84	300,000	77,500	n.a.	0
New Prison Construction Bond Act of 1986	11/4/86	500,000	240,145	n.a.	1,500
New Prison Construction Bond Act of 1988	11/8/88	817,000	415,170	7,600	8,400
New Prison Construction Bond Act of 1990	6/5/90	450,000	252,630	16,100	4,000
Passenger Rail and Clean Air Bond Act of 1990	6/5/90	1,000,000	618,385	24,900	0
Public Education Facilities Bond Act of 1996	3/26/96	3,000,000	2,495,290	251,485	8,700
1988 School Facilities Bond Act	11/8/88	800,000	434,115	7,000	0
1990 School Facilities Bond Act	6/5/90	800,000	452,885	3,745	0
1992 School Facilities Bond Act	11/3/92	900,000	655,371	12,594	0
Safe, Clean Reliable Water Supply Act of 1996	11/5/96	995,000	241,120	229,200	511,800
Safe Drinking Water Bond Act of 2000	3/7/00	1,970,000	0	313,000	1,657,000
Safe Neighborhood Parks Bond Act of 2000	3/7/00	2,100,000	0	344,000	1,756,000
School Building and Earthquake Bond Act of 1974	11/5/74	40,000	34,660	n.a.	0
School Facilities Bond Act of 1988	6/7/88	800,000	393,995	n.a.	0
School Facilities Bond Act of 1990	11/6/90	800,000	479,070	6,500	0
School Facilities Bond Act of 1992	6/2/92	1,900,000	1,258,955	47,400	0
Seismic Retrofit Bond Act of 1996	3/26/96	2,000,000	1,107,215	365,645	448,000
Senior Center Bond Act of 1984	11/6/84	50,000	14,750	n.a.	0
State Beach, Park, Recreational and Historical Facilities Bonds	6/4/74	250,000	1,735	n.a.	0
State School Building Lease-Purchase Bond Law of 1982	11/2/82	500,000	78,965	n.a.	0
State School Building Lease-Purchase Bond Law of 1984	11/6/84	450,000	169,600	n.a.	0
State School Building Lease-Purchase Bond Law of 1986	11/4/86	800,000	386,300	n.a.	0
State, Urban, and Coastal Park Bond Act of 1976	11/2/76	280,000	19,430	n.a.	0
Veterans' Homes Bond Act of 2000	3/7/00	50,000	0	0	50,000
Water Conservation and Water Quality Bond Law of 1986	6/3/86	150,000	75,800	n.a.	31,000
Water Conservation Bond Law of 1988	11/8/88	60,000	34,040	13,435	3,000
Total General Fund Bonds		$ 42,138,000	$ 19,210,451	$ 5,285,834	$ 6,978,480
ENTERPRISE FUND BONDS (Self Liquidating)					
California Water Resources Development Bond Act of 1959	11/8/60	$ 1,750,000	$ 921,200	$ n.a.	$ 167,600
Veterans Bonds	(c)	5,510,000	2,434,070	14,725	176,835
Total Enterprise Fund Bonds		$ 7,260,000	$ 3,355,270	$ 14,725	$ 344,435
TOTAL GENERAL OBLIGATION BONDS		$ 49,398,000	$ 22,565,721	$ 5,300,559	$ 7,322,915

(a) Total commercial paper authorized to be issued by the respective Finance Committees. Of this total $774,170,000 is outstanding as of February 1, 2001.
Pursuant to terms of the Finance Committee resolutions, no more than $1.5 billion of commercial paper can be outstanding at any one time.
Bond acts marked "n.a." are not legally permitted to utilize commercial paper, or all bonds were issued before the commercial paper program began.
(b) Treats full commercial paper authorization as issued; see footnote (a).
(c) Various dates.

SOURCE: State of California, Office of the Treasurer.

OUTSTANDING STATE DEBT
FISCAL YEARS 1995-96 THROUGH 1999-00
(Dollars in Thousands Except for Per Capita Information)

	1995-96	1996-97	1997-98	1998-99	1999-00
Outstanding Debt(a)					
General Obligation Bonds					
General Fund (Non-Self Liquidating)	$ 14,322,086	$ 14,250,536	$ 14,932,766	$ 16,202,211	$ 17,869,616
Enterprise Fund (Self Liquidating)	3,934,630	3,699,060	3,906,950	3,674,020	3,472,300
Total	$ 18,256,716	$ 17,949,596	$ 18,839,716	$ 19,876,231	$ 21,341,916
Lease-Purchase Debt	5,845,237	6,175,044	6,639,620	6,671,534	6,627,944
Total Outstanding General Obligation Bonds and Lease-Purchase Debt	$ 24,101,953	$ 24,124,640	$ 25,479,336	$ 26,547,765	$ 27,969,860
Bond Sales During Fiscal Year					
Non-Self Liquidating General Obligation Bonds.	$ 620,810	$ 1,025,000	$ 1,667,820	$ 2,294,650	$ 2,750,000
Self Liquidating General Obligation Bonds	$ 0	$ 0	$ 447,535	$ 80,000	$ 126,500
Lease-Purchase Debt	$ 779,575	$ 1,257,630	$ 1,245,190	$ 456,410	$ 293,235
Debt Service(b)					
Non-Self Liquidating General Obligation Bonds.	$ 1,960,603	$ 1,946,333	$ 1,878,026	$ 1,934,628	$ 2,045,566
Lease-Purchase Debt	$ 482,751	$ 532,783	$ 577,987	$ 652,131	$ 654,485
General Fund Receipts(b)	$ 46,731,104	$ 49,831,217	$ 55,261,557	$ 58,510,860	$ 72,226,473
Non-Self Liquidating General Obligation Bonds Debt Service as a Percentage of General Fund Receipts	4.20%	3.91%	3.40%	3.31%	2.83%
Lease-Purchase Debt Service as a Percentage of General Fund Receipts	1.03%	1.07%	1.05%	1.11%	0.91%
Population(c)	32,063,000	32,383,000	32,957,000	33,494,000	34,036,000
Non-Self Liquidating General Obligation Bonds Outstanding Per Capita	$ 446.69	$ 440.06	$ 453.10	$ 483.73	$ 525.02
Lease-Purchase Debt Outstanding Per Capita	$ 182.30	$ 190.69	$ 201.46	$ 199.19	$ 194.73
Personal Income(d)	$ 812,404,210	$ 862,755,817	$ 920,452,229	$ 989,706,630	$1,063,000,000
Non-Self Liquidating General Obligation Bonds Outstanding as Percentage of Personal Income	1.76%	1.65%	1.62%	1.64%	1.68%
Lease-Purchase Debt Outstanding as Percentage of Personal Income	0.72%	0.72%	0.72%	0.67%	0.62%

(a) As of last day of fiscal year
(b) Calculated on a cash basis; debt service costs of bonds issued in any fiscal year largely appear in subsequent fiscal year.
(c) As of July 1, the beginning of the fiscal year.
(d) Calendar year in which fiscal year ends: 1999 estimated; 2000 consistent with May Revision.

SOURCES: Population: State of California, Department of Finance
Personal Income: State of California, Department of Finance; United States, Department of Commerce
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.

SCHEDULE OF DEBT SERVICE REQUIREMENTS
FOR GENERAL FUND GENERAL OBLIGATION BONDS(a)
(Non-Self Liquidating)
As of February 1, 2001

Fiscal Year Ending June 30	Current Debt Interest	Current Debt Principal (b)	Current Debt Total
2001	$ 469,256,870.28	$ 335,583,068.25	$ 804,839,938.53 (c)
2002	1,064,800,852.57	1,338,110,000.00	2,402,910,852.57
2003	981,053,395.14	1,287,381,391.80	2,268,434,786.94
2004	895,657,902.95	1,213,425,000.00	2,109,082,902.95
2005	823,126,328.84	1,127,089,388.71	1,950,215,717.55
2006	754,706,602.50	1,058,255,000.00	1,812,961,602.50
2007	691,331,543.02	1,028,110,000.00	1,719,441,543.02
2008	634,166,335.43	997,618,078.31	1,631,784,413.74
2009	575,044,311.25	988,955,000.00	1,563,999,311.25
2010	516,381,620.56	932,560,000.00	1,448,941,620.56
2011	464,063,079.84	804,229,045.16	1,268,292,125.00
2012	412,973,018.80	656,690,000.00	1,069,663,018.80
2013	377,884,463.75	557,415,000.00	935,299,463.75
2014	350,481,230.89	481,975,000.00	832,456,230.89
2015	326,539,163.44	470,550,000.00	797,089,163.44
2016	302,236,754.49	468,265,000.00	770,501,754.49
2017	277,209,532.56	468,340,000.00	745,549,532.56
2018	252,980,725.98	467,620,000.00	720,600,725.98
2019	228,641,006.00	466,585,000.00	695,226,006.00
2020	204,385,218.50	462,885,000.00	667,270,218.50
2021	181,217,544.75	461,560,000.00	642,777,544.75
2022	157,155,878.50	470,290,000.00	627,445,878.50
2023	131,923,217.70	472,610,000.00	604,533,217.70
2024	108,629,252.84	402,870,000.00	511,499,252.84
2025	88,131,644.08	363,520,000.00	451,651,644.08
2026	69,382,710.09	325,740,000.00	395,122,710.09
2027	52,275,210.09	309,100,000.00	361,375,210.09
2028	36,506,426.59	291,600,000.00	328,106,426.59
2029	22,489,200.00	240,395,000.00	262,884,200.00
2030	10,558,930.75	181,125,000.00	191,683,930.75
2031	2,155,802.00	80,000,000.00	82,155,802.00
Total	$ 11,463,345,774.18	$ 19,210,450,972.23	$ 30,673,796,746.41

(a) Does not include commercial paper outstanding.
(b) Includes scheduled mandatory sinking fund payments as well as serial maturities.
(c) Total represents the remaining debt service requirements from March 1, 2001 through June 30, 2001.

SOURCE: State of California, Office of the Treasurer.

SCHEDULE OF DEBT SERVICE REQUIREMENTS
FOR ENTERPRISE FUND GENERAL OBLIGATION BONDS(a)
(Self Liquidating)
As of February 1, 2001

Fiscal Year Ending June 30	Current Debt			
	Interest	Principal (b)	Total	
2001	$ 78,041,855.26	$ 30,780,000.00	$ 108,821,855.26	(c)
2002	193,255,460.00	117,975,000.00	311,230,460.00	
2003	184,453,872.60	118,125,000.00	302,578,872.60	
2004	175,286,235.00	141,390,000.00	316,676,235.00	
2005	165,406,598.50	154,240,000.00	319,646,598.50	
2006	154,978,533.50	152,155,000.00	307,133,533.50	
2007	143,707,239.76	183,245,000.00	326,952,239.76	
2008	131,227,837.29	187,605,000.00	318,832,837.29	
2009	119,152,461.25	178,425,000.00	297,577,461.25	
2010	107,579,346.55	168,395,000.00	275,974,346.55	
2011	98,063,094.52	123,820,000.00	221,883,094.52	
2012	90,700,146.00	166,650,000.00	257,350,146.00	
2013	82,514,306.87	167,680,000.00	250,194,306.87	
2014	75,268,819.75	134,120,000.00	209,388,819.75	
2015	69,289,970.65	133,270,000.00	202,559,970.65	
2016	62,468,049.50	138,925,000.00	201,393,049.50	
2017	55,179,538.14	130,570,000.00	185,749,538.14	
2018	49,041,869.09	110,760,000.00	159,801,869.09	
2019	43,765,419.21	107,020,000.00	150,785,419.21	
2020	38,839,906.80	72,580,000.00	111,419,906.80	
2021	34,693,772.54	67,085,000.00	101,778,772.54	
2022	30,785,283.64	63,980,000.00	94,765,283.64	
2023	26,975,460.64	45,815,000.00	72,790,460.64	
2024	24,311,159.39	48,535,000.00	72,846,159.39	
2025	21,489,643.75	51,355,000.00	72,844,643.75	
2026	18,493,861.25	78,930,000.00	97,423,861.25	
2027	14,297,143.75	64,020,000.00	78,317,143.75	
2028	10,589,497.50	24,515,000.00	35,104,497.50	
2029	9,003,168.75	31,290,000.00	40,293,168.75	
2030	7,336,285.00	27,330,000.00	34,666,285.00	
2031	5,844,300.00	24,605,000.00	30,449,300.00	
2032	4,380,067.50	26,030,000.00	30,410,067.50	
2033	1,813,673.75	84,050,000.00	85,863,673.75	
Total	$ 2,328,233,877.70	$ 3,355,270,000.00	$ 5,683,503,877.70	

(a) Does not include commercial paper outstanding.
(b) Includes scheduled mandatory sinking fund payments as well as serial maturities.
(c) Total represents the remaining debt service requirements from March 1, 2001 through June 30, 2001.

SOURCE: State of California, Office of the Treasurer.

SCHEDULE OF DEBT SERVICE REQUIREMENTS
FOR LEASE-PURCHASE DEBT
As of February 1, 2001

Fiscal Year Ending June 30	Current Debt			
	Interest	Principal (a)	Total	
2001	$ 158,007,162.51	$ 82,435,000.00	$ 240,442,162.51	(b)
2002	340,987,928.26	300,045,773.02	641,033,701.28	
2003	328,903,290.51	305,796,118.58	634,699,409.09	
2004	313,016,933.22	313,891,386.24	626,908,319.46	
2005	298,418,442.80	327,899,507.20	626,317,950.00	
2006	279,211,649.68	346,937,554.60	626,149,204.28	
2007	266,403,938.84	299,433,920.44	565,837,859.28	
2008	248,108,879.85	306,746,787.98	554,855,667.83	
2009	236,163,351.93	327,917,732.44	564,081,084.37	
2010	213,519,681.09	315,576,633.76	529,096,314.85	
2011	185,735,335.99	327,365,000.00	513,100,335.99	
2012	168,307,980.06	309,690,000.00	477,997,980.06	
2013	151,690,337.45	316,785,000.00	468,475,337.45	
2014	134,814,949.73	318,155,000.00	452,969,949.73	
2015	117,529,875.98	334,840,000.00	452,369,875.98	
2016	99,582,410.94	314,385,000.00	413,967,410.94	
2017	82,362,000.71	317,470,000.00	399,832,000.71	
2018	65,527,503.09	329,980,000.00	395,507,503.09	
2019	48,502,722.79	286,495,000.00	334,997,722.79	
2020	33,504,462.45	254,270,000.00	287,774,462.45	
2021	21,615,555.38	185,360,000.00	206,975,555.38	
2022	11,956,658.73	152,800,000.00	164,756,658.73	
2023	5,634,088.15	95,245,000.00	100,879,088.15	
2024	1,404,390.63	15,370,000.00	16,774,390.63	
2025	478,230.00	13,390,000.00	13,868,230.00	
Total	$ 3,811,387,760.77	$ 6,498,280,414.26	$ 10,309,668,175.03	

(a) Includes scheduled mandatory sinking fund payments as well as serial maturities.

(b) Total represents the remaining debt service requirements from March 1, 2001 through June 30, 2001.

SOURCE: State of California, Office of the Treasurer.

STATE PUBLIC WORKS BOARD AND OTHER LEASE-PURCHASE FINANCING OUTSTANDING ISSUES

February 1, 2001

Name of Issue		Outstanding
GENERAL FUND SUPPORTED ISSUES:		
State Public Works Board		
California Community Colleges	$	625,125,000
Department of Corrections *		2,488,905,739
Department of the Youth Authority		8,785,000
Energy Efficiency Program (Various State Agencies) (a)		116,420,000
The Regents of The University of California * (b)		1,056,754,675
Trustees of The California State University		676,445,000
Various State Office Buildings		551,470,000
Total State Public Works Board Issues	**$**	**5,523,905,414**
Total Other State Building Lease Purchase Issues (c)	**$**	**974,375,000**
Total General Fund Supported Issues	**$**	**6,498,280,414**
SPECIAL FUND SUPPORTED ISSUES:		
East Bay State Building Authority Certificates of Participation (State of California Department of Transportation) *	$	79,691,804
San Bernardino Joint Powers Financing Authority (State of California Department of Transportation)		58,950,000
San Francisco State Building Authority (State of California Department of General Services Lease) (d)		47,005,000
Total Special Fund Supported Issues	**$**	**185,646,804**
TOTAL	**$**	**6,683,927,218**

* Includes the initial value of capital appreciation bonds rather than the accreted value.

(a) This program is self-liquidating based on energy cost savings.

(b) The Regents' obligations to the State Public Works Board are payable from lawfully available funds of The Regents which are held in The Regents' treasury funds and are separate from the State General Fund. A portion of The Regents' annual budget is derived from General Fund appropriations.

(c) Includes $196,615,000 Sacramento City Financing Authority Lease Revenue Bonds State of California - Cal EPA Building, 1998 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.

(d) The sole tenant is the California Public Utilities Commission.

SOURCE: State of California, Office of the Treasurer.

STATE AGENCY REVENUE BONDS
AND CONDUIT FINANCING
As of December 31, 2000

Issuing Agency	Outstanding[a]
State Programs Financing:	
California State University	$ 518,498,000
California Transportation Commission	--
Department of Water Resources	2,407,705,000
The Regents of the University of California	3,412,220,000
Trade and Commerce Agency	--
Housing Financing:	
California Housing Finance Agency	7,286,531,811
Veterans Revenue Debenture	538,435,000
Conduit Financing:	
California Alternative Energy and Advanced Transportation Financing Authority	59,385,000
California Educational Facilities Authority	2,358,841,416
California Health Facilities Financing Authority	6,290,383,925
California Infrastructure and Economic Development Bank [b] [c]	789,849,717
California Passenger Rail Financing Commission	--
California Pollution Control Financing Authority	4,957,081,641
California School Finance Authority	170,000
California Student Loan Authority	55,260,000
California Urban Waterfront Area Restoration Financing Authority	-
TOTAL	**$ 28,674,361,510**

[a] Total Outstanding does not include defeased bonds and includes the accreted values for capital appreciation bonds.

[b] Does not include $6.0 billion of "rate reduction bonds" issued by special purpose trusts for the benefit of four investor-owned electric utility companies representing interests in certain electric rate surcharges.

[c] California Economic Development Financing Authority merged with California Infrastructure and Economic Development Bank effective January 1, 1999.

SOURCE: State of California, Office of the Treasurer.

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Appendix A - Exhibit 1
AUDITED
GENERAL PURPOSE FINANCIAL STATEMENTS
OF THE STATE OF CALIFORNIA
AS OF AND FOR THE YEAR ENDED
JUNE 30, 2000

Prepared under the direction of
KATHLEEN CONNELL, State Controller
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CALIFORNIA STATE AUDITOR

ELAINE M. HOWLE
STATE AUDITOR

STEVEN M. HENDRICKSON
CHIEF DEPUTY STATE AUDITOR

Independent Auditors' Report

THE GOVERNOR AND THE LEGISLATURE OF THE
STATE OF CALIFORNIA

We have audited the accompanying general purpose financial statements of the State of California, as of and for the year ended June 30, 2000, as listed in the table of contents. These general purpose financial statements are the responsibility of the State of California's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit. We did not audit the financial statements of certain capital projects funds, which reflect total assets and revenues, constituting 71 percent and 70 percent, respectively, of the capital projects funds. In addition, we did not audit the financial statements of certain enterprise funds, including those of the California State University, which reflect total assets and revenues, constituting 91 percent and 93 percent, respectively, of the enterprise funds. We did not audit the financial statements of certain internal service funds, which reflect total assets and revenues, constituting 26 percent and 47 percent, respectively, of the internal service funds. We also did not audit the financial statements of the pension trust funds, which reflect total assets constituting 88 percent of the fiduciary funds. Finally, we did not audit the University of California funds or the financial statements of certain component unit authorities, which reflect total assets and revenues, constituting 95 percent and 92 percent, respectively, of the component unit authorities. The financial statements of certain capital projects, enterprise and internal service funds, the pension trust funds, the University of California funds, and certain component unit authorities referred to above were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for these funds and entities, is based solely upon the reports of the other auditors.

We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audit and the reports of other auditors, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the State of California, as of June 30, 2000, and the results of its operations and the cash flows of its proprietary funds and component unit authorities for the year then ended, in conformity with generally accepted accounting principles.

Our audit was conducted for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The combining financial statements and schedules and required supplementary information listed in the accompanying table of contents are presented for purposes of additional analysis and are not a required part of the general purpose financial statements of the State of California. The information for the combining financial statements and schedules and the Schedule of Funding Progress in the required supplementary information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, based upon our audit and the reports of other auditors, is fairly stated, in all material respects, in relation to the general purpose financial statements taken as a whole.

We did not audit the data included in the introductory and statistical sections of this report, and accordingly, we express no opinion on them. In accordance with *Government Auditing Standards*, reports on the State's internal control structure and on its compliance with laws and regulations will be issued in our single audit report. These reports are an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

BUREAU OF STATE AUDITS

Philip Jelicich

PHILIP J. JELICICH, CPA
Deputy State Auditor

November 17, 2000

STATE OF CALIFORNIA

GENERAL PURPOSE FINANCIAL STATEMENTS

For the Year Ended
June 30, 2000

Prepared by the Office of the State Controller

KATHLEEN CONNELL
State Controller

Combined Balance Sheet

All Fund Types, Account Groups, and Discretely Presented Component Units

June 30, 2000
(Amounts in thousands)

	Governmental Fund Types			Proprietary Fund Types	
	General	Special Revenue	Capital Projects	Enterprise	Internal Service
ASSETS AND OTHER DEBITS					
Cash and pooled investments	$ 9,530,738	$ 6,965,053	$ 158,782	$ 2,435,815	$ 301,537
Investments	—	181,064	8,205	4,344,005	143,691
Amount on deposit with U. S. Treasury	—	—	—	—	—
Receivables (net)	175,545	407,674	280	156,789	11,219
Due from other funds	6,225,774	3,772,525	67,872	285,593	282,976
Due from primary government	—	—	—	—	—
Due from other governments	452,133	5,237,018	—	123,464	13,837
Prepaid items	—	—	—	7,554	30,689
Food stamps	—	401,221	—	—	—
Inventories, at cost	—	—	—	14,451	93,463
Net investment in direct financing leases	—	—	—	4,900,655	—
Advances and loans receivable	287,306	1,703,262	—	2,964,524	—
Deferred charges	—	—	—	894,772	—
Fixed assets	—	—	—	4,850,022	512,697
Investment in UCSF Stanford Health Care	—	—	—	—	—
Other assets	994	15,153	2	15,325	10,392
Amount to be provided for retirement of long-term obligations	—	—	—	—	—
Total Assets and Other Debits	**$ 16,672,490**	**$ 18,682,970**	**$ 235,141**	**$ 20,992,969**	**$ 1,400,501**

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

Fiduciary Fund Type	Account Groups		Total Primary	Component Units		Total Reporting
Trust and Agency	General Fixed Assets	General Long-Term Obligations	Government (Memorandum Only)	University of California	Special Purpose Authorities	Entity (Memorandum Only)
$ 20,334,930	$ —	$ —	$ 39,726,855	$ 117,852	$ 1,011,160	$ 40,855,867
320,775,223	—	—	325,452,188	69,238,649	7,469,334	402,160,171
5,700,891	—	—	5,700,891	—	—	5,700,891
14,085,885	—	—	14,837,392	2,279,996	356,832	17,474,220
5,413,335	—	—	16,048,075	125,881	—	16,173,956
—	—	—	—	175,982	5,213	181,195
1,928,703	—	—	7,755,155	148,140	—	7,903,295
34,032	—	—	72,275	—	400	72,675
—	—	—	401,221	—	—	401,221
—	—	—	107,914	104,652	—	212,566
—	—	—	4,900,655	—	—	4,900,655
1,251,568	—	—	6,206,660	—	5,859,389	12,066,049
—	—	—	894,772	83,246	63,920	1,041,938
—	17,555,474	—	22,918,193	16,865,382	525,319	40,308,894
—	—	—	—	15,400	—	15,400
386,491	—	—	428,357	—	798,089	1,226,446
—	—	25,821,838	25,821,838	—	—	25,821,838
$ 369,911,058	$ 17,555,474	$ 25,821,838	$ 471,272,441	$ 89,155,180	$ 16,089,656	$ 576,517,277

(Continued)

Combined Balance Sheet

All Fund Types, Account Groups, and Discretely Presented Component Units

June 30, 2000
(Amounts in thousands)

	Governmental Fund Types			Proprietary Fund Types	
	General	Special Revenue	Capital Projects	Enterprise	Internal Service
LIABILITIES					
Accounts payable	$ 1,340,396	$ 1,557,720	$ 7,193	$ 125,095	$ 116,643
Due to other funds	2,456,218	4,328,235	10,023	295,102	160,869
Due to component units	67,182	109,695	—	—	—
Due to other governments	3,595,436	2,974,980	1,355	166,548	94,079
Dividends payable	—	—	—	—	—
Deferred revenue	—	401,455	—	—	—
Advances from other funds	508,785	64,573	—	34,758	98,797
Tax overpayments	—	8,082	—	—	—
Benefits payable	—	—	—	567,300	59,903
Deposits	5	17,264	—	3,034	2,204
Contracts and notes payable	—	—	—	—	27,261
Lottery prizes and annuities	—	—	—	2,828,358	—
Compensated absences payable	135,914	—	—	32,182	35,969
Certificates of participation, commercial paper, and other borrowings	—	—	—	28,117	—
Capital lease obligations	—	—	—	—	69,325
Advance collections	23,995	94,072	2,807	278,761	153,205
General obligation bonds payable	—	—	—	3,513,400	—
Revenue bonds payable	—	—	—	8,993,282	—
Interest payable	1,553	—	26,921	161,331	—
Securities lending obligation	—	—	—	—	—
Other liabilities	175,686	195,932	—	390,489	27,505
Total Liabilities	**8,305,170**	**9,752,008**	**48,299**	**17,417,757**	**845,760**
FUND EQUITY AND OTHER CREDITS					
Contributed capital	—	—	—	296,484	347,083
Investment in general fixed assets	—	—	—	—	—
Retained earnings					
Reserved for regulatory requirements	—	—	—	242,531	—
Unreserved	—	—	—	3,036,197	207,658
Total Retained Earnings	**—**	**—**	**—**	**3,278,728**	**207,658**
Fund balances					
Reserved for					
Encumbrances	701,275	3,240,201	122,527	—	—
Local agencies	—	—	—	—	—
Advances and loans	287,306	1,703,262	—	—	—
Employees' pension benefits	—	—	—	—	—
Continuing appropriations	1,115,188	3,740,863	43,171		—
Other specific purposes	—	—	—	—	—
Total Reserved	**2,103,769**	**8,684,326**	**165,698**	**—**	**—**
Unreserved					
Undesignated	6,263,551	246,636	21,144	—	—
Total Fund Equity and Other Credits	**8,367,320**	**8,930,962**	**186,842**	**3,575,212**	**554,741**
Total Liabilities, Fund Equity, and Other Credits	**$ 16,672,490**	**$ 18,682,970**	**$ 235,141**	**$ 20,992,969**	**$ 1,400,501**

Fiduciary Fund Type	Account Groups		Total Primary	Component Units		Total Reporting
Trust and Agency	General Fixed Assets	General Long-Term Obligations	Government (Memorandum Only)	University of California	Special Purpose Authorities	Entity (Memorandum Only)
$ 6,082,030	$ —	$ —	$ 9,229,077	$ 1,536,685	$ 16,420	$ 10,782,182
8,797,628	—	—	16,048,075	125,881	—	16,173,956
4,318	—	—	181,195	—	—	181,195
4,167,884	—	—	11,000,282	—	8,983	11,009,265
—	—	—	—	—	145,386	145,386
—	—	—	401,455	—	—	401,455
162,972	—	—	869,885	—	—	869,885
1,895,501	—	—	1,903,583	—	—	1,903,583
421,800	—	—	1,049,003	—	5,062,442	6,111,445
903,702	—	—	926,209	1,316,951	116,262	2,359,422
1,072	—	—	28,333	—	5,248	33,581
—	—	—	2,828,358	—	—	2,828,358
—	—	1,227,649	1,431,714	359,363	32,018	1,823,095
—	—	622,656	650,773	1,005,029	—	1,655,802
—	—	3,407,790	3,477,115	1,211,617	—	4,688,732
147,248	—	—	700,088	—	173,075	873,163
—	—	17,838,290	21,351,690	—	—	21,351,690
—	—	843,850	9,837,132	2,754,000	6,693,933	19,285,065
—	—	—	189,805	—	144,318	334,123
30,550,543	—	—	30,550,543	8,640,549	—	39,191,092
6,172,069	—	1,881,603	8,843,284	—	783,039	9,626,323
59,306,767	—	25,821,838	121,497,599	16,950,075	13,181,124	151,628,798
—	—	—	643,567	—	109	643,676
—	17,555,474	—	17,555,474	12,249,011	—	29,804,485
—	—	—	242,531	—	657,211	899,742
—	—	—	3,243,855	—	2,251,212	5,495,067
—	—	—	3,486,386	—	2,908,423	6,394,809
—	—	—	4,064,003	—	—	4,064,003
12,528,388	—	—	12,528,388	—	—	12,528,388
578,926	—	—	2,569,494	—	—	2,569,494
285,631,779	—	—	285,631,779	50,580,077	—	336,211,856
—	—	—	4,899,222	—	—	4,899,222
—	—	—	—	5,512,775	—	5,512,775
298,739,093	—	—	309,692,886	56,092,852	—	365,785,738
11,865,198	—	—	18,396,529	3,863,242	—	22,259,771
310,604,291	17,555,474	—	349,774,842	72,205,105	2,908,532	424,888,479
$ 369,911,058	$ 17,555,474	$ 25,821,838	$ 471,272,441	$ 89,155,180	$ 16,089,656	$ 576,517,277

(Concluded)

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

Combined Statement of Revenues, Expenditures, and Changes in Fund Balances

All Governmental Fund Types and Expendable Trust Funds

Year Ended June 30, 2000
(Amounts in thousands)

	Governmental Fund Types			Fiduciary Fund Type	Total Primary Government (Memorandum Only)
	General	Special Revenue	Capital Projects	Expendable Trust	
REVENUES					
Taxes	$ 69,887,584	$ 5,703,438	$ —	$ 4,602,031	**$ 80,193,053**
Intergovernmental	4,404	31,538,816	—	639,494	**32,182,714**
Licenses and permits	44,786	3,200,315	750	—	**3,245,851**
Natural resources	12,255	79,407	—	—	**91,662**
Charges for services	173,018	675,334	—	5,772	**854,124**
Fees and penalties	69,390	1,929,286	—	459,648	**2,458,324**
Investment and interest	485,211	435,220	18,466	645,071	**1,583,968**
Escheat	—	—	—	173,136	**173,136**
Receipts from depositors	—	—	—	514,356	**514,356**
Other	633,875	451,168	25,018	669,766	**1,779,827**
Total Revenues	**71,310,523**	**44,012,984**	**44,234**	**7,709,274**	**123,077,015**
EXPENDITURES					
Current					
General government	2,265,123	3,746,505	17	71,702	**6,083,347**
Education	30,753,111	6,152,064	6	1,783,301	**38,688,482**
Health and human services	17,339,355	27,363,393	—	4,716,238	**49,418,986**
Resources	1,080,458	1,595,749	2,246	28,347	**2,706,800**
State and consumer services	445,207	396,076	9,039	1,089	**851,411**
Business and transportation	766,098	6,554,280	42	18,106	**7,338,526**
Correctional programs	4,375,739	225,460	—	—	**4,601,199**
Tax relief	2,173,459	—	—	—	**2,173,459**
Payments to depositors	—	—	—	305,690	**305,690**
Capital outlay	82,350	321,546	305,802	—	**709,698**
Debt service					
Principal retirement	1,066,892	22,820	32,482	—	**1,122,194**
Interest and fiscal charges	984,387	82,499	59,144	—	**1,126,030**
Total Expenditures	**61,332,179**	**46,460,392**	**408,778**	**6,924,473**	**115,125,822**
Excess (Deficiency) of Revenues Over (Under) Expenditures	**9,978,344**	**(2,447,408)**	**(364,544)**	**784,801**	**7,951,193**
OTHER FINANCING SOURCES (USES)					
Proceeds from general obligation bonds, commercial paper, and capital leases	82,350	5,011,776	672,349	—	**5,766,475**
Proceeds from revenue bonds	—	—	59,045	—	**59,045**
Operating transfers in	614,413	3,834,248	114,782	269,898	**4,833,341**
Operating transfers out	(1,212,134)	(3,321,264)	(419)	(237,286)	**(4,771,103)**
Transfers out — component units	(3,426,912)	(110,386)	(13,074)	(1,300)	**(3,551,672)**
Payment to refund commercial paper	—	(2,398,380)	(337,120)	—	**(2,735,500)**
Total Other Financing Sources (Uses)	**(3,942,283)**	**3,015,994**	**495,563**	**31,312**	**(399,414)**
Excess of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses	**6,036,061**	**568,586**	**131,019**	**816,113**	**7,551,779**
Fund Balances, July 1, 1999	**2,331,259**	**8,362,376**	**55,823**	**11,628,011**	**22,377,469**
Fund Balances, June 30, 2000	**$ 8,367,320**	**$ 8,930,962**	**$ 186,842**	**$ 12,444,124**	**$ 29,929,248**

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

Combined Statement of Revenues, Expenses, and Changes in Retained Earnings

All Proprietary Fund Types and Discretely Presented Component Units – Special Purpose Authorities

Year Ended June 30, 2000
(Amounts in thousands)

	Proprietary Fund Types		Total Primary Government	Component Units	Total Reporting Entity
	Enterprise	Internal Service	(Memorandum Only)	Special Purpose Authorities	(Memorandum Only)
OPERATING REVENUES					
Lottery ticket sales	$ 2,598,379	$ —	$ 2,598,379	$ —	$ 2,598,379
Service and sales	1,193,457	2,506,725	3,700,182	125,290	3,825,472
Earned premiums (net)	—	—	—	1,242,319	1,242,319
Investment and interest	264,582	210	264,792	387,257	652,049
Contributions	—	—	—	3,194	3,194
Rent	387,327	—	387,327	25,172	412,499
Other	50,676	12,388	63,064	65,137	128,201
Total Operating Revenues	4,494,421	2,519,323	7,013,744	1,848,369	8,862,113
OPERATING EXPENSES					
Lottery prizes	1,369,435	—	1,369,435	—	1,369,435
Personal services	340,633	334,204	674,837	120,990	795,827
Supplies	74,858	34,126	108,984	—	108,984
Services and charges	1,016,175	2,144,549	3,160,724	156,245	3,316,969
Depreciation	105,330	86,564	191,894	11,394	203,288
Benefit payments	—	—	—	1,490,069	1,490,069
Interest expense	511,199	4,607	515,806	372,487	888,293
Amortization of deferred charges	86,853	—	86,853	178,524	265,377
Total Operating Expenses	3,504,483	2,604,050	6,108,533	2,329,709	8,438,242
Operating Income (Loss)	989,938	(84,727)	905,211	(481,340)	423,871
NONOPERATING REVENUES (EXPENSES)					
Grants received	267	—	267	69,389	69,656
Grants provided	(41,813)	—	(41,813)	(69,389)	(111,202)
Investment and interest income (loss)	116,532	13,391	129,923	(82,706)	47,217
Interest expense and fiscal charges	(207,523)	(38)	(207,561)	(2,745)	(210,306)
Dividends paid	—	—	—	7,279	7,279
Lottery payments for education	(907,305)	—	(907,305)	—	(907,305)
Other	(20,266)	(338)	(20,604)	7,626	(12,978)
Total Nonoperating Revenues (Expenses)	(1,060,108)	13,015	(1,047,093)	(70,546)	(1,117,639)
Income (Loss) Before Operating Transfers	(70,170)	(71,712)	(141,882)	(551,886)	(693,768)
OPERATING TRANSFERS					
Operating transfers in	32,334	7,126	39,460	—	39,460
Operating transfers in — primary government	—	—	—	425,000	425,000
Operating transfers out	(64,564)	(15,099)	(79,663)	—	(79,663)
Total Operating Transfers	(32,230)	(7,973)	(40,203)	425,000	384,797
Net Income (Loss)	(102,400)	(79,685)	(182,085)	(126,886)	(308,971)
Retained Earnings, July 1, 1999	3,381,128	287,343	3,668,471	3,035,309 *	6,703,780
Retained Earnings, June 30, 2000	$ 3,278,728	$ 207,658	$ 3,486,386	$ 2,908,423	$ 6,394,809

*Restated

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

Combined Statement of Revenues, Expenditures, and Changes in Fund Balances Non-GAAP Budgetary Basis – Budget and Actual

All Governmental Cost Funds

Year Ended June 30, 2000
(Amounts in thousands)

	General Fund		
	Budget	**Actual**	**Variance**
REVENUES			
Major taxes and licenses			
Bank and corporation taxes	—	$ 6,638,762	—
Cigarette and tobacco tax	—	132,199	—
Inheritance, estate and gift taxes	—	928,146	—
Insurance gross premiums tax	—	1,299,777	—
Vehicle license fees	—	28,422	—
Motor vehicle fuel tax	—	—	—
Personal income tax	—	39,574,650	—
Retail sales and use taxes	—	21,137,297	—
Other major taxes and licenses	—	288,120	—
Total Major Taxes and Licenses	—	**70,027,373**	—
Minor revenues	—	1,528,263	—
Total Revenues	—	**71,555,636**	—
EXPENDITURES			
Legislative, judicial, executive	$ 2,376,642	2,332,475	$ 44,167
State and consumer services	447,832	438,583	9,249
Business, transportation and housing	745,296	745,043	253
Trade and commerce	482,631	480,438	2,193
Resources	1,024,920	982,000	42,920
Environmental protection	148,488	140,245	8,243
Health and human services	17,753,473	17,485,106	268,367
Correctional programs	4,539,608	4,396,357	143,251
Education	34,043,665	34,014,860	28,805
General government			
Tax relief and shared revenues	2,203,119	2,171,316	31,803
Debt service	2,107,329	2,072,690	34,639
Other general government	937,242	844,599	92,643
Total Expenditures	**$ 66,810,245**	**66,103,712**	**$ 706,533**
OTHER FINANCING SOURCES (USES)			
Transfers from other funds	—	423,302	—
Transfers to other funds	—	(203,818)	—
Other additions and deductions	—	48,095	—
Total Other Financing Sources (Uses)	—	**267,579**	—
Excess of Revenues and Other Sources Over Expenditures and Other Uses	—	**5,719,503**	—
FUND BALANCES			
Fund Balances, July 1, 1999, Restated	—	3,920,188	—
Fund Balances, June 30, 2000	—	**$ 9,639,691**	—

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

Other Governmental Funds			Total		
Budget	Actual	Variance	Budget	Actual	Variance
—	$ 136	—	—	$ 6,638,898	—
—	1,084,452	—	—	1,216,651	—
—	—	—	—	928,146	—
—	—	—	—	1,299,777	—
—	3,315,500	—	—	3,343,922	—
—	3,069,694	—	—	3,069,694	—
—	3,587	—	—	39,578,237	—
—	4,388,491	—	—	25,525,788	—
—	1,957,499	—	—	2,245,619	—
—	**13,819,359**	—	—	**83,846,732**	—
—	4,352,791	—	—	5,881,054	—
—	**18,172,150**	—	—	**89,727,786**	—
$ 531,821	513,748	$ 18,073	$ 2,908,463	2,846,223	$ 62,240
586,333	417,513	168,820	1,034,165	856,096	178,069
5,783,550	4,960,976	822,574	6,528,846	5,706,019	822,827
8,659	8,051	608	491,290	488,489	2,801
902,692	876,844	25,848	1,927,612	1,858,844	68,768
561,962	549,433	12,529	710,450	689,678	20,772
4,337,725	4,321,185	16,540	22,091,198	21,806,291	284,907
16,965	16,185	780	4,556,573	4,412,542	144,031
927,307	895,323	31,984	34,970,972	34,910,183	60,789
3,346,500	3,346,500	—	5,549,619	5,517,816	31,803
501	270	231	2,107,830	2,072,960	34,870
(86,411)	(117,896)	31,485	850,831	726,703	124,128
$ 16,917,604	**15,788,132**	**$ 1,129,472**	**$ 83,727,849**	**81,891,844**	**$ 1,836,005**
—	15,019,520	—	—	15,442,822	—
—	(17,128,953)	—	—	(17,332,771)	—
—	272,271	—	—	320,366	—
—	**(1,837,162)**	—	—	**(1,569,583)**	—
—	**546,856**	—	—	**6,266,359**	—
—	5,925,389	—	—	**9,845,577**	—
—	**$ 6,472,245**	—	—	**$ 16,111,936**	—

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

Combined Statement of Cash Flows

All Proprietary Fund Types and Discretely Presented Component Units – Special Purpose Authorities

Year Ended June 30, 2000
(Amounts in thousands)

	Proprietary Fund Types		Component Units
	Enterprise (1)	Internal Service (2)	Special Purpose Authorities
CASH FLOWS FROM OPERATING ACTIVITIES			
Operating income (loss)	$ 989,938	$ (84,727)	$ (481,340)
ADJUSTMENTS TO RECONCILE OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATIONS			
Interest expense on operating debt	(1,654)	4,607	369,272
Depreciation	105,330	86,564	11,394
Accretion of capital appreciation bonds	10,344	—	19,665
Provisions and allowances	5,573	—	18,703
Accrual of deferred charges	(3,631)	—	(181,187)
Amortization of deferred credits	(3,798)	—	(3,212)
Amortization of discounts	1,604	—	8,009
Amortization of deferred charges	86,853	—	177,062
Purchase of program loans	—	—	(1,045,262)
Collection of principal from program loans	(125)	—	334,094
Other	(3,609)	848	12,196
Change in assets and liabilities			
Receivables	(24,265)	(6,904)	(23,712)
Due from other funds	(17,174)	32,480	—
Due from primary government	—		(1,480)
Due from other governments	(48,212)	(3,314)	—
Prepaid items	(714)	(2,956)	(65)
Inventories	1,196	(5,576)	—
Net investment in direct financing leases	185,528	—	—
Advances and loans receivable	(392,250)	—	—
Other assets	6,376	1,566	49,164
Accounts payable	8,495	(44,345)	5,872
Interest payable	21,809	—	—
Due to other funds	(20,261)	(21,807)	(1,180)
Due to other governments	17,099	18,831	4
Benefits payable	213,382	16,776	156,481
Deposits	(688)	1,502	2,307
Lottery prizes and annuities	(234,108)	—	—
Contracts and notes payable	(585)	(2,695)	1,192
Compensated absences payable	2,888	(2,019)	2,360
Capital lease obligations	—	(2,619)	—
Advance collections	3,451	134	(4,579)
Other liabilities	23,451	5,901	(100,321)
Total Adjustments	**(57,695)**	**76,974**	**(193,223)**
Net Cash Provided by (Used In) Operating Activities	**932,243**	**(7,753)**	**(674,563)**

(Continued)

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

	Proprietary Fund Types		Component Units
	Enterprise (1)	Internal Service (2)	Special Purpose Authorities (3)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Dividends paid	—	—	(93,098)
Advances from other funds	10,186	2,846	—
Collection of advances and loans	13,915	—	—
Return of advances from other funds	(6,160)	—	—
Proceeds from revenue bonds	117,200	—	1,570,831
Retirement of general obligation bonds	(162,815)	—	—
Retirement of revenue bonds	(15,600)	—	(896,416)
Interest paid on operating debt	—	—	(364,436)
Operating transfers in	28,047	7,126	—
Operating transfers out	(54,258)	(15,099)	—
Grants provided	(41,813)	—	(69,389)
Lottery payments for education	(975,825)	—	—
Net Cash Provided by (Used In) Noncapital Financing Activities	**(1,087,123)**	**(5,127)**	**147,492**
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Unamortized water project costs	6,321	—	—
Acquisition of intangible assets	—	(1,747)	—
Acquisition of fixed assets	(235,685)	(104,004)	(16,224)
Proceeds from sale of fixed assets	63	18,998	4
Advances from other funds	372,605	—	—
Advances and loans provided	(9,580)	—	—
Collection of advances and loans	11,942	—	—
Return of advances from other funds	(368,254)	—	—
Proceeds from notes payable and commercial paper	13,753	12,347	—
Principal paid on notes payable and commercial paper	—	(3,440)	—
Payment of capital lease obligations	—	(2,430)	—
Retirement of general obligation bonds	(39,900)	—	—
Proceeds from revenue bonds	296,262	—	—
Retirement of revenue bonds	(333,337)	—	(2,521)
Interest paid	(207,739)	(4,607)	(2,777)
Contributed capital	48,827	1,901	—
Grants received	267	—	69,389
Operating transfers in	4,307	—	425,000
Operating transfers out	(10,082)	—	—
Net Cash Provided by (Used In) Capital and Related Financing Activities	**(450,230)**	**(82,982)**	**472,871**
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of investments	(357,793)	—	(3,097,345)
Proceeds from maturity and sale of investments	838,660	44,185	2,657,031
Earnings on investments	114,827	13,889	515,567
Net Cash Provided by Investing Activities	**595,694**	**58,074**	**75,253**
Net Increase (Decrease) in Cash and Pooled Investments	**(9,416)**	**(37,788)**	**21,053**
Cash and Pooled Investments at July 1, 1999	**2,445,231**	**339,325**	**990,107**
Cash and Pooled Investments at June 30, 2000	**$ 2,435,815**	**$ 301,537**	**$ 1,011,160**

(Concluded)

Non-cash transactions are those portions of investing, financing, or capital activities that affected assets and liabilities but did not result in cash receipts or payments during the period.

(1) Enterprise funds had the following non-cash transactions: a. $199 million on interest accreted on annuitized lottery prizes; b. $41 million on unclaimed lottery prizes directly transferred for educational purposes; c. $33 million unrealized gain and $27 million unrealized loss on investments.

(2) Internal service funds made non-cash transactions for installment purchases totaling approximately $12 million to acquire equipment.

(3) Component units had a $621 million unrealized loss on investments.

Combined Statement of Changes in Plan Net Assets

Pension Trust Funds and Discretely Presented Component Unit – University of California

Year Ended June 30, 2000
(Amounts in thousands)

	Primary Government Pension Trust Funds	Component Unit University of California Retirement System Funds
ADDITIONS		
Contributions		
Employer	$ 3,004,829	$ 1,584
Plan member	3,312,103	557,441
Total Contributions	**6,316,932**	**559,025**
Investment income		
Net appreciation in fair value of investments	20,982,667	4,067,246
Interest, dividends, and other investment income	10,511,973	2,163,444
Less: Investment expense	(2,204,266)	(417,798)
Net Investment Income	**29,290,374**	**5,812,892**
Other	8,091	1,229,620
Total Additions	**35,615,397**	**7,601,537**
DEDUCTIONS		
Benefits	8,899,138	665,803
Refunds of contributions	223,077	466,510
Administrative expense	226,856	25,911
Operating transfers out	22,035	—
Total Deductions	**9,371,106**	**1,158,224**
Net Increase in Fund Balance Reserved for Employees' Pension Benefits	**26,244,291**	**6,443,313**
Fund Balance Reserved for Employees' Pension Benefits, July 1, 1999	**259,387,488**	**44,136,764**
Fund Balance Reserved for Employees' Pension Benefits, June 30, 2000	**$ 285,631,779**	**$ 50,580,077**

Statement of Changes in Net Assets

Investment Trust Fund – Local Agency Investment

Year Ended June 30, 2000
(Amounts in thousands)

CHANGE IN NET ASSETS RESULTING FROM OPERATIONS	
Investment and interest income	$ 734,099
Less: Operating expenditures and expenses	(1,710)
Net Increase in Net Assets Resulting From Operations	**732,389**
DISTRIBUTIONS TO PARTICIPANTS	
Distributions paid and payable	**(732,389)**
CHANGE IN NET ASSETS RESULTING FROM DEPOSITOR TRANSACTIONS	
Receipts from depositors	17,149,806
Less: Withdrawals by depositors	(18,776,242)
Net Decrease in Net Assets Resulting from Depositor Transactions	**(1,626,436)**
Total Change in Net Assets	**(1,626,436)**
Net Assets Held in Trust for Pool Participants, July 1, 1999	**14,154,824**
Net Assets Held in Trust for Pool Participants, June 30, 2000	**$ 12,528,388**

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

Combined Balance Sheet – Discretely Presented Component Unit – University of California

June 30, 2000
(Amounts in thousands)

	Current Funds	Loan Funds	Endowment and Similar Funds	Plant Funds	Agency Funds	Retirement System Funds	Total (Memorandum Only)
ASSETS							
Cash	$ 115,322	$ —	$ —	$ 2,530	$ —	$ —	**$ 117,852**
Investments	3,986,970	78,724	5,639,777	1,713,613	749,991	57,069,574	**69,238,649**
Receivables (net)	1,446,772	281,939	31,516	11,453	—	508,316	**2,279,996**
Due from other funds	80	—	23,542	1,281	—	100,978	**125,881**
Due from primary government	175,982	—	—	—	—	—	**175,982**
Due from other governments	147,179	961	—	—	—	—	**148,140**
Inventories, at cost	104,652	—	—	—	—	—	**104,652**
Deferred charges	83,246	—	—	—	—	—	**83,246**
Fixed assets	—	—	—	16,865,382	—	—	**16,865,382**
Investment in UCSF Stanford Health Care	—	—	—	15,400	—	—	**15,400**
Total Assets	**$ 6,060,203**	**$ 361,624**	**$ 5,694,835**	**$ 18,609,659**	**$ 749,991**	**$ 57,678,868**	**$ 89,155,180**
LIABILITIES AND FUND EQUITY							
Liabilities							
Accounts payable	$ 1,460,068	$ —	$ 5,896	$ 37,949	$ —	$ 32,772	**$ 1,536,685**
Due to other funds	102,480	2,000	—	21,401	—	—	**125,881**
Deposits	566,960	—	—	—	749,991	—	**1,316,951**
Compensated absences	359,363	—	—	—	—	—	**359,363**
Commercial paper and other borrowings	2,025	—	—	1,003,004	—	—	**1,005,029**
Capital lease obligations	—	—	—	1,211,617	—	—	**1,211,617**
Revenue bonds payable	—	7,405	—	2,746,595	—	—	**2,754,000**
Securities lending obligation	603,402	12,931	693,776	264,421	—	7,066,019	**8,640,549**
Total Liabilities	**3,094,298**	**22,336**	**699,672**	**5,284,987**	**749,991**	**7,098,791**	**16,950,075**
Fund Equity							
Investment in general fixed assets	—	—	—	12,249,011	—	—	**12,249,011**
Fund balances							
Employees' pension benefits	—	—	—	—	—	50,580,077	**50,580,077**
Reserved for other specific purposes	942,562	300,068	3,932,887	337,258	—	—	**5,512,775**
Undesignated	2,023,343	39,220	1,062,276	738,403	—	—	**3,863,242**
Total Fund Equity	**2,965,905**	**339,288**	**4,995,163**	**13,324,672**	**—**	**50,580,077**	**72,205,105**
Total Liabilities and Fund Equity	**$ 6,060,203**	**$ 361,624**	**$ 5,694,835**	**$ 18,609,659**	**$ 749,991**	**$ 57,678,868**	**$ 89,155,180**

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

Combined Statement of Changes in Fund Balances – Discretely Presented Component Unit – University of California

Year Ended June 30, 2000
(Amounts in thousands)

	Current Funds	Loan Funds	Endowment and Similar Funds	Plant Funds
REVENUES AND OTHER ADDITIONS				
Student tuition and fees	$ 1,113,853	$ —	$ —	$ 17,201
U.S. government	4,731,827	2,158	—	34,297
Local government	112,964	—	—	—
Sales and services				
Educational activities	869,243	—	—	—
Medical centers	2,205,476	—	—	—
Auxiliary enterprises	639,794	—	—	—
Private gifts, grants, and contracts	833,417	703	31,413	78,303
Investment income				
Endowment activities	142,994	—	6,211	—
Securities lending	92,276	872	—	14,359
Other	145,261	9,614	—	63,574
Net appreciation (depreciation) in fair value of investments	30,601	(550)	436,774	(11,034)
Expended for plant facilities (including $451,457 of current funds)	—	—	—	1,267,981
UCSF Stanford Health Care-Operating loss	(62,321)	—	—	—
Retirement of indebtedness	—	—	—	157,553
Other revenues	454,444	—	—	357,348
Transfers in — primary government	2,940,384	—	—	186,288
Other additions	84,842	4,087	8,476	357
Total Revenues and Other Additions	**14,335,055**	**16,884**	**482,874**	**2,166,227**
EXPENDITURES AND OTHER DEDUCTIONS				
Current fund expenditures				
Educational and general	7,676,541	—	—	—
Medical centers	2,144,778	—	—	—
Auxiliary enterprises	518,682	—	—	—
Department of Energy laboratories	2,996,653	—	—	—
Securities lending fees and rebates	88,448	836	—	13,767
Plant fund expenditures (including noncapitalized expenditures of $57,283)	—	—	—	399,929
Issuance of debt obligations	—	—	—	345,803
Debt service				
Principal retirement	—	—	—	157,553
Interest	—	—	—	253,527
Disposal of plant assets	—	—	—	351,381
Other	34,852	5,777	1,196	17,102
Total Expenditures and Other Deductions	**13,459,954**	**6,613**	**1,196**	**1,539,062**
TRANSFERS AMONG FUNDS				
Mandatory contractual arrangements				
Loan funds matching grants	(1,277)	1,277	—	—
Principal and interest	(311,706)	—	—	311,706
Nonmandatory (discretionary allocations)	(371,529)	3,572	26,415	341,542
Total Transfers Among Funds	**(684,512)**	**4,849**	**26,415**	**653,248**
Net Increase in Fund Balances	**190,589**	**15,120**	**508,093**	**1,280,413**
Fund Balances, July 1, 1999	**2,775,316**	**324,168**	**4,487,070**	**12,044,259**
Fund Balances, June 30, 2000	**$ 2,965,905**	**$ 339,288**	**$ 4,995,163**	**$ 13,324,672**

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

Combined Statement of Current Funds Revenues, Expenditures, and Other Changes – Discretely Presented Component Unit – University of California

Year Ended June 30, 2000
(Amounts in thousands)

	Current Funds		Total (Memorandum Only)
	Unrestricted	Restricted	
REVENUES			
Student tuition and fees	$ 1,113,853	$ —	$ 1,113,853
U.S. government appropriations, grants and contracts	334,941	1,374,171	1,709,112
Local government grants and contracts	2,167	107,138	109,305
Sales and services			
Education activities	869,243	—	869,243
Medical centers	2,205,476	—	2,205,476
Auxiliary enterprises	639,794	—	639,794
Private gifts, grants and contracts	75,220	655,418	730,638
Investment income			
Endowment and similar funds	32,287	86,799	119,086
Securities lending	45,957	44,392	90,349
Other	113,537	—	113,537
Net appreciation in fair value of investments	21,361	—	21,361
Department of Energy laboratories	31,296	2,996,653	3,027,949
Other revenues	454,444	—	454,444
Transfers in — primary government	2,488,944	355,056	2,844,000
Total Revenues	**8,428,520**	**5,619,627**	**14,048,147**
EXPENDITURES AND MANDATORY TRANSFERS			
Educational and general			
Instructional	2,257,297	159,277	2,416,574
Research	316,361	1,768,261	2,084,622
Public service	165,913	128,309	294,222
Academic support	1,016,666	130,784	1,147,450
Student services	293,063	12,025	305,088
Institutional support	534,905	43,347	578,252
Operation and maintenance of plant	356,596	896	357,492
Student financial aid	176,790	316,051	492,841
Mandatory transfers			
Loan fund matching grant	927	350	1,277
Debt service	98,232	107,798	206,030
Total Educational and General Expenditures, and Mandatory Transfers	**5,216,750**	**2,667,098**	**7,883,848**
Medical centers			
Expenditures	2,139,696	5,082	2,144,778
Mandatory transfers	54,127	—	54,127
Total Medical Centers	**2,193,823**	**5,082**	**2,198,905**
Auxiliary enterprises			
Expenditures	504,132	14,550	518,682
Mandatory transfers	51,549	—	51,549
Total Auxiliary Enterprises	**555,681**	**14,550**	**570,231**
UCSF Stanford Health Care loss	62,321	—	62,321
Department of Energy laboratories	—	2,996,653	2,996,653
Securities lending fees and rebates	44,056	44,392	88,448
Total Expenditures and Mandatory Transfers	**8,072,631**	**5,727,775**	**13,800,406**
OTHER TRANSFERS AND ADDITIONS (DEDUCTIONS)			
Restricted receipts in excess of restricted expenditures	—	264,004	264,004
Nonmandatory transfers	(304,685)	(66,844)	(371,529)
Other	46,644	3,729	50,373
Total Other Transfers and Additions (Deductions)	**(258,041)**	**200,889**	**(57,152)**
Net Increase in Fund Balances	**$ 97,848**	**$ 92,741**	**$ 190,589**

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

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Notes to the Financial Statements

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements present information on the financial activities of the State of California over which the Governor, the Legislature, and other elected officials have direct or indirect governing and fiscal control. These financial statements have been prepared in conformity with generally accepted accounting principles (GAAP).

A. Reporting Entity

As required by GASB Statement No. 14, The Financial Reporting Entity, these financial statements present the primary government of the State and its component units. The **primary government** consists of all funds, account groups, organizations, institutions, agencies, departments, and offices that are not legally separate from the State. GASB Statement No. 14 does not modify the fiduciary fund reporting requirements of the primary government. As a result, funds such as the Public Employees' Retirement Fund and the State Teachers' Retirement Fund are reported in the appropriate fiduciary funds. Component units are organizations that are legally separate from the State but for which the State is financially accountable, or for which the nature and significance of their relationship with the State is such that exclusion would cause the State's financial statements to be misleading or incomplete. The decision to include a potential component unit in the State's reporting entity is based on several criteria including legal standing, fiscal dependency, and financial accountability. Following is information on blended and discretely presented component units for the State.

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, the $836 million of capital lease arrangements between the building authorities and the State have been eliminated from the combined balance sheet. Instead, only the underlying fixed assets and the debt used to acquire them are reported in the

appropriate account groups. Copies of the financial statements of the building authorities may be obtained from the State Controller's Office, Division of Accounting and Reporting, P.O. Box 942850, Sacramento, California 94250-5876.

Discretely presented component units are reported in separate columns in the combined financial statements. Discretely presented component units are legally separate from the primary government, and mostly provide services to entities and individuals outside the State. For ease of presentation, discretely presented component units, other than the University of California, are included in the statements under the heading of special purpose authorities.

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. The University of California is a component unit of the State because the State appoints a voting majority of the Regents of the University of California, and expenditures for the support of various University of California programs and capital outlay are appropriated by the annual Budget Act.

Copies of the University of California's separately issued financial statements may be obtained from the University of California, Financial Management, 1111 Franklin Street, 10th Floor, Oakland, California 94607-5200.

Special purpose authorities are presented in three separate categories for condensed financial statement reporting purposes: State Compensation Insurance Fund (SCIF), California Housing Finance Agency (CHFA), and Non-Major Component Units. SCIF and CHFA are considered major component units while all other special purpose authority component units are shown as Non-Major Component Units.

The SCIF is a self-supporting enterprise created to offer insurance protection to employers at the lowest possible cost. It operates in competition with other insurance carriers to provide services to the State, counties, cities, school districts, or other public corporations. It is a component unit of the State because the State appoints all five voting members of the SCIF's governing board and has the authority to approve or modify the SCIF's budget. Copies of the SCIF's financial statements for the year ended December 31, 1999, may be obtained from the State Compensation Insurance Fund, 1275 Market Street, San Francisco, California 94103.

The CHFA was created by the Zenovich-Moscone-Chacon Housing and Home Finance Act, as amended. The CHFA's purpose is to meet

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 the CHFA's governing board and has the authority to approve or modify its budget. Copies of the CHFA's financial statements may be obtained from the California Housing Finance Agency, 1121 L Street, Sacramento, California 95814.

State legislation created various Non-Major 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. The California Pollution Control Financing Authority, the San Joaquin River Conservancy, and the District Agricultural Associations are considered component units, since they have a fiscal dependency on the primary government. The California Educational Facilities Authority is considered a component unit, since its exclusion from the statements would be misleading because of its relationship with the primary government. The balance of the non-major component units are considered component units, since the majority 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 the primary government. Copies of the financial statements of these component units may be obtained from the State Controller's Office, Division of Accounting and Reporting, P.O. Box 942850, Sacramento, California 94250-5876. The Non-Major 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 (Effective January 1, 1999 the *California Economic Development Financing Authority* merged with the *California Infrastructure and Economic Development Bank.)*;

The *California Pollution Control Financing Authority*, which provides financing for pollution control facilities;

The *California Health Facilities Financing Authority*, which provides financing for the construction, equipping, or acquiring of health facilities;

The *California Educational Facilities Authority*, which issues revenue bonds to finance loans for students attending both public and private colleges and universities and to assist private educational institutions of higher learning in financing the expansion and construction of educational facilities;

The *California School Finance Authority*, which provides loans to school and community college districts to assist in obtaining equipment and facilities;

The *District Agricultural Associations*, which exhibit all of the industries, industrial enterprises, resources, and products of the state;

The *San Joaquin River Conservancy*, which was created to acquire and manage public lands within the San Joaquin River Parkway; and

The *California Urban Waterfront Area Restoration Financing Authority*, which provides financing for coastal and inland urban waterfront restoration projects.

A joint venture is an entity, resulting from a contractual arrangement, that 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 with the Capitol Area Development Authority (CADA). The 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. The 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 the CADA, it does have an ongoing financial interest. Based upon the appointment authority, the primary government has the ability to indirectly influence the CADA to undertake special projects for the citizenry of the participants. The primary government subsidizes the CADA's operations by leasing land to the CADA without consideration; however, the primary government is not obligated to do so. At June 30, 2000, the CADA had total assets of $14.4 million, total liabilities of $8.5 million, and reserved and unreserved retained earnings of $0.1 million and $4.7 million, respectively. Total revenues for the fiscal year were $5.7 million and expenses were $5.5 million, resulting in a net income of $0.2 million. Since the primary government does not have an equity interest in the CADA, the CADA's financial information is not included in the financial statements of this report. Separately

issued financial statements can be obtained from the Capitol Area Development Authority, 1530 Capitol Avenue, Sacramento, California 95814.

Effective November 1, 1997, the University of California, San Francisco (UCSF) Medical Center (a portion of a discretely presented component unit) and Stanford Health Services, which manages and operates Stanford University's medical center, merged through the formation of UCSF Stanford Health Care, a separate non-profit corporation (the Corporation). The Corporation was governed by a seventeen member Board of Directors consisting of representatives from both universities, selected officers of the new corporation, and three independent directors. The primary purpose of the Corporation was to support, benefit, and further the charitable, scientific, and educational purposes of the Schools of Medicine at UCSF and Stanford. The affiliation between the UC and Stanford University creating the Corporation was terminated on March 31, 2000. Real and personal property leases between the UC and the Corporation were canceled. Most of the UC's share of the Corporation's net assets was distributed to the UC on April 1, 2000.

In order to include the Corporation's financial activities in the UC's financial statements in a timely manner, the UC recorded the proportional share of the Corporation's operating results based upon a fiscal period beginning June 1st and ending May 31st of each year. For the current fiscal year, operating results were included through March 31, 2000, the date of dissolution. The Corporation's operating results for the ten month period ending March 31, 2000 are revenues of $1.5 billion with an operating loss, net of investment gains, of $117 million. The Corporation's financial position at March 31, 2000 resulted in assets of $1.7 billion and liabilities of $894 million with a fund balance of $765 million.

The Corporation's losses, according to the dissolution agreement, were generally allocated equally between the UC and Stanford University. After the distribution of $679 million of net assets to the UC, the investment in UCSF Stanford Health Care was approximately $15 million at June 30, 2000.

Distribution of the UC's final share of the net assets of the joint venture, represented by the remaining investment in the Corporation of $15 million at June 30, 2000, is dependent upon the satisfactory completion of certain events specified in the dissolution agreement. Among these events is finalizing the audit of UCSF Stanford Health Care as of March 31, 2000. Management believes the eventual result of the audit will not have a material effect on the financial statements of the UC.

Information on the finances of the Corporation may be obtained from the University of California, Financial Management, 1111 Franklin Street, 10th Floor, Oakland, California 94607-5200.

The **Bay Area Toll Authority**, which is not part of the State's reporting entity, was created by the California Legislature in 1997 to administer the base $2 toll on toll revenues collected from the San Francisco Bay Area's seven state-owned toll bridges and to have program oversight related to certain bridge construction projects. Additional information on the Bay Area Toll Authority may be obtained from the Metropolitan Transportation Commission, 101 Eighth Street, Oakland, California 94607.

B. Fund Accounting

The financial statements of the State are organized and operated on the basis of funds, account groups, and component units. A fund is an independent 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 minimum number of funds is maintained consistent with legal and managerial requirements. Account groups are a reporting device to account for certain assets and liabilities of the governmental funds that are not recorded directly in those funds. A component unit is an organization which is legally separate from the State but for which the State is financially accountable, or for which the nature and significance of its relationship with the State is such that exclusion would cause the State's financial statements to be misleading or incomplete.

The financial activities of the State accounted for in the accompanying financial statements are classified as follows.

Governmental Fund Types are used primarily to account for services provided to the general public without charging directly for those services. The State has three governmental fund types.

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.

Special Revenue Funds account for transactions related to resources obtained from specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to expenditures for specified purposes.

Capital Projects Funds account for transactions related to resources obtained and used to acquire or construct major capital facilities.

Proprietary Fund Types present financial data on activities that are similar to those found in the private sector. Users are charged

for the goods or services provided. For its proprietary funds, the State applies all applicable GASB pronouncements, pursuant to GASB Statement No. 20, as well as all applicable Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or before November 30, 1989, unless the FASB Statements and Interpretations conflict with or contradict GASB pronouncements. However, with one exception, the State has elected not to apply FASB Statements and Interpretations issued after November 30, 1989. The exception is Prison Industries, an internal service fund, which has elected to follow FASB pronouncements issued after November 30, 1989, unless they conflict with or contradict GASB pronouncements. The State has two proprietary fund types.

Enterprise Funds account for goods or services provided to the general public on a continuing basis when (1) the State intends that all or most of the cost involved is to be financed by user charges, or (2) periodic measurement of the results of operations is appropriate for management control, accountability, capital maintenance, public policy, or other purposes.

Internal Service Funds account for goods or services provided to other agencies, departments, or governments on a cost-reimbursement basis.

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. The State has four fiduciary fund types.

Expendable Trust Funds account for assets held in a trustee capacity when principal, income, and earnings on principal may be expended in the course of a fund's designated operations.

Pension Trust Funds account for transactions, assets, liabilities, and net assets available for plan benefits of the retirement systems.

Agency Funds account for assets held by the State, which acts as an agent for individuals, private organizations, other governments, or other funds. They are custodial in nature and do not measure the results of operations.

The *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.

Account Groups are used to establish control over and accountability for the government's general fixed assets and general long-term obligations. The State has two account groups.

The *General Fixed Assets Account Group* accounts for governmental fixed assets not reported in a proprietary fund or a trust fund.

The *General Long-Term Obligations Account Group* accounts for unmatured general obligation bonds and other long-term obligations generally expected to be financed from governmental funds.

Discretely Presented Component Units are reported in separate columns in the combined financial statements to emphasize that they are legally separate from the primary government. The discretely presented component units are classified as the University of California and as special purpose authorities. The University of California's financial statements are prepared in conformity with GAAP using the American Institute of Certified Public Accountants College and University Audit Guide model. As a result, the University of California's activities are accounted for in the following funds: Current Funds; Loan Funds; Endowment and Similar Funds; Plant Funds; Agency Funds; and Retirement System Funds. Special purpose authorities account for their activities as enterprise funds.

C. Measurement Focus and Basis of Accounting

Governmental Fund Types and **Expendable Trust Funds** are presented using the flow of 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 and expendable trust funds 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. Principal tax revenues susceptible to accrual are recorded as taxpayers earn income (personal income and bank and corporation taxes), as sales are made (consumption and use taxes), and as the taxable event occurs (miscellaneous taxes), net of estimated tax overpayments. Other revenue sources are recorded when they are earned or when they are due, provided they are measurable and available within the ensuing 12 months.

Compensated absences are accounted for on a modified accrual basis of accounting. Except for expenditures in the General Fund for earned leave of academic-year faculty, compensated absences expenditures are not accrued since it is not anticipated that compensated absences will be used in excess of a normal year's accumulation.

Agency Funds are custodial in nature and do not measure the results of operations. Assets and liabilities are recorded using the modified accrual basis of accounting.

Proprietary Fund Types, the **Investment Trust Fund**, and **Pension Trust Funds** are accounted for on the flow of economic resources measurement focus.

The accounts of the proprietary fund types, the investment trust fund, and pension trust funds are reported using the accrual basis of accounting. Under the accrual basis, revenues are recognized when they are earned, and expenses are recognized when they are incurred.

Lottery revenue and the related prize expense 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, which are classified as the University of California and special purpose authorities, are accounted for on the flow of current resources and flow of economic resources measurement focus, respectively. All use the full accrual basis of accounting.

D. Food Stamps

The distribution of food stamp benefits is recognized as revenue and expenditures in a special revenue fund, as required by GAAP. Revenue and expenditures are recognized when the benefits are distributed to the recipients. Food stamp balances held by the counties are reported as an asset and offset by deferred revenue. Revenues, expenditures, and balances of food stamp benefits are measured based on face value.

E. Inventories

Inventories are primarily stated at either the lower of average cost or market, or at cost utilizing the weighted average valuation method. In governmental fund types, inventories are recorded as expenditures when purchased. In proprietary fund types, inventories are expensed when consumed.

The discretely presented component units have inventory policies similar to the primary government's.

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 will be used to satisfy the principal and interest requirements of revenue bonds issued by the State Public Works Board to finance the construction of facilities and energy efficiency projects. Upon expiration of these leases, jurisdiction of the facilities and projects will be with the primary government agency, University of California, or 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.

G. Deferred Charges

The deferred charges account primarily represents operating and maintenance costs and unrecovered capital costs in the enterprise fund type that will be recognized 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 deferred charges. These charges are recognized when billed in future years under the terms of water supply contracts.

H. Fixed Assets

The **General Fixed Assets Account Group** includes capital assets that are not assets of any specific fund, but rather of the primary government as a whole. Most of these assets arise from the expenditure of the financial resources of governmental funds and expendable trust funds used to acquire or construct them. The General Fixed Assets Account Group does not include fixed assets of proprietary funds or pension trust funds. These fixed assets are accounted for in their respective funds.

The General Fixed Assets Account Group is presented in the financial statements at cost or estimated historical cost. Donated fixed assets are stated at fair market value at the time of donation. Interest during construction has not been capitalized. Also, public domain or "infrastructure" fixed assets are not capitalized. Accumulated depreciation is not recorded in the General Fixed Assets Account Group. Purchased fixed assets are stated at historical cost. Tangible and intangible property are capitalized if the property has a normal useful life of at least one year and an acquisition cost of at least $5,000.

Proprietary Fund Type fixed assets, consisting of property, plant, and equipment, are stated at cost at the date of acquisition, less accumulated depreciation. They are depreciated over their estimated useful or service lives, ranging from two to 100 years, using the straight-line method of depreciation. Dormitory facilities, which represent 17.3% of the fixed assets of the enterprise funds, are not depreciated.

The fixed assets of the **discretely presented component units** are stated at cost at the date of acquisition, or fair market value at the date of donation in the case of gifts. Depreciation on the majority of the fixed assets of the discretely presented component units is not recorded, which is consistent with GAAP.

I. Long-Term Obligations

The primary government reports long-term obligations of governmental funds in the General Long-Term Obligations Account Group. 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 trust funds, the liability for employees' compensated absences and workers' compensation claims, amounts owed for lawsuits, and the primary government's share of the University of California pension liability.

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, the building authorities, and agencies. The General Fund has no legal liability for payment of principal and interest on revenue bonds. With the exception of the building authorities, which are included in capital projects funds, the liability for revenue bonds is recorded in the respective fund.

J. Compensated Absences

In the governmental funds, only the amounts of compensated absences that normally would be liquidated with expendable available financial resources are accrued at year end, such as costs of academic-year faculty. The costs of the academic-year faculty represent services rendered over a ten-month period that are paid over a 12-month period. The balance of the amounts owed for services rendered is reported as a current liability in the General Fund. Unless it is anticipated that compensated absences will be used in excess of a normal year's accumulation, no additional liabilities are accrued. As a result, the unpaid liability for governmental funds is recorded in the General Long-Term Obligations Account Group. Accumulated sick-leave balances are not included in the compensated absences because they do not vest to employees. However, unused sick-leave balances convert to service credits upon retirement.

The amounts of vested unpaid vacation and annual leave accumulated by state employees are accrued when incurred in proprietary funds. In the discretely presented component units, the compensated absences are accounted for in a similar manner as the proprietary funds in the primary government.

K. Fund Equity

Fund equity accounts present the difference between assets and liabilities of a fund. The fund equity accounts consist of *contributed capital* and *retained earnings* for proprietary funds and certain component units, *investment in general fixed assets* for the General Fixed Assets Account Group and certain component units, and *fund balance* for governmental funds, trust funds, and certain component units.

Contributed capital is the permanent fund capital of a proprietary fund. Contributed capital is created when a residual equity transfer is received by a proprietary fund, when a general fixed asset is "transferred" to a proprietary fund, or when a grant is received that is externally restricted to capital acquisition or construction.

Retained earnings are divided into two sections: *reserved for regulatory requirements* and *unreserved.* The reserved for regulatory requirements represents a segregation of the retained earnings in enterprise funds and certain component units for amounts that are unavailable for general use as a result of specific legal requirements. Unreserved retained earnings represent the accumulated earnings of proprietary funds and certain component units that are not reserved for any specific purpose.

The fund balances for governmental funds and trust funds are divided into two sections: *reserved* and *unreserved-undesignated.* Part or all of the total fund balance may be reserved as a result of law or generally accepted accounting principles. Reserves represent those portions of the fund balances that are legally segregated for specific uses. The reserves of the fund balance for governmental funds, trust funds, and certain component units are as follows:

Reserved for encumbrances represents goods and services that are ordered, but not received, by the end of the year.

Reserved for local agencies represents amounts held on behalf of local governments and local public agencies in the Local Agency Investment Fund, an investment trust fund.

Reserved for advances and loans receivable represents advances to other funds and the non-current portion of loans receivable that do not represent expendable available financial resources.

Reserved for employees' pension benefits represents reserves of the pension trust funds and the University of California, a discretely presented component unit. These reserves include accumulated contributions made by employees and employers, and undistributed interest and investment earnings.

Reserved for continuing appropriations represents the unencumbered balance of all appropriations for which the period of availability extends beyond the period covered by this report. These appropriations are legally segregated for a specific future use.

Reserved for other specific purposes includes amounts of the University of California, a discretely presented component unit, that are not available for future appropriations other than those for which the fund was established.

The *unreserved-undesignated* amounts represent the net of total fund balance, less reserves, for governmental funds, trust and agency funds, and certain component units.

Investment in general fixed assets represents the fixed assets of the governmental funds and expendable trust funds reported in the General Fixed Assets Account Group and the fixed assets of the University of California, a discretely presented component unit, that are restricted for specific purposes.

L. Restatement of Beginning Fund Equity

The beginning balance in retained earnings of the discretely presented component units–special purpose authorities has been increased by $401 thousand as a result of errors made in the prior year financial statements.

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. Memorandum Only Total Columns

Total columns captioned "memorandum only" do not represent consolidated financial information and are presented only to facilitate financial analysis. The columns do not present information that reflects financial position, results of operations, or cash flows in accordance with generally accepted accounting principles. Interfund eliminations have not been made in the aggregation of this data.

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 budget 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 at the appropriation level 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 by the Governor.

Amendments to the initial budget for the year ended June 30 were legally made, and are included in the budget data in the financial statements. The amendments had the effect of increasing spending authority and expenditures for the year.

Two legislative bills were not passed by August 31, 2000, the last day of the legislative session, that were intended to increase the appropriation authority of previously enacted legislation. Departments with deficiency funding requests in these bills, totaling approximately $808 million, have paid and will pay the claims related to past year deficiencies by using the following methods: (1) California Medical Assistance Program claims have been paid as required by the federal Medicaid Act, Title 42, United States Code section 1396a(a)(37), which states that the State plan for medical assistance must – "provide for claims payment procedures which (A) ensure that 90 per centum of claims for payment (for which no further written information or substantiation is required in order to make payment) made for services covered under the plan and furnished by health care practitioners through individual or group practices or through shared health facilities are paid within 30 days of the date of receipt of such claims and that 99 per centum of such claims are paid within 90 days of the date of receipt of such claims..;" (2) Payroll deficiencies have been paid as required by the federal Fair Labor Standards Act, Title 29, United States Code section 206(b), which states, in part, that "Every employer shall pay each of his employees...not less than the minimum wage in effect...;" (3) Departments will wait to receive an allocation from the new deficiency bill, which the legislative leadership has committed to passing when the new session resumes, prior to making any payments; (4) Departments with immediate funding needs of approximately $142 million have been authorized by the Department of Finance to either increase, or establish, Office Revolving Funds in sufficient amounts to pay claims related to the deficiencies included in the deficiency bills. In all cases, valid amounts related to these deficiencies are included as expenditures in this report.

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 when the appropriation is available. If the encumbrances are not liquidated within this additional two-year period, the spending authority for these encumbrances lapses.

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 goods and services are received. The Combined Statement of Revenues, Expenditures, and Changes in Fund Balances, Non-GAAP Budgetary Basis – Budget and Actual includes all the current year expenditures for governmental cost funds and their related appropriations that are 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. Negative budget and expenditure amounts for other general government can result when current encumbrances are significantly higher than prior year encumbrances.

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. Certain items that are established at the category, program, component, or element levels can be adjusted by the Department of Finance. For example, an appropriation for support may have detail accounts for personal services, operating expenses and equipment, and reimbursements. The Department of Finance can authorize adjustments between the detail accounts, but can not increase the amount of the overall support appropriation. While the financial activities are controlled at various levels, the legal level of budgetary control, or the extent to which management may amend the budget without seeking approval of the governing body, has been established in the Budget Act at the appropriation level for the annual operating budget.

The Combined Statement of Revenues, Expenditures, and Changes in Fund Balances, Non-GAAP Budgetary Basis – Budget and Actual

is not presented in this document at the legal level of budgetary control, as such a presentation would be extremely lengthy and cumbersome. The State of California prepares a separate report, the *Budgetary/Legal Basis Annual Report Supplement*, which includes statements that demonstrate compliance with the legal level of budgetary control in accordance with GASB's Codification of Governmental Accounting and Financial Reporting Standards Section 2400.112. The Statement of Appropriations, Expenditures, and Balances and the Comparative Statement of Actual and Budgeted Expenditures include the comparison of the annual appropriated budget with expenditures at the legal level of control. A copy of this report is available from the State Controller's Office, Division of Accounting and Reporting, P.O. Box 942850, Sacramento, California 94250-5876.

C. Reconciliation of Budgetary Basis with GAAP Basis

The State annually reports its financial condition based on GAAP (GAAP basis) and on the State's budgetary provisions (budgetary basis). The Combined Statement of Revenues, Expenditures, and Changes in Fund Balances, Non-GAAP Budgetary Basis – Budget and Actual is compiled on the budgetary basis. The differences between budgetary basis fund balances and the fund equity prepared in accordance with GAAP are explained and reconciled in the following paragraphs and Table 1.

The beginning fund balance on the budgetary basis is restated for "prior year revenue adjustments" and "prior year expenditure adjustments." A prior year revenue adjustment occurs when the actual amount received in the current year differs from the prior year accrual of revenues. A prior year expenditure adjustment results when the actual amount paid in the current year differs from the prior year accrual for appropriations whose ability to encumber funds has lapsed in previous periods. The beginning fund balance on a GAAP basis is not affected by this adjustment.

Perspective Difference

Fund classification: On a budgetary basis, the State's funds are classified as either governmental cost funds or nongovernmental cost funds. The governmental cost funds consist of the General Fund and other governmental cost funds into which revenues from taxes, licenses, and fees that support the general operations of the State are deposited. The nongovernmental cost funds are not subject to annual appropriated budgets and consist of funds into which monies derived from sources other than general and special taxes, licenses, fees, or other state revenues are deposited. On a GAAP basis, the financial information is classified as governmental, proprietary, or fiduciary funds, or as component units.

Basis Difference

Advances and loans receivable: Loans made to other funds or to other governments are normally recorded as expenditures on the budgetary basis. However, in accordance with GAAP, these loans are recorded as assets. The General Fund had education loans outstanding as of June 30, 2000, of $450 million, which will be forgiven and charged to expenditures in the year of appropriation on a budgetary basis. On a GAAP basis, these education loans were charged to expenditures for the year ended June 30, 1996, the year that the agreement was made to forgive the loans. The adjustments related to advances and loans caused a decrease to the fund equity of $412 million in the General Fund and an increase to the fund equity of $1.7 billion in special revenue funds, $341 million in enterprise funds, and $579 million in trust and agency funds.

Escheat property: A liability for the estimated amount of escheat property ultimately expected to be reclaimed and paid is not reported on a budgetary basis, while it is required to be reported on a GAAP basis. This adjustment caused a $509 million decrease to the General Fund balance.

Authorized and unissued bonds: General obligation bonds that are not self-liquidating are recorded as additions to the fund balance for the special revenue and capital projects funds on the budgetary basis when voters authorize the sale of bonds. However, in accordance with GAAP, only the bonds issued during the year are recorded as additions to the fund balance. The adjustments related to authorized and unissued bonds caused a decrease to fund balance of $10.8 billion in special revenue funds and $438 million in capital projects funds.

Provision for long-term obligations: On the budgetary basis, a provision for long-term obligations is used to offset certain bonds payable. However, in accordance with GAAP, this account is not used for enterprise funds. This adjustment caused a $2.8 billion decrease to the enterprise fund equity.

Encumbrances: The State does not record certain encumbrances on a budgetary basis that are recorded on a GAAP basis. The adjustments related to encumbrances caused an increase to the fund balance of $526 million in special revenue funds.

Fixed assets: For certain enterprise programs, the budgetary basis uses the modified accrual basis of accounting for fixed assets, which expenses fixed asset costs. In accordance with GAAP, fixed assets for enterprise funds should be capitalized and depreciated using the accrual basis of accounting. This adjustment caused a $1.5 billion increase to the enterprise fund equity.

Fund balances in agency funds: Fund balances are reported in agency funds on the budgetary basis. In accordance with GAAP, agency funds do not have a fund balance since they account for assets held solely in a custodial capacity. Accordingly, assets in agency funds are always matched with liabilities. This adjustment caused a $26.1 billion decrease to the agency fund balance.

California accounting practices for insurance: The financial statements of the State Compensation Insurance Fund (SCIF) on a budgetary basis are prepared in conformity with accounting practices prescribed by the Department of Insurance of the State of California. The principal differences between this method and GAAP are that investments are carried at amortized cost rather than fair value and policy acquisition costs are charged to current operations rather than being deferred. This adjustment caused a $141 million decrease to the discretely presented component units fund equity.

Other: Certain other adjustments and reclassifications are necessary to present the financial statements in accordance with GAAP. The other adjustments caused an increase in fund equity of $31 million in the General Fund, $29 million in capital projects funds, and $2 million in component units and a decrease in fund equity of $43 million in special revenue funds, $101 million in enterprise funds, $31 million in internal service funds, and $145 million in trust and agency funds.

Timing Difference

Liabilities budgeted in subsequent years: The primary government does not, on a budgetary basis, 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 a net decrease to the fund balance of $383 million in the General Fund and $127 million in special revenue funds.

Entity Difference

Entities not included in the State's accounting system: A fund for the trial courts in the special revenue funds and some discretely presented component units are not included in the budgetary basis accounting system, but are included on a GAAP basis. These adjustments caused an increase to the fund equity of $211 million in the special revenue funds and $72.5 billion in component units, of which $72.2 billion is related to the University of California.

Table 1

Reconciliation of Budgetary Basis Fund Balance and GAAP Basis Fund Equity
June 30, 2000
(Amounts in thousands)

	Total Budgetary Fund Classifications	Primary Government						Component Units
		Governmental Fund Types			Proprietary Fund Types		Fiduciary Fund Types	
		General	Special Revenue	Capital Projects	Enterprise	Internal Service	Trust and Agency	
Perspective Difference								
Budgetary / Legal Basis Annual Report								
General Fund	$ 9,639,691	$ 9,639,691	$ —	$ —	$ —	$ —	$ —	$ —
Other Governmental Cost Funds	6,472,245	—	6,256,269	60,182	18	13,729	142,047	—
Non-Governmental Cost Funds	355,787,597	—	11,216,273	535,569	4,652,210	571,668	336,084,804	2,727,073
Total Budgetary Fund Balances Reclassified Into GAAP Statement Fund Structure	**$ 371,899,533**	**9,639,691**	**17,472,542**	**595,751**	**4,652,228**	**585,397**	**336,226,851**	**2,727,073**
Basis Difference								
Advances and loans receivable		(412,385)	1,703,262	—	341,463	—	578,926	—
Escheat property		(508,785)	—	—	—	—	—	—
Authorized and unissued bonds		—	(10,812,281)	(438,108)	—	—	—	—
Provision for long-term obligations		—	—	—	(2,807,177)	—	—	—
Encumbrances		—	526,411	—	—	—	—	—
Fixed assets		—	—	—	1,489,812	—	—	—
Fund balances in agency funds		—	—	—	—	—	(26,056,075)	—
California accounting practices for insurance		—	—	—	—	—	—	(140,561)
Other		31,363	(42,513)	29,199	(101,114)	(30,656)	(145,411)	1,735
Timing Difference								
Liabilities budgeted in subsequent years		(382,564)	(127,073)	—	—	—	—	—
Entity Difference								
Entities not included in the State's accounting system		—	210,614	—	—	—	—	72,525,390
GAAP Fund Equity, June 30, 2000		**$ 8,367,320**	**$ 8,930,962**	**$ 186,842**	**$ 3,575,212**	**$ 554,741**	**$ 310,604,291**	**$ 75,113,637**

NOTE 3. DEPOSITS AND INVESTMENTS

As required by GASB Statement No. 31, Accounting and Financial Reporting for Certain Investments and for External Investment Pools, the State reports investments at fair value.

State statutes authorize investments in certain types of securities. 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). There is a single portfolio of investments with all participants having an undivided interest in the portfolio. Both pools are administered in the same manner as described below. In addition, certain programs have the authority to separately invest their funds.

The State's pooled investment program and certain other programs of the primary government are allowed by state statutes, bond resolutions, and investment policy resolutions to have investments in United States government securities, negotiable certificates of deposit, bankers' acceptances, commercial paper, corporate bonds, bank notes, mortgage loans and notes, other debt securities, repurchase agreements, reverse repurchase agreements, equity securities, real estate, mutual funds, and other investments.

The State Treasurer's Office administers a pooled investment program for the primary government and for certain special purpose authorities. As of June 30, the special purpose authorities' cash and pooled investments were approximately 3% 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. The State Treasurer's Office maintains cash deposits with certain banks that do not earn interest income. Income earned on these deposits compensates the banks for services and uncleared checks that are deposited in the pooled investment program's accounts.

All demand and time deposits, totaling approximately $4.4 billion, which were held by financial institutions as of June 30, were insured by federal depository insurance or by collateral held by the State Treasurer's Office or by an agent of the State Treasurer's Office in the State's name. The California Government Code requires collateral pledged for demand and time deposits to be deposited with the State Treasurer.

As of June 30, the State Treasurer's Office had amounts on deposit with fiscal agents totaling $10 million. Approximately $2 million of

these deposits is related to principal and interest payments due to bondholders. The remaining $8 million represents a compensating balance account designed to provide sufficient earnings to cover fees for custodial services and system maintenance. Most of these deposits are 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 all securities in the State Treasurer's Office pooled investment program is based on quoted market prices. As of June 30, the average remaining life of the securities in the pooled money investment program administered by the State Treasurer's Office was approximately 205 days.

The Pooled Money Investment Board provides regulatory oversight over the State Treasurer's pooled investment program. The purpose of the Board is to design 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 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 temporarily idle money available for investment. The State Treasurer is charged with making the actual investment transactions for this investment program. This program is not registered with the Securities and Exchange Commission as an investment company.

The value of the deposits of 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, 2000, this difference was immaterial to the valuation of the program. The pool is run with a "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 money 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, they are part of the State's reporting entity. The remaining participation in the pool, the Local Agency Investment Fund, is all voluntary.

Certain funds, which have deposits in the State Treasurer's pooled investment program, do not receive the interest earnings on their deposits. The earnings on the investments related to those funds

are legally required to be assigned to the State's General Fund. A major portion of the $472 million interest revenue received by the General Fund from the pooled money investment program comes from these funds.

The State Treasurer's pooled investment program values participants' shares on an amortized cost basis. Specifically, the program distributes income to participants on a quarterly basis 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 method differs from the fair value method used to value investments in these financial statements because 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. Since the total difference between the fair values of the investments in the pool and the values 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 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.

The fair value, the ranges of interest rates, and the maturity dates of each major investment classification in the State Treasurer's pooled investment program are summarized in Table 4.

Tables 2 and 3 present summary financial statements of the Local Agency Investment Fund (LAIF), an Investment Trust Fund.

Table 2

Condensed Statement of Net Assets – LAIF
June 30, 2000
(Amounts in thousands)

Assets	
Cash and pooled investments	$ 12,530,983
Due from other funds	199,078
Total Assets	**$ 12,730,061**
Liabilities	
Due to other funds	$ 559
Due to other governments	198,519
Other liabilities	2,595
Total liabilities	**201,673**
Net Assets Held in Trust for Pool Participants	**$ 12,528,388**

Table 3

Condensed Statement of Changes in Net Assets – LAIF
Year Ended June 30, 2000
(Amounts in thousands)

Changes in Net Assets Resulting from Operations	$ 732,389
Distributions to Participants	(732,389)
Changes in Net Assets Resulting from Depositor Transactions	(1,626,436)
Total Change in Net Assets	**(1,626,436)**
Net Assets Held in Trust for Pool Participants, July 1, 1999	**14,154,824**
Net Assets Held in Trust for Pool Participants, June 30, 2000	**$ 12,528,388**

As of June 30, floating rate notes and mortgage-backed assets comprised less than 6.3% of the pooled investments. For the floating rate notes in the portfolio, the interest received by the State Treasurer's pooled investment program will rise or fall as the underlying index rate rises or falls. The structure of the floating rate notes in the State Treasurer's pooled investment program portfolio is such that it hedges the portfolio against the risk of increasing interest rates. The mortgage-backed securities are called real estate mortgage investment conduits (REMICs). A REMIC is a security backed by a pool of mortgages. The REMICs in the State's portfolio have a fixed principal payment schedule.

The California Government Code allows the State Treasurer's Office to enter into reverse repurchase agreements as part of its pooled investment program. A reverse repurchase agreement is a sale of securities with a simultaneous agreement to repurchase them in the future at the same price plus a contract rate of interest. The market value of the securities underlying reverse repurchase agreements normally exceeds the cash received, providing the dealers a margin

against a decline in market value of the securities. If the dealers default on their obligations to resell these securities to the State Treasurer's Office or provide securities or cash of equal value, the State Treasurer's pooled investment program will suffer an economic loss equal to the difference between the market value plus the accrued interest of the underlying securities and the agreement obligation, including accrued interest. During the year ended June 30, the State Treasurer's Office entered into 64 reverse repurchase agreements by temporarily selling investments with a carrying value of approximately $6.1 billion. The maturities of investments made with the proceeds from reverse repurchase agreements were matched to the maturities of the agreements. As of June 30, the State Treasurer's Office did not have any reverse repurchase agreements outstanding.

The California Government Code allows the State Treasurer's Office to enter into repurchase agreements as part of its pooled investment program. A repurchase agreement consists of two simultaneous transactions. One is the purchase of securities by the State Treasurer's Office from a bank or dealer. The other is a commitment by the bank or dealer to repurchase the securities from the State Treasurer's Office at the same price, plus interest, at a mutually agreed upon future date. As the investor, the State is protected by underlying specific government securities, which are pledged as collateral during the length of the investment. During the year ended June 30, the State Treasurer's Office entered into 17 repurchase agreements, with a carrying value of approximately $2.3 billion. As of June 30, the State Treasurer's Office did not have any repurchase agreements outstanding.

Enterprise funds, internal service funds, trust and agency funds, a special revenue fund, and a building authority in the capital projects funds also make separate investments, which are presented at fair value. The California Public Employees' Retirement System (CalPERS) and California State Teachers' Retirement System (CalSTRS) had $315.4 billion (97%) of these separately invested funds.

CalPERS and CalSTRS exercise their authority under the State Constitution to invest in stocks, bonds, mortgages, real estate, and other investments.

The fair value of CalPERS' investments in securities is generally based on published market prices and quotations from major investment firms. Many factors are considered in arriving at fair value. In general, however, corporate bonds are valued based on yields currently available on comparable securities of issuers with similar credit ratings. Investments in certain restricted common stocks are valued at the quoted market price of the issuer's unrestricted common stock, less an appropriate discount.

CalPERS' mortgages are valued on the basis of their future principal and interest payments discounted at prevailing interest rates for similar instruments. The fair value of real estate investments, principally rental property subject to long-term net leases, is estimated based on independent appraisals. Short-term investments are reported at market value, when available, or at cost plus accrued interest, which approximates market value when market values are not available. For investments where no readily ascertainable market value exists, management, in consultation with its investment advisors, has determined the fair values for the individual investments.

Under the State Constitution and statutory provisions governing CalPERS investment authority, CalPERS, through its outside investment managers, holds investments in futures and options and enters into forward foreign currency exchange contracts. Futures and options of approximately $1 million were held for investment purposes as of June 30, 2000. Gains and losses on futures and options are determined based upon quoted market values and recorded in the statement of changes in net assets. Forward foreign currency exchange contracts are used primarily to hedge against changes in exchange rates related to foreign securities. As of June 30, 2000, CalPERS had approximately $228 million net exposure to loss from forward foreign currency exchange transactions related to the $41.2 billion international debt and equity portfolios. CalPERS could be exposed to risk if the counterparties to the contracts are unable to meet the terms of the contracts. CalPERS investment managers seek to control this risk through counterparty credit evaluations and approvals, counterparty credit limits, and exposure monitoring procedures. CalPERS anticipates that the counterparties will be able to satisfy their obligations under the contracts.

The fair value of investments for CalSTRS is generally based on published market prices and quotations from major investment firms. In the case of debt securities acquired through private placements, management computes fair value based on market yields and average maturity dates of comparable quoted securities. Mortgages are valued on the basis of future principal and interest payments, and are discounted at prevailing interest rates for similar instruments. Real estate equity investment fair value represents the most recent appraisals. Short-term investments are reported at cost, or amortized cost, which approximates fair value.

Purchases and sales of debt securities, equity securities, and short term investments by CalSTRS are recorded on the trade date. Real estate equity transactions are recorded on the settlement date.

The State Constitution, state statutes, and agency 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 have been contracted to lend domestic and international equity and debt securities. All securities loans can be terminated on demand by the lender or the borrower. Collateral, in the form of cash or other securities, is required at 102% and 104% for CalPERS and at 102% and 105% for CalSTRS of the fair value of domestic and international securities loaned, respectively. As of June 30, 2000, there was no credit risk of exposure to borrowers because the amount of collateral held exceeded the amounts owed to the borrowers. Collateral securities received are not permitted to be pledged or sold unless the borrower defaults. The contracts with the securities lending agents require them to indemnify CalPERS and CalSTRS if the borrowers fail to return the securities (or if the collateral is not sufficient to replace the securities lent) or if the borrower fails to pay for income distributions by the securities' issuers while the securities are on loan.

For CalPERS, the average term of the overall loans managed by its two securities lending agents was 20 days and 39 days, respectively. In accordance with CalPERS investment guidelines, the cash collateral was invested in short-term investment funds that at June 30, 2000, had weighted average maturities of 142 days and 91 days for its two securities lending agents, respectively.

For CalSTRS, cash collateral received on each security loan was invested in short-term investments that at June 30, 2000, had a weighted-average maturity of less than 90 days.

As of June 30, the State, including discretely presented component units, had investments in securities lending agreements, real estate, investment contracts, mutual funds, and other investments totaling $77.1 billion. These investments are not subject to classification. All remaining investments reported as of June 30 are categorized in three categories of credit risk:

1. Insured or registered, or securities held by the State or its agent in the State's name.
2. Uninsured and unregistered, with securities held by the counterparty's trust department or by an agent in the State's name.
3. Uninsured and unregistered, with securities held by the counterparty or by its trust department or by an agent but not in the State's name.

The types of investments reported at year end are representative of the types of investments made during the year. Furthermore, the credit risk associated with the investments reported at year end is

representative of the credit risk associated with investments made during the year.

Table 4 presents the risk categories of the primary government as of June 30.

Table 4

Schedule of Investments - Primary Government
June 30, 2000
(Amounts in thousands)

	Interest Rates*	Maturity	Category 1	Category 2	Category 3	Total Fair Value
Pooled Investments **						
U.S. government securities	4.55 – 6.81	1 day – 5 years+	$ 15,265,839	$ —	$ —	$ 15,265,839
Negotiable certificates of deposit	5.21 – 6.73	1 day – 2 years	7,212,186	—	—	7,212,186
Bankers' acceptances	5.16 – 6.63	1 day – 30 days	37,095	—	—	37,095
Commercial paper	5.11 – 6.59	1 day – 180 days	10,533,376	—	—	10,533,376
Corporate bonds	6.19 – 7.25	1 day – 5 years	2,464,665	—	—	2,464,665
Bank notes	5.21 – 6.73	1 day – 2 years	1,917,956	—	—	1,917,956
Total Pooled Investments			**37,431,117**	**—**	**—**	**37,431,117**
Separately Invested Funds Subject to Categorization						
Equity securities			165,673,867	—	—	165,673,867
Securities lending collateral			30,550,543	—	—	30,550,543
Mortgage loans and notes			17,595,192	—	—	17,595,192
U.S. government and agencies			3,492,580	224,594	—	3,717,174
Debt securities – STRS			41,670,178	—	—	41,670,178
Corporate bonds			9,883	98,226	—	108,109
Commercial paper			2,148,094	—	—	2,148,094
Other investments			844,606	—	—	844,606
Total Separately Invested Funds Subject To Categorization			**261,984,943**	**322,820**	**—**	**262,307,763**
Separately Invested Funds Not Subject to Categorization						
Investments held by broker-dealers under securities loans with cash collateral						30,676,934
Real estate						12,866,242
Venture capital and private equity funds						7,138,749
Investment contracts						3,008,196
Mutual funds						2,477,204
Mortgage loans						242,031
Other						6,735,069
Total Separately Invested Funds Not Subject to Categorization						**63,144,425**
Total Investments			**$ 299,416,060**	**$ 322,820**	**$ —**	**$ 362,883,305**

* These interest rates represent high and low monthly averages for each investment type during the year.
** Approximately 3% of the pooled investments are investments of special purpose authorities which are discretely presented component units. For special purpose authorities' separately invested funds, see Table 6.

The investments of the University of California, a discretely presented component unit, are stated at fair value. All of the University's investments recorded in each fund group are associated with the University of California Retirement System (UCRS), General Endowment Pool (GEP), High Income Pool (HIP), or Short Term

Investment Pool (STIP) or are separately invested. Investments authorized by the Regents for the UCRS, GEP, HIP, and other separate investments include equities and fixed income securities. The University's investment portfolio includes certain mortgage backed securities. These mortgage backed securities are used to diversify the portfolio and reduce market risk exposure. The equity portion of the investment portfolio may include both domestic and foreign common and preferred stocks, along with alternative equities. Alternative equities include venture capital partnerships, buy-out funds, and emerging market funds. Where donor agreements place constraints on allowable investments, assets associated with endowment and similar funds are invested in accordance with the terms of the agreements. Investments authorized by the Regents for the STIP include fixed income securities with a maximum maturity of five years. In addition, the Regents have also authorized loans with terms up to 30 years, primarily to faculty members, under the University's Mortgage Origination Program.

The GEP and HIP are balanced portfolios in which a large number of individual endowment funds participate in order to benefit from diversification and economies of scale. The net assets of the endowment and similar funds group are invested in either the GEP, HIP, or STIP or are separately invested. The separately invested funds cannot be pooled due to investment restrictions or income requirements. All of the University of California's fund groups participate in the STIP. Current funds to provide for the payroll, operating expenses, and construction expenditures of all campuses and medical centers are invested in the STIP until expended.

The UCRS contains funds associated with the University of California's defined benefit and defined contribution plans.

The University of California participates in a securities lending program as a means to augment income. Securities are lent to select brokerage firms for which collateral is received in excess of 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. Any collateral securities 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 securities lent. 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 securities lent. The University receives interest and dividends during the loan period as well as a fee from the brokerage firm. Securities on loan for cash collateral are not considered to be categorized. As of June 30, the University

had no credit risk exposure to borrowers because the amounts the University owed the borrowers exceeded the amounts the borrowers owed the University. The University is fully indemnified by its custodial bank 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 agent, as an agent for the University, in a short term investment pool in the University's name with guidelines approved by the Treasurer of the Regents. As of June 30, the securities in this pool had a weighted average maturity of 183 days. Table 5 presents risk categories of the University of California investments as of June 30.

Table 5

Schedule of Investments – University of California – Discretely Presented Component Unit
June 30, 2000
(Amounts in thousands)

	Category 1	Category 2	Category 3	Total Fair Value
Separately Invested Funds Subject to Categorization				
Equity securities	$ 30,183,430	$ —	$ —	$ 30,183,430
Securities lending collateral	8,637,787	—	—	8,637,787
U.S. government and agency securities	6,091,822	—	—	6,091,822
Corporate bonds	9,173,871	—	—	9,173,871
Other investments	2,367,889	—	—	2,367,889
Total Separately Invested Funds Subject to Categorization	**56,454,799**	**—**	**—**	**56,454,799**
Separately Invested Funds Not Subject to Categorization				
Investments held by broker-dealers under securities loans with cash collateral				8,454,877
Venture capital and private equity funds				1,856,984
Insurance contracts				261,032
Mutual funds				1,692,318
Mortgage loans				300,085
Other investments				218,554
Total Separately Invested Funds Not Subject to Categorization				**12,783,850**
Total Investments	**$ 56,454,799**	**$ —**	**$ —**	**$ 69,238,649**

The cash and pooled investments of the special purpose authorities, which are discretely presented component units, are primarily invested in the State Treasurer's pooled investment program. Additionally, state law, bond resolutions, and investment policy resolutions allow the authorities to invest in United States government securities, state and municipal securities, commercial paper, corporate bonds, investment agreements, and other investments.

The California Housing Finance Agency (CHFA), a discretely presented component unit, entered into interest rate swap agreements to pay fixed rates of interest and receive floating rate payments. Certain swap agreements contain scheduled reductions to outstanding notional amounts that are expected to approximately follow scheduled and/or anticipated reductions in the associated "Bonds Payable". The swap agreements are expected to reduce interest rate risk associated with variable rate bonds issued by CHFA. As of June 30, 2000, CHFA had interest rate swap agreements of $609 million in notional amounts. The CHFA is potentially exposed to loss in the event the counterparties are unable to perform to the terms of the agreements. However, the CHFA does not anticipate nonperformance by the counterparties.

Table 6 presents the risk categories of the special purpose authorities' investments outside of the State Treasurer's pooled investment program, as of June 30, 2000. Included in the investments of the special purpose authorities are the investments of the SCIF as of December 31, 1999. The SCIF represents 81% of the fair value of the authorities' investments.

Table 6

Schedule of Investments – Special Purpose Authorities – Discretely Presented Component Units *
June 30, 2000
(Amounts in thousands)

	Category			
	1	2	3	Total Fair Value
Separately Invested Funds Subject to Categorization				
U.S. government securities	$ 1,609,459	$ —	$ —	$ 1,609,459
Corporate bonds	2,993,962	—	—	2,993,962
Mortgage loans and notes	1,369,607	—	—	1,369,607
Commercial paper	8,113	—	—	8,113
Investment agreements	—	154,848	—	154,848
Other investments	126,304	—	—	126,304
Total Separately Invested Funds Subject to Categorization	**6,107,445**	**154,848**	**—**	**6,262,293**
Separately Invested Funds Not Subject to Categorization				
Investment agreements				1,166,211
Mutual funds				40,830
Total Separately Invested Funds Not Subject to Categorization				**1,207,041**
Total Investments	**$ 6,107,445**	**$ 154,848**	**$ —**	**$ 7,469,334**

* For special purpose authorities' pooled investments, see Table 4.

NOTE 4. DUE FROM OTHER FUNDS, DUE TO OTHER FUNDS, ADVANCES AND LOANS RECEIVABLE, ADVANCES FROM OTHER FUNDS, DUE FROM PRIMARY GOVERNMENT, AND DUE TO COMPONENT UNITS

The balances of Due from Other Funds, Due to Other Funds, Advances and Loans Receivable, Advances from Other Funds, Due from Primary Government, and Due to Component Units are shown in Table 7. The total Advances and Loans Receivable of $12.1 billion is more than the total Advances from Other Funds of $870 million because $11.2 billion of loans to other governmental entities and individuals are included in the loans receivable amounts.

Table 7

Schedule of Due from Other Funds, Due to Other Funds, Advances and Loans Receivable, Advances from Other Funds, Due from Primary Government, and Due to Component Units

June 30, 2000 (Amounts in thousands)

	Due from Other Funds	Due to Other Funds	Advances and Loans Receivable	Advances from Other Funds	Due from Primary Government	Due to Component Units
General Fund	$ 6,225,774	$ 2,456,218	$ 287,306	$ 508,785	$ —	$ 67,182
Special Revenue						
Federal	947,722	3,501,896	42,321	—	—	—
Transportation Construction	1,106,289	69,317	—	—	—	226
Transportation Safety	110,051	106,796	—	—	—	—
Business and Professions Regulatory and Licensing	87,769	71,312	4,280	—	—	—
Environmental and Natural Resources	205,133	157,498	1,619,831	51,520	—	—
Financing to Local Governments	39,010	19,176	—	—	—	—
Cigarette and Tobacco Tax	209,439	194,453	—	—	—	103,656
Local Revenue	244,225	28,722	—	—	—	—
Unemployment Programs	595,343	61,165	—	—	—	—
Financing to the Public	2,363	1,661	28,767	—	—	—
Trial Courts	85,013	56,800	8,063	3	—	—
Other Special Revenue	140,168	59,439	—	13,050	—	5,813
Total Special Revenue	**3,772,525**	**4,328,235**	**1,703,262**	**64,573**	**—**	**109,695**
Capital Projects						
Prison Construction	172	195	—	—	—	—
Higher Education Construction	1,914	5,586	—	—	—	—
Natural Resources Acquisition and Enhancement	13,307	243	—	—	—	—
Building Authorities	52,079	541	—	—	—	—
Other Capital Projects	400	3,458	—	—	—	—
Total Capital Projects	**67,872**	**10,023**	**—**	**—**	**—**	**—**
Enterprise						
Housing Loan	15,200	2,012	2,433,559	32,258	—	—
Water Resources	71,640	18,138	64,950	—	—	—
School Building Aid	—	—	136,222	—	—	—
Toll Facilities	4,081	9,067	2,887	—	—	—
California State University	25,628	18,718	—	—	—	—
Leasing of Public Assets	131,733	15,534	—	—	—	—
State Lottery	12,451	223,998	—	—	—	—
Health Facilities Construction Loan Insurance	4,510	159	80,197	—	—	—
Public Employees' Benefits	69	1,030	—	—	—	—
Other Enterprise	20,281	6,446	246,709	2,500	—	—
Total Enterprise	**285,593**	**295,102**	**2,964,524**	**34,758**	**—**	**—**
Internal Service						
Architecture Revolving	50,000	1,716	—	—	—	—
Service Revolving	92,561	135,458	—	—	—	—
Prison Industries	10,658	3,037	—	—	—	—
Stephen P. Teale Data Center	11,151	39	—	—	—	—
Health and Human Services Agency Data Center	73,966	3,000	—	—	—	—
Water Resources Revolving	40,551	—	—	94,517	—	—
Public Employees' Health Care	2,731	3,031	—	—	—	—
Equipment Service	1,249	9,206	—	—	—	—
Other Internal Service	109	5,382	—	4,280	—	—
Total Internal Service	**282,976**	**160,869**	**—**	**98,797**	**—**	**—**

(Continued)

Table 7 (continued)

Schedule of Due from Other Funds, Due to Other Funds, Advances and Loans Receivable, Advances from Other Funds, Due From Primary Government, and Due to Component Units

June 30, 2000 (Amounts in thousands)

	Due from Other Funds	Due to Other Funds	Advances and Loans Receivable	Advances from Other Funds	Due from Primary Government	Due to Component Units
Expendable Trust						
Unemployment	9,537	55,614	—	—	—	—
School Employees	1,081	5,672	—	—	—	—
Unemployment Compensation Disability	19,382	3,532	—	—	—	—
California State University and Colleges Trust	16,377	27,994	—	—	—	—
Student Loan	990	785	—	—	—	—
Housing Loan	3,391	1,614	578,926	—	—	—
Unclaimed Property	—	4,624	508,785	—	—	—
Deferred Compensation Plan	61	589	—	—	—	—
Other Expendable Trust	22,758	8,179	—	—	—	1,435
Total Expendable Trust	**73,577**	**108,603**	**1,087,711**	**—**	**—**	**1,435**
Pension Trust						
Public Employees' Retirement	3,852	123	—	—	—	—
State Teachers' Retirement	8,323	5,877	—	—	—	—
Judges' Retirement	—	24	—	—	—	—
Judges' Retirement II	—	11	—	—	—	—
Legislators' Retirement	—	49	—	—	—	—
Volunteer Firefighters'	—	14	—	—	—	—
Peace Officers/Firefighters'	—	33	—	—	—	—
Total Pension Trust	**12,175**	**6,131**	**—**	**—**	**—**	**—**
Agency						
Revenue Collecting and Disbursing	4,817,988	7,633,128	162,972	162,972	—	35
Deposit	23,365	648,870	885	—	—	—
Departmental Trust	3,178	225	—	—	—	—
Other Agency	283,974	400,112	—	—	—	2,848
Total Agency	**5,128,505**	**8,682,335**	**163,857**	**162,972**	**—**	**2,883**
Investment Trust						
Local Agency Investment	199,078	559	—	—	—	—
Total Investment Trust	**199,078**	**559**	**—**	**—**	**—**	**—**
University of California						
Current Funds	80	102,480	—	—	175,982	—
Loan Funds	—	2,000	—	—	—	—
Endowment and Similar Funds	23,542	—	—	—	—	—
Plant Funds	1,281	21,401	—	—	—	—
Retirement System Funds	100,978	—	—	—	—	—
Total University of California	**125,881**	**125,881**	**—**	**—**	**175,982**	**—**
Special Purpose Authorities						
California Housing Finance Agency	—	—	5,859,389	—	—	—
Non-Major Component Units	—	—	—	—	5,213	—
Total Special Purpose Authorities	**—**	**—**	**5,859,389**	**—**	**5,213**	**—**
Total	**$ 16,173,956**	**$ 16,173,956**	**$ 12,066,049**	**$ 869,885**	**$ 181,195**	**$ 181,195**

(Concluded)

NOTE 5. RESTRICTED ASSETS

Table 8 presents a summary of the legal restrictions on assets as of June 30. The restricted assets of the primary government are in the enterprise funds, except for $2.3 million in the internal service funds and $116 million for the building authorities in the capital projects funds.

Table 8

Schedule of Restricted Assets
June 30, 2000
(Amounts in thousands)

	Cash and Pooled Investments	Investments	Due From Other Funds	Other Assets
Primary Government				
Debt service	$ 754,274	$ 608,908	$ 473	$ 1,218
Construction	575,944	52,608	1,341	14
Deposits	5,238	—	—	—
Equipment repair and replacement	47,798	13	1,248	—
Operations	186	—	—	—
Other	39,616	—	—	—
Total Primary Government	**1,423,056**	**661,529**	**3,062**	**1,232**
Discretely Presented Component Units				
University of California				
Risk insurance	—	201,986	—	—
Debt service requirements	—	173,667	—	—
Plant acquisition, construction, and renovation	—	11,296	—	—
Plant renewal and replacement	—	467	—	—
Special Purpose Authorities				
Debt service	273,503	1,394,997	—	—
District fairs	20	—	—	—
Total Discretely Presented Component Units	**273,523**	**1,782,413**	**—**	**—**
Total All Restricted Assets	**$ 1,696,579**	**$ 2,443,942**	**$ 3,062**	**$ 1,232**

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.

The minimum lease payments to be received by the State Public Works Board for the primary government are summarized in Table 9.

Table 9

Schedule of Minimum Lease Payments to be Received by the State Public Works Board for the Primary Government
(Amounts in thousands)

Year Ending June 30	Primary Government Agencies	University of California	Local Agencies	Total
2001	$ 383,539	$ 107,586	$ 73,191	$ 564,316
2002	376,382	105,987	70,548	552,917
2003	379,640	105,168	67,377	552,185
2004	376,100	105,263	69,542	550,905
2005	374,800	103,886	72,065	550,751
Thereafter	3,990,405	1,269,396	611,892	5,871,693
Total Minimum Lease Payments	**5,880,866**	**1,797,286**	**964,615**	**8,642,767**
Less unearned income	2,590,307	771,886	379,919	3,742,112
Net Investment in Direct Financing Leases	**$ 3,290,559**	**$ 1,025,400**	**$ 584,696**	**$ 4,900,655**

NOTE 7. FIXED ASSETS

Table 10 is a summary of changes in the General Fixed Assets Account Group for the year ended June 30. Included in the General Fixed Asset Account Group are fixed assets related to capital leases totaling $3.7 billion.

Table 10

Schedule of Changes in General Fixed Assets
(Amounts in thousands)

	Balance July 1, 1999	Additions	Deductions	Balance June 30, 2000
Land	$ 2,045,980	$ 141,415	$ 22,260	$ 2,165,135
Structures and improvements	11,887,297	422,404	361,491	11,948,210
Equipment	1,956,469	315,550	122,031	2,149,988
Construction in progress	1,555,781	404,094	667,734	1,292,141
Total	**$ 17,445,527**	**$ 1,283,463**	**$ 1,173,516**	**$ 17,555,474**

Table 11 summarizes the proprietary fund fixed assets of enterprise funds and internal service funds, and the fixed assets of the discretely presented component units as of June 30.

Table 11

Schedule of Fixed Assets for Proprietary Funds and Discretely Presented Component Units

June 30, 2000

(Amounts in thousands)

Primary Government	Enterprise Funds	Internal Service Funds
State water projects	$ 4,491,500	$ —
Toll facilities	1,162,379	—
Other land, improvements, buildings and equipment	996,081	1,079,453
Construction in progress	239,497	4,079
Total Primary Government Fixed Assets	**6,889,457**	**1,083,532**
Less: accumulated depreciation	2,039,435	570,835
Net Primary Government Fixed Assets	**$ 4,850,022**	**$ 512,697**

Discretely Presented Component Units	University of California	Special Purpose Authorities
Real estate		
Buildings and improvements	$ 9,695,699	$ 515,008
Land	323,141	44,760
Furniture and equipment	3,457,341	159,350
Libraries and collections	2,445,332	—
Construction in progress	943,869	1,006
Total Discretely Presented Component Unit Fixed Assets	**16,865,382**	**720,124**
Less: accumulated depreciation	—	194,805
Net Discretely Presented Component Unit Fixed Assets	**$ 16,865,382**	**$ 525,319**

NOTE 8. LONG-TERM OBLIGATIONS

As of June 30, the primary government had long-term obligations totaling $25.8 billion. These obligations are not expected to be financed from current resources in the governmental funds. Long-term obligations consist of the liability for employees' compensated absences, certificates of participation and commercial paper, long-term capital lease obligations, unmatured general obligation bonds, unmatured revenue bonds, and other liabilities. The other liabilities consist of $846 million for workers' compensation claims, $746 million for net pension obligations, $192 million owed for lawsuits, and the University of California pension liability of $98 million. These other liabilities do not have any required payment schedules, or will be paid when funds are appropriated. Of the total long-term obligations outstanding, 95% will be paid by the General Fund and 5% by special revenue funds. The changes in the General Long-Term Obligations Account Group during the year ended June 30, 2000, are summarized in Table 12.

Table 12

Schedule of Changes in General Long-Term Obligations
(Amounts in thousands)

	Balance July 1, 1999	Additions	Deductions	Balance June 30, 2000
Compensated absences payable	$ 1,057,903	$ 632,503	$ 462,757	$ 1,227,649
Certificates of participation and commercial paper	425,644	2,930,632	2,733,620	622,656
Capital lease obligations	3,440,203	82,350	114,763	3,407,790
General obligation bonds payable	16,167,030	2,751,350	1,080,090	17,838,290
Revenue bonds payable	810,300	49,600	16,050	843,850
Other liabilities	1,974,498	443,761	536,656	1,881,603
Totals	**$ 23,875,578**	**$ 6,890,196**	**$ 4,943,936**	**$ 25,821,838**

NOTE 9. COMPENSATED ABSENCES

As of June 30, the estimated liability for compensated absences related to accumulated vacation and annual leave totaled approximately $1.8 billion. Of this amount, $1.2 billion is reported in the General Long-Term Obligations Account Group, $68 million is reported in the proprietary fund types, $136 million is reported in the General Fund, and $391 million is reported in the discretely presented component units.

NOTE 10. CERTIFICATES OF PARTICIPATION

Debt service requirements for certificates of participation, which are financed by lease payments from the special revenue funds and the General Fund, are shown in Table 13.

Table 13

Schedule of Debt Service Requirements for Certificates of Participation – Primary Government

(Amounts in thousands)

Year Ending June 30	Principal	Interest	Total
2001	$ 9,973	$ 6,898	$ 16,871
2002	9,780	6,525	16,305
2003	9,690	6,136	15,826
2004	9,610	5,727	15,337
2005	9,517	5,290	14,807
Thereafter	74,041	29,277	103,318
Total	**$ 122,611**	**$ 59,853**	**$ 182,464**

Debt service requirements for certificates of participation for the University of California, a discretely presented component unit, are shown in Table 14.

Table 14

Schedule of Debt Service Requirements for Certificates of Participation – University of California – Discretely Presented Component Unit

(Amounts in thousands)

Year Ending June 30	Principal	Interest	Total
2001	$ 10,800	$ 16,150	$ 26,950
2002	10,045	15,692	25,737
2003	10,570	15,175	25,745
2004	11,205	14,482	25,687
2005	11,810	13,787	25,597
Thereafter	250,435	136,428	386,863
Total	**$ 304,865**	**$ 211,714**	**$ 516,579**

Prior Year Defeasance: In prior years, the primary government has defeased certificates of participation by placing the proceeds of new certificates in an irrevocable trust account to provide for all future debt service payments on the old certificates. Accordingly, the assets of the trust accounts and the liability for the defeased certificates are not included in the State's financial statements. At June 30, 2000, approximately $48 million of prior year certificates of participation outstanding are considered defeased.

NOTE 11. COMMERCIAL PAPER AND OTHER BORROWINGS

The primary government has two commercial paper borrowing programs: a general obligation commercial paper program of up to $1.5 billion and an enterprise fund commercial paper program for the Department of Water Resources of up to $100 million. Under these programs, commercial paper may be issued at prevailing rates for periods not to exceed 270 days from the date of issuance.

To provide liquidity for the programs, a revolving credit agreement has been entered into with commercial banks equal to the authorized amount of commercial paper.

The current agreement, effective September 15, 1999, established the existing $1.5 billion limit on the amount of outstanding notes under the general obligation commercial paper program. As of June 30, 2000, the general obligation commercial paper program had $500 million in outstanding commercial paper notes and the enterprise fund commercial paper program had $28 million in outstanding notes.

The proceeds from the issuance of commercial paper are restricted primarily to construction costs of general obligation bond program projects and of certain water projects. Because the general obligation commercial paper is retired by long-term general obligation debt, it is recorded in the General Long-Term Obligations Account Group.

The University of California, a discretely presented component unit, has mortgages and other borrowings consisting of contractual obligations resulting from the acquisition of land or buildings and the construction and renovation of certain facilities. The mortgages are secured by real property. Included in mortgages and other borrowings, which total approximately $150 million, are various unsecured financing agreements with commercial banks that total approximately $41 million.

The University of California established a $550 million commercial paper program with tax-exempt and taxable components. The program is supported by the legally available unrestricted cash balance in the University of California's Short Term Investment Pool. Commercial paper has been issued to provide for interim financing of construction and related equipment and medical center working capital requirements. Commercial paper is not secured by any encumbrance, mortgage, or other pledge of property and does not constitute a general obligation of the University of California Regents. At June 30, 2000, outstanding tax-exempt and taxable commercial paper was $430 million and $120 million, respectively.

NOTE 12. LEASES

The aggregate amount of lease commitments for facilities and equipment of the primary government in effect as of June 30 is approximately $7.1 billion. This amount does not include any future escalation charges for real estate taxes and operating expenses. Most primary government leases are classified as operating leases, in accordance with the applicable standards, and contain clauses providing for termination. 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 composed of approximately $3.4 billion in the General Long-Term Obligations Account Group and $69 million in internal service funds. Lease expenditures for the year ended June 30 amounted to approximately $663 million.

Included in the capital lease commitments are lease-purchase agreements that certain state agencies have entered into with the State Public Works Board, an enterprise fund agency, amounting to a present value of net minimum lease payments of $3.3 billion. This amount represents 95% of the total present value of minimum 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 $836 million of 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 leases, title will pass to the primary government. The costs of the buildings are reported in the General Fixed Assets Account Group and the revenue bonds and certificates of participation outstanding associated with the buildings are reported in the General Long-Term Obligations Account Group. Accordingly, the lease receivables or capital lease obligations associated with these buildings are not included in the financial statements pursuant to GASB Statement No. 14.

Future minimum lease commitments of the primary government are summarized in Table 15.

Table 15

Schedule of Future Minimum Lease Commitments – Primary Government
(Amounts in thousands)

Year Ending June 30	Operating Leases	Capital Leases: General Long-Term Obligations	Capital Leases: Internal Service Funds	Total
2001	$ 231,984	$ 398,945	$ 9,638	$ 640,567
2002	184,293	390,405	9,638	584,336
2003	146,921	393,671	9,582	550,174
2004	81,253	390,144	8,970	480,367
2005	47,841	389,026	9,193	446,060
Thereafter	135,082	4,187,161	48,524	4,370,767
Total Minimum Lease Payments	**$ 827,374**	**6,149,352**	**95,545**	**$ 7,072,271**
Less amount representing interest		2,741,562	26,220	
Present Value of Net Minimum Lease Payments		**$ 3,407,790**	**$ 69,325**	

The aggregate amount of discretely presented component units' lease commitments for land, facilities, and equipment in effect as of June 30, 2000, is approximately $2.3 billion. Table 16 presents the future minimum lease commitments for the University of California and the special purpose authorities, as of June 30. Operating lease expenditures for the year ended June 30 amounted to approximately $134 million for discretely presented component units.

Table 16

Schedule of Future Minimum Lease Commitments – Discretely Presented Component Units
(Amounts in thousands)

Year Ending June 30	University of California: Capital	University of California: Operating	Special Purpose Authorities: Operating	Total
2001	$ 130,142	$ 56,304	$ 22,955	$ 209,401
2002	120,714	50,454	18,069	189,237
2003	114,538	43,471	15,904	173,913
2004	110,944	38,382	9,330	158,656
2005	107,963	32,053	6,138	146,154
Thereafter	1,347,834	100,376	18,991	1,467,201
Total Minimum Lease Payments	**1,932,135**	**$ 321,040**	**$ 91,387**	**$ 2,344,562**
Less amount representing interest	720,518			
Present Value of Net Minimum Lease Payments	**$ 1,211,617**			

NOTE 13. COMMITMENTS

The primary government has made commitments of $3.1 billion for certain highway construction projects. These commitments are not included in the reserve for encumbrances in the special revenue funds because the future expenditures related to these commitments are expected to be reimbursed from local governments and proceeds of approved federal grants. The ultimate liability will not accrue to the State.

As of June 30, the primary government had other commitments totaling $2.4 billion that are not included as a liability on the balance sheet. These commitments included loan and grant programs for housing, school building aid, and rail system construction totaling approximately $1.4 billion. The total commitments also included approximately $886 million for the construction of water projects and the purchase of power, and up to $102 million for the operation and maintenance of the lottery's automated gaming system. The commitments are expected to be funded from existing program resources and from the proceeds of revenue and general obligation bonds to be issued.

As of June 30, the University of California and special purpose authorities, discretely presented component units, had other commitments that are not included as a liability on the balance sheet. The University of California had authorized construction projects totaling $1.7 billion. Special purpose authorities had outstanding commitments to provide $385 million for loans under various housing revenue bond programs.

NOTE 14. 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 majority 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 provided on their behalf.

General obligation bonds that are directly related to, and expected to be paid from, the resources of enterprise funds are included within the accounts 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, $14.8 billion of general obligation bonds had been authorized but not issued. This amount includes $6.5 billion that has been authorized by the applicable finance committee for future issuance in the form of commercial paper notes. Of this amount, $500 million in general obligation indebtedness has been issued in the form of commercial paper notes, but not yet retired by long-term bonds.

Table 17 summarizes the changes in general obligation bond debt for the year ended June 30.

Table 17

Schedule of Changes in General Obligation Bond Debt
(Amounts in thousands)

	General Long–Term Obligations	Enterprise Funds	Total
Balance, July 1, 1999	$ 16,167,030	$ 3,716,115	$ 19,883,145
Additions	2,751,350	—	2,751,350
Deductions	(1,080,090)	(202,715)	(1,282,805)
Balance, June 30, 2000	**$ 17,838,290**	**$ 3,513,400**	**$ 21,351,690**

Table 18 shows the debt service requirements for all general obligation bonds, including interest of $12.8 billion, as of June 30, 2000.

Table 18

Schedule of General Obligation Bonds Debt Service Requirements
(Amounts in thousands)

Year Ending June 30	General Long–Term Obligations	Enterprise Funds
2001	$ 2,215,782	$ 331,801
2002	2,152,150	348,540
2003	2,052,145	313,467
2004	1,902,476	326,769
2005	1,773,976	328,945
Thereafter	18,074,765	4,322,969
Total	**$ 28,171,294**	**$ 5,972,491**

Current Year Defeasances: During the year ended June 30, 2000, the primary government issued approximately $127 million in veterans general obligation bonds, the proceeds of which were used to immediately refund previously issued veterans general obligation bonds of approximately $127 million. In addition, approximately

$117 million of veterans general obligation bonds were refunded by veterans Home Purchase Revenue bonds (See Note 15, Revenue Bonds).

Prior Year Defeasance: In prior years, the primary government has placed the proceeds of the refunded bonds in a special irrevocable escrow trust account with the State Treasury to provide for all future debt service payments on the defeased bonds. The assets of the trust accounts and the liability for the defeased bonds are not included in the State's financial statements. As of June 30, 2000, the outstanding balance of general obligation bonds defeased in prior years was approximately $1.5 billion.

NOTE 15. REVENUE BONDS

Revenue bonds that are directly related to, and expected to be paid from, the resources of enterprise funds are included within the accounts of such funds. Principal and interest on revenue bonds are payable from the pledged revenues of the respective funds of the authorities and agencies listed in the next section of this note. 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 are issued for Water Resources, California State University, and Leasing of Public Assets. Revenue bonds are also issued to make loans to finance the acquisition of farms and homes by California veterans. When the farm and home loans financed by the revenue bonds are fully paid, the farms and homes become the property of private individuals.

Certain building authorities, under state law, may issue revenue bonds. These revenue bonds are included in the General Long-Term Obligations Account Group. These bonds are issued for the purpose of acquiring and constructing buildings for public education purposes and 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.

The University of California, a discretely presented component unit, issues revenue bonds to finance the construction, renovation, and acquisition of certain facilities and equipment.

Under state law, a special purpose authority, which is a discretely presented component unit, issues revenue bonds to make loans to finance housing developments and to finance the acquisition of

homes by low to moderate income families. When the housing developments and home loans are fully paid, the housing developments and homes become the property of private individuals or entities.

Table 19 shows revenue bonds outstanding as of June 30.

Table 19

Schedule of Revenue Bonds Outstanding
June 30, 2000
(Amounts in thousands)

Primary Government	
General Long-Term Obligations	
Building Authorities	
California State University	$ 30,680
Los Angeles	203,205
San Francisco	382,060
San Bernardino	60,620
Oakland	154,125
Riverside	13,160
Total General Long-Term Obligations	**843,850**
Enterprise Funds	
Housing Loan	505,815
Water Resources	2,412,642
California State University	582,933
Leasing of Public Assets	5,491,892
Total Enterprise Funds	**8,993,282**
Total Primary Government	**9,837,132**
Discretely Presented Component Units	
University of California	2,754,000
Special Purpose Authorities	6,693,933
Total Discretely Presented Component Units	**9,447,933**
Total	**$ 19,285,065**

Table 20 shows the debt service requirements as of June 30, 2000. The debt service requirements primarily represent bond principal payments. Table 20 also includes certain unamortized refunding costs, premiums, discounts, and other costs not included in Table 19.

Table 20

Schedule of Revenue Bond Debt Service Requirements
(Amounts in thousands)

Year Ending June 30	Primary Government: General Long–Term Obligations	Primary Government: Enterprise Funds	Discretely Presented Component Units
2001	$ 29,245	$ 475,678	$ 255,331
2002	30,590	344,483	282,361
2003	31,975	354,968	227,490
2004	33,450	381,286	238,679
2005	35,080	396,844	251,150
Thereafter	683,510	7,356,343	8,211,388
Total	**$ 843,850**	**$ 9,309,602**	**$ 9,466,399**

Current Year Defeasances: For the year ended June 30, 2000, the primary government issued approximately $117 million of Home Purchase Revenue Bonds to refund approximately $117 million of outstanding veterans general obligation bonds. For those bonds that could not be called for immediate redemption, proceeds were deposited in an escrow account held by the State Treasurer, as escrow trustee, to provide for all future debt service payments on the defeased bonds. As a result, these bonds are considered to be defeased and the liabilities have been removed from the financial statements.

For the year ended June 30, 2000, the California Housing Finance Agency (CHFA), a discretely presented component unit, issued $156 million of Home Mortgage Revenue Bonds at variable rates to refund $152 million in outstanding Home Mortgage Revenue Bonds. If the rate on the variable rate bonds remains constant, the refunding will decrease the debt service cash outflow for the housing bonds by approximately $89 million and result in an economic gain of approximately $47 million. The CHFA considered these debt refundings to be an in-substance defeasance and accordingly, removed the redeemed bonds and related assets from the financial statements. The deferred loss from extinguishment of debt was $4 million.

Prior Year Defeasances: 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, 2000, the outstanding balance of revenue bonds defeased in prior years was approximately $2.2 billion.

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, 2000, the outstanding balance of University of California revenue bonds defeased in prior years was $671 million.

NOTE 16. MAJOR TAX REVENUES

Tax revenues for the year ended June 30, 2000, are presented in Table 21.

Table 21

Schedule of Major Tax Revenues
Year Ended June 30, 2000
(Amounts in thousands)

	General Fund	Special Revenue Funds	Expendable Trust Funds
Personal income	$ 39,516,018	$ —	$ —
Sales and use	21,121,778	4,276,539	—
Bank and corporation	6,569,805	—	—
Unemployment insurance	—	—	2,945,830
Disability insurance	—	—	1,613,303
Insurance	1,301,346	—	—
Inheritance, estate, and gift	937,177	—	—
Cigarette and tobacco	132,429	1,087,458	—
Other	309,031	339,441	42,898
Total	**$ 69,887,584**	**$ 5,703,438**	**$ 4,602,031**

NOTE 17. FUND EQUITY

A. Fund Deficits

The following funds had deficits at June 30, 2000, as shown in Table 22.

Table 22

Schedule of Fund Deficits
June 30, 2000
(Amounts in thousands)

	Special Revenue Funds	Capital Projects Funds	Internal Service Funds
Financing to Local Governments	$ 32,773	$ —	$ —
Higher Education Construction	—	10,105	—
All Other Capital Projects	—	3,160	—
Water Resources Revolving	—	—	33,263
Architecture Revolving	—	—	3,338
Total	**$ 32,773**	**$ 13,265**	**$ 36,601**

B. Changes to Contributed Capital

The changes in the State's contributed capital accounts are shown in Table 23.

Table 23

Schedule of Changes in Contributed Capital
(Amounts in thousands)

	Enterprise Funds	Internal Service Funds	Discretely Presented Component Units	Total
Balance, July 1, 1999	$ 247,657	$ 345,183	$ 109	$ 592,949
Government contributions	48,827	1,901	—	50,728
Decreases	—	(1)	—	(1)
Balance, June 30, 2000	**$ 296,484**	**$ 347,083**	**$ 109**	**$ 643,676**

NOTE 18. RISK MANAGEMENT

The primary government has elected, with a few exceptions, to be self-insured against loss or liability. 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, there has been no insurance settlement in the last three years that has exceeded insurance coverage. The primary government generally does not maintain reserves. Losses are covered in the year in which the payment occurs by appropriations from each fund responsible for payment. All claim payments are on a "pay as you go" basis with workers' compensation benefits for self-insured agencies being initially paid by the SCIF. The potential amount of loss arising from

risks other than workers' compensation benefits is not considered material in relation to the primary government's financial position.

The discounted liability for unpaid self-insured workers' compensation losses is estimated to be $1.1 billion as of June 30, 2000. This estimate is based on an actuarial review of the State's employee 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 $1.7 billion is discounted using a 6.3% interest rate. Of the total, $140 million is included in the General Fund, $86 million in the special revenue funds, $19 million in the proprietary fund types, and $846 million in the General Long-Term Obligations Account Group. Changes in the claims liabilities during the year ended June 30 are shown in Table 24.

The University of California, a discretely presented component unit, is self-insured 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 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 upon an independent actuarial determination of the anticipated future payments, discounted at rates ranging from 6.25% to 8.0%. The special purpose authorities, which are discretely presented component units, do not have any significant liabilities related to self-insurance.

Table 24

Schedule of Changes in Self-Insurance Claims
Years Ended June 30
(Amounts in thousands)

	Primary Government		University of California – Discretely Presented Component Unit	
	2000	1999	2000	1999
Unpaid claims, beginning	$ 990,000	$ 886,000	$ 330,000	$ 319,300
Incurred claims	361,000	345,000	241,700	174,600
Claim payments	(260,000)	(241,000)	(209,400)	(163,900)
Unpaid claims, ending	**$ 1,091,000**	**$ 990,000**	**$ 362,300**	**$ 330,000**

NOTE 19. SEGMENT INFORMATION

Selected financial information by enterprise fund activity for major segments is shown in Table 25. The primary sources of enterprise fund revenues are as follows.

Housing Loans: Interest charged on contracts of sale of properties to California veterans and to California National Guard members; loan origination fees; and interest on investments.

Water Resources: Charges to local water districts, sale of excess power to public utilities, and interest earned on investments.

School Building Aid: Interest charged on loans to school districts for acquisition, construction, or rehabilitation of classroom facilities and income from the rental of portable classrooms to school districts.

Toll Facilities: Toll fees and interest earned on investments.

California State University: Charges to students for housing and parking; student fees for campus unions, health centers, and self-supporting educational programs; and interest earned on investments.

Leasing of Public Assets: Rental charges from the lease of public assets and interest earned on investments.

State Lottery: Sale of lottery tickets.

Health Facilities Construction Loan Insurance: Construction project fees and income from loan insurance premiums and operations or proceeds of sales of property acquired by default of borrowers.

Public Employees' Benefits: Contributions for public employee long-term care plans and fees for managing a deferred compensation program.

Other Enterprise: Canteen revenues and fees charged by various other departments.

Table 25

Schedule of Enterprise Fund Activity by Separate Major Segments
As of and for the Year Ended June 30, 2000
(Amounts in thousands)

	Housing Loan	Water Resources	School Building Aid	Toll Facilities	California State University	Leasing of Public Assets	State Lottery	Health Facilities Construction Loan Insurance	Public Employees' Benefits	Other Enterprise
Operating revenue	$ 241,353	$ 689,705	$ 25,099	$ 6,991	$ 218,111	$ 413,746	$ 2,598,379	$ 27,452	$ 153,735	$ 119,850
Depreciation	1,094	75,352	3,720	18,503	—	—	6,155	488	—	18
Amortization of deferred charges	—	79,203	—	429	—	5,830	1,391	—	—	—
Operating income (loss)	12,497	165,407	10,962	(15,877)	6,815	16,142	885,762	(3,645)	(86,396)	(1,729)
Operating transfers in	2,115	—	—	3,612	24,966	1,641	—	—	—	—
Operating transfers out	2,115	—	20,733	—	38,466	1,641	—	—	—	1,609
Net income (loss)	6,530	(15,376)	(9,771)	(51,515)	(12,189)	16,142	—	4,845	(51,941)	10,875
Grants received	—	—	—	—	267	—	—	—	—	—
Grants provided	—	—	—	41,813	—	—	—	—	—	—
Property, plant, and equipment										
Additions	916	23,965	—	14,307	58,116	136,296	2,069	6	—	10
Deductions	1,094	75,352	3,720	18,503	—	—	6,218	488	—	18
Net working capital	934,696	245,429	55,666	19,851	465,686	616,172	(36,627)	156,313	545,664	247,632
Total assets	3,491,880	4,757,654	253,892	625,666	1,381,990	5,800,766	3,260,529	244,820	552,144	623,628
Bonds and other long-term liabilities	3,105,454	3,653,889	1,250	—	597,785	5,491,892	2,498,019	187,360	528,249	42,090
Total Equity	295,235	1,003,845	251,797	612,396	708,053	176,583	—	56,677	17,415	453,211

NOTE 20. CONDENSED FINANCIAL STATEMENTS – DISCRETELY PRESENTED COMPONENT UNITS

Tables 26 and 27 present summary financial statements of the special purpose authorities, which are the SCIF, the CHFA, and Non-Major Component Units. The financial statements of the University of California, a discretely presented component unit, are presented separately in the combined statements of this report.

The SCIF is a component unit created to offer insurance protection to employers at the lowest possible cost. This information is as of and for the year ended December 31, 1999. The CHFA was created for the purpose of meeting the housing needs of persons and families of low and moderate income. The Non-Major Component Units provide certain services that are not part of the primary government and also provide certain private and public entities with a low-cost source of financing for activities that are deemed to be in the public interest.

Table 26

Condensed Balance Sheet – Special Purpose Authorities – Discretely Presented Component Units

June 30, 2000
(Amounts in thousands)

	State Compensation Insurance Fund	California Housing Finance Agency	Non–Major Component Units	Total
Assets				
Due from primary government	$ —	$ —	$ 5,213	$ 5,213
Other current assets	1,158,845	430,956	640,600	2,230,401
Investments	6,022,968	1,387,517	58,849	7,469,334
Advances and loans receivable	—	5,859,389	—	5,859,389
Fixed assets	212,550	—	312,769	525,319
Total Assets	**$ 7,394,363**	**$ 7,677,862**	**$ 1,017,431**	**$ 16,089,656**
Liabilities				
Other current liabilities	$ 1,058,200	$ 344,907	$ 16,394	$ 1,419,501
Benefits payable	5,062,442	—	—	5,062,442
Revenue bonds payable	—	6,597,403	96,530	6,693,933
Contracts and notes payable	—	—	5,248	5,248
Total Liabilities	**6,120,642**	**6,942,310**	**118,172**	**13,181,124**
Fund Equity				
Contributed capital	—	—	109	109
Retained earnings				
Reserved for regulatory requirements	—	657,211	—	657,211
Unreserved	1,273,721	78,341	899,150	2,251,212
Total Fund Equity	**1,273,721**	**735,552**	**899,259**	**2,908,532**
Total Liabilities and Fund Equity	**$ 7,394,363**	**$ 7,677,862**	**$ 1,017,431**	**$ 16,089,656**

Table 27

Condensed Statement of Revenues, Expenses, and Changes in Retained Earnings – Special Purpose Authorities – Discretely Presented Component Units

Year Ended June 30, 2000
(Amounts in thousands)

	State Compensation Insurance Fund	California Housing Finance Agency	Non–Major Component Units	Total
Operating Revenues				
Earned premiums (net)	$ 1,242,319	$ —	$ —	$ 1,242,319
Other revenue	49,270	409,148	147,632	606,050
Total Operating Revenues	**1,291,589**	**409,148**	**147,632**	**1,848,369**
Operating Expenses				
Depreciation	5,143	214	6,037	11,394
Benefit payments	1,486,083	—	3,986	1,490,069
Interest expense	—	369,272	3,215	372,487
Amortization of deferred charges	176,815	1,709	—	178,524
Other operating expenses	97,000	57,140	123,095	277,235
Total Operating Expenses	**1,765,041**	**428,335**	**136,333**	**2,329,709**
Operating Income (Loss)	**(473,452)**	**(19,187)**	**11,299**	**(481,340)**
Nonoperating Revenues (Expenses)				
Investment and interest income (loss)	(177,211)	90,412	4,093	(82,706)
Dividends paid	7,279	—	—	7,279
Other nonoperating revenues (expenses), net	—	—	429,881	429,881
Net Nonoperating Revenues (Expenses)	**(169,932)**	**90,412**	**433,974**	**354,454**
Net Income (Loss)	**(643,384)**	**71,225**	**445,273**	**(126,886)**
Retained Earnings, July 1, 1999	**1,917,105**	**664,327**	**453,877 ***	**3,035,309**
Retained Earnings, June 30, 2000	**$ 1,273,721**	**$ 735,552**	**$ 899,150**	**$ 2,908,423**

*Restated

NOTE 21. NO COMMITMENT DEBT

Certain debt of the special purpose authorities, which are discretely presented component units, is issued to finance activities such as construction of new facilities and remodeling of existing facilities, as well as acquisition of equipment. This debt is collateralized solely by the credit of private and public entities and is administered by trustees independent of the State. As of June 30, the special purpose authorities had $14.4 billion of debt outstanding, which is not debt of the State.

The State has also entered into transactions which involve debt issued by four special purpose trusts that were created by another special purpose authority, called the California Infrastructure and Economic Development Bank. The special purpose trusts are legally separate entities that issued long-term debt for the primary purpose of financing certain costs of assets and obligations that are recoverable by utilities through electric rate charges, but which may prevent the utilities from offering electricity at lower rates in a competitive market. As of June 30, the special purpose trusts had approximately $4.6 billion of debt outstanding. Similar to the debt of the special purpose authorities, the debt of the special purpose trusts is not a debt of the State.

NOTE 22. CONTINGENT LIABILITIES

A. Litigation

The primary government is a party to numerous legal proceedings, many of which normally occur in governmental operation. To the extent they existed, the following were accrued as a liability in the financial statements: legal proceedings that were decided against the primary government before June 30, 2000; legal proceedings that were in progress as of June 30, 2000, and were settled or decided against the primary government as of November 17, 2000; and legal proceedings having a high probability of resulting in a decision against the primary government as of November 17, 2000, and for which amounts could be estimated. For governmental fund types and expendable trust funds, 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; the remainder is shown as a liability of the General Long-Term Obligations Account Group. For other fund types, the entire liability is recorded in the fund involved. In addition, the primary government is involved in certain other legal proceedings that, if decided against the primary government, may require it to make significant future expenditures or may impair future revenue sources. Because of the prospective nature of these proceedings, no provision for this potential liability has been made in the financial statements.

Following are the more significant lawsuits pending against the primary government:

The primary government is involved in a lawsuit, *Thomas Hayes v. Commission on State Mandates*, related to state-mandated costs. The action involves an appeal by the Director of Finance from a 1984 decision by the State Board of Control now succeeded by the Commission on State Mandates (COSM). The Board of Control decided in favor of local school districts' claims for reimbursement for special education programs for handicapped students. In

July 1990, the trial court entered judgment in favor of the Director of Finance and remanded the case to the COSM for redetermination. The COSM has since expanded the claim to include supplemental claims filed by seven other educational institutions. The parties entered into negotiations to explore possible settlement options. In October 2000, Governor Davis and the schools had agreed to a proposed settlement, contingent upon signed waivers by local educational agencies and appropriations by the Legislature. The proposal envisions state appropriations of $520 million for past costs and $100 million annually for future costs. If the settlement agreement is not approved, the amount of the liability is not capable of estimation.

The primary government is involved in a lawsuit related to contamination at the Stringfellow toxic waste site. In *United States, People of the State of California v. J. B. Stringfellow, Jr., et al.*, the primary government is seeking recovery for past costs of cleanup of the site, a declaration that the defendants are jointly and severally liable for future costs, and an injunction ordering completion of the cleanup. The defendants have filed a counterclaim against the primary government for alleged negligent acts resulting in significant findings of liability against the primary government as owner and operator of the site. The primary government has appealed the rulings. The court stayed the appeal pending settlement discussions. In July 1999, the district court set a trial date of January 30, 2001, to settle all remaining issues. Present estimates of the cleanup range from approximately $455 to $675 million. Potential primary government liability falls within this same range depending on (1) the final remedial action chosen by the federal and primary governments, (2) whether the 1998 district court judgment imposing counterclaim liability on the primary government is upheld on appeal, and (3) whether all or a portion of any judgment against the primary government could be satisfied by recoveries from its insurance carriers.

The primary government is a defendant in three actions, *Cigarettes Cheaper!, et al. v. Board of Equalization, et al.*, *California Assn. of Retail Tobacconists, et al. v. Board of Equalization, et al.*, and *McLane/Suneast, Inc. v. Board of Equalization*, that challenge the constitutionality of Proposition 10. The plaintiffs allege that Proposition 10, which increases the excise tax on tobacco products, violates 11 sections of the California Constitution and related provisions of law. The primary government filed notices of related cases. If the statute ultimately is declared unconstitutional, exposure may include the entire $750 million that is collected annually, together with interest on these collections. On November 15, 2000 the trial court ruled completely in the primary government's favor. An appeal is expected.

The primary government is a defendant in an action, *Ronald Arnett, et al. v. California Public Employees' Retirement System (PERS); California Board of Administration of PERS; et al.*, that challenges Section 21417 of the Government Code pertaining to industrial disability retirement benefits. The plaintiffs allege that Section 21417 makes retirement decisions based upon age, in violation of the Age Discrimination in Employment Act of 1967. PERS estimated potential damages at $316 million (lump sum) in this case. The action reached the United States Supreme Court, which, on January 18, 2000, vacated the appellate court's ruling against the primary government, and remanded the action for further proceedings consistent with *Kimel v. Florida Bd. of Regents*, which held that states enjoy sovereign immunity from private Age Discrimination in Employment Act suits. On July 13, 2000, the Equal Employment Opportunity Commission filed a complaint against the primary government and intervened in this matter as a party plaintiff. The district court set a trial date in this case for April 30, 2001.

The primary government is a defendant in a joint action involving fifty-five counties, *Sonoma County, et al., v. Commission on State Mandates*, seeking recovery of property tax revenues reallocated to school districts. The counties contend that this reallocation of revenues constitutes State mandated costs and therefore is subject to reimbursement. The action has reached the Court of Appeal, which, on November 21, 2000, reversed a Superior Court's judgment and remanded with instructions to enter a new judgment denying the counties' petition. The counties have announced their intention to file a petition for review in the California Supreme Court. An unfavorable outcome is possible and would require the primary government to return between $10 and $15 billion to counties for retroactive payment, an amount that increases by approximately $3.5 billion annually.

The University of California and the special purpose authorities, which are discretely presented component units, are contingently liable in connection with claims and contracts, including those currently in litigation, arising in the normal course of their activities. The outcome of such matters is either not expected to have a material effect on the financial statements or cannot be estimated at this time.

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 is entitled to these resources only if it complies with the terms and conditions of the grants and contracts and with the applicable federal laws and regulations; the primary government may spend these resources only for eligible

purposes. If audits disclose exceptions, the primary government may incur a liability to the federal government.

NOTE 23. PENSION TRUSTS

Two retirement systems, the California Public Employees' Retirement System (CalPERS) and the California State Teachers' Retirement System (CalSTRS), are included in the primary government. One retirement system, the University of California Retirement System (UCRS), is included in the discretely presented component units. The pension liability for all pension trust funds was determined in accordance with GASB Statement No. 27, Accounting for Pensions by State and Local Government Employers. The amounts of the pension liability for all pension trust funds are presented on Tables 29 and 30 as the net pension obligation (NPO) as of June 30, 2000. Information on the investments of the retirement systems is included in Note 3, Deposits and Investments.

CalPERS administers five defined benefit retirement plans: the Public Employees' Retirement Fund (PERF), the Judges' Retirement Fund (JRF), the Judges' Retirement Fund II (JRF II), the Legislators' Retirement Fund (LRF), and the Volunteer Firefighters' Length of Service Award Fund (VFF). CalPERS also administers one defined contribution plan, the State Peace Officers' and Firefighters' Defined Contribution Plan Fund (SPOFF). 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, Central Supply, P.O. Box 942715, Sacramento, California 94229-2715.

CalPERS uses the accrual basis of accounting. Member contributions are recorded when due except for the VFF and the SPOFF which are funded only by employer contributions. Employer contributions are recorded when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due in accordance with the terms of each plan.

The CalSTRS administers two defined benefit retirement plans within the State Teacher's Retirement Fund (STRF). The two plans are the Defined Benefit Program (DB Program) and the Cash Balance Benefit Program (CBB Program). CalSTRS also offers, through a third party administrator, a defined contribution plan that meets the requirements of Internal Revenue Code Section 403(b). CalSTRS issues a publicly available financial report that includes financial statements and required supplementary information on these plans. This report may be obtained from the California State Teachers' Retirement System, Audits Division, 7667 Folsom Boulevard, 2nd Floor, Sacramento, California 95826.

CalSTRS uses the accrual basis of accounting. Member contributions are recognized in the period in which the contributions are due. Employer and primary government contributions are recognized when due and the employer or the primary government has made a formal commitment to provide the contributions. Benefits are recognized when due and payable in accordance with the retirement program.

A. Public Employees' Retirement Fund

1. Fund Information

Plan Description: CalPERS administers the PERF, which is an agent multiple-employer defined benefit retirement plan. Employers participating in the PERF include the primary government and certain special purpose authorities, which are discretely presented component units, 61 school employers, and 1,333 public agencies as of June 30, 2000.

The excess of the actuarial value of assets over the actuarial accrued liability of PERF for the primary government and other participating agencies was $32.9 billion at June 30, 1999. This is a result of the difference between the actuarial value of assets of $148.6 billion and the actuarial accrued liability of $115.7 billion. Contributions are actuarially determined.

2. Employer's Information

Plan Description: The primary government and certain special purpose authorities contribute to the PERF. CalPERS acts as a common investment and administrative agent of the primary government and the other member agencies. The special purpose authorities' participation in PERF is not a material portion of the program. The primary government has six pension plans within the PERF: first-tier miscellaneous, second-tier miscellaneous, industrial, California Highway Patrol, peace officers and firefighters, and other safety members. The payroll for primary government employees covered by the PERF in the year ended June 30, 2000, was approximately $11.0 billion.

All employees who work on a half-time or more basis 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 or ten years, depending on the plan. All plans provide 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 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 formula. The primary government contribution rates are determined by periodic actuarial valuations or by state statute.

Employees, with the exception of employees in the second-tier plan, are required to contribute to the fund. The contribution rates of active plan members are based on a percentage of salary over a monthly base compensation amount of $133 to $863. With the exception of employees in the second-tier plan, employees' required contributions vary from 5.0% to 8.0% of their salary over their base compensation amount.

The required employer contribution rates, without group term life insurance benefits, for the primary government are shown in Table 28. The employer contribution rate for employees in the industrial member category who are covered by group term life insurance is 0.03%. This is 0.03% greater than the rate for employees not covered by group term life insurance.

Table 28

Schedule of Required Employer Contribution Rates for the Primary Government by Member Category

Year Ended June 30, 2000

	Normal Cost	Unfunded Liability	Total Rate
Miscellaneous members			
First tier	8.62 %	(7.13) %	1.49 %
Second tier	6.57	(6.57)	—
Industrial	8.67	(8.67)	—
California Highway Patrol	13.35	—	13.35
Peace officers and firefighters	13.89	(13.89)	—
Other safety members	12.17	(4.68)	7.49

For the year ended June 30, 2000, the annual pension cost (APC) and the amount of contributions made by the primary government were each approximately $171 million. The APC and the percentage of APC contributed for the last three years are shown in Table 29. Actuarial valuations of the PERF are performed annually. Information from the last valuation, which was performed as of June 30, 1999, is also shown in Table 29.

B. Judges' Retirement Fund

Plan Description: CalPERS administers the JRF, which is an agent multiple-employer defined benefit retirement plan. The JRF membership includes justices of the Supreme Court and courts of appeal, as well as judges of superior courts, municipal courts, and justice courts appointed or elected prior to November 9, 1994. There are 59 employers participating in the JRF for the year ended June 30, 2000. The payroll for employees covered by the JRF for the year ended June 30, 2000, was approximately $146 million. The primary government pays the employer contributions for all employees covered by the JRF.

The JRF provides benefits based on a member's years of service, age, final compensation, and benefit formula. Vesting occurs after five years. The JRF provides death, disability, and survivor benefits. Benefits for the JRF are established by the Judges' Retirement Law.

Funding Policy: The required contribution rates of active plan members are based on a percentage of salary over a base compensation amount. For the year ended June 30, 2000, the required contribution rate for the JRF was 8.0%.

The contributions of the primary government to the JRF are not actuarially determined. Contributions are pursuant to state statute. Employer contributions are required to be 8.0% of applicable member compensation. The other funding to meet benefit payment requirements of the JRF is currently provided from the following sources: filing fees, which require varying amounts depending on fee rate and number of filings; investments, which earn the current yield on short term investments; and the primary government's balancing contributions, as required by the Judges' Retirement Law. The balancing contributions are equal to an amount at least equal to the estimated benefits payable during the ensuing fiscal year, less the sum of the estimated member contributions during the ensuing fiscal year and net assets available for benefits at the beginning of the fiscal year ("pay as you go" basis).

The APC and the amount of contributions made to the JRF for the year ended June 30, 2000, were $136 million and $74 million, respectively. The net pension obligation (NPO) of the JRF at June 30, 2000, was $735 million, an increase of $62 million over last year's balance of $673 million. The APC is comprised of $139 million for the annual required contribution (ARC), $50 million interest on the NPO, and $53 million for the adjustment to the ARC. An actuarial valuation of the JRF's assets and liabilities is made annually. The APC, the percentage of APC contributed, and the NPO for the last three years are shown in Table 29. Information on the last valuation, which was performed as of June 30, 1999, is also shown in Table 29. The aggregate cost method that was used for the June 30, 1999, valuation does not identify or separately amortize the unfunded actuarial accrued liability; therefore, this liability is not shown in Table 29.

C. Judges' Retirement Fund II

Plan Description: CalPERS administers the JRF II, which is an agent multiple-employer defined benefit retirement plan. The membership of the JRF II includes justices of the same courts as covered by the JRF who were appointed or elected on or subsequent to November 9, 1994. There are 59 employers participating in the JRF II. The payroll for employees covered by the JRF II for the year ended June 30, 2000, was approximately $40 million. The primary government pays the employer contributions for all employees covered by the JRF II.

The JRF II provides benefits based on a member's years of service, age, final compensation, and benefit formula. Vesting occurs after five years. The JRF II provides death, disability, and survivor benefits. Benefits for the JRF II are established by the Judges' Retirement System II Law.

Funding Policy: The required contribution rate of active plan members is based on a percentage of salary over a base compensation amount. For the year ended June 30, 2000, the required contribution rate for the JRF II was 8.0%. For the year ended June 30, 2000, the primary government's contribution rate for the JRF II was 18.57% of applicable member compensation.

Actuarial valuations for the JRF II are required to be carried out annually. The legislated primary government contribution rate will be adjusted periodically as part of the annual Budget Act in order to maintain or restore the actuarial soundness of the fund.

For the year ended June 30, 2000, the APC and the amount of contributions made for the JRF II were approximately $7.5 million and $7.5 million, respectively. The APC and the percentage of APC contributed for the year ended June 30, 2000 are shown in Table 29. Information on the last valuation, which was performed as of June 30, 1999, is also shown in Table 29.

D. Legislators' Retirement Fund

Plan Description: CalPERS administers the LRF, which is a single-employer defined benefit retirement plan. The eligible membership of the LRF includes state legislators serving in the legislature prior to November 1, 1990, constitutional officers, and legislative statutory officers. The payroll for employees covered by the LRF in 2000 was approximately $3 million.

The LRF provides benefits based on members' years of service, age, final compensation, and benefit formula.. Vesting occurs after five years. The plan provides death, disability, and survivor benefits. Benefits for the LRF are established by the Legislators' Retirement Law.

The LRF is currently in transition. The number of legislators eligible to participate in the LRF is declining as incumbent legislators leave office and are replaced by new legislators who are not eligible to participate in the program. Eventually, the only active members in the LRF will be approximately 18 constitutional officers (including the Insurance Commissioner and members of the Board of Equalization) and approximately four legislative statutory officers.

Funding Policy: The contribution requirements of the LRF are based on actuarially determined rates. An actuarial valuation of the LRF's assets and liabilities is required at least every two years. For the

year ended June 30, 2000, the actual contributions made by employees were approximately 5.5% of covered payroll. For the year ended June 30, 2000, the primary government's statutory funding rate was 18.81% of covered payroll through December 31, 1999, and the actuarial determined rate of 0.00% through June 30, 2000.

The APC and the amount of contributions made by the primary government to the LRF for the year ended June 30, 2000, were zero and $0.3 million, respectively. The NPO of the LRF at June 30, 2000, was $10.3 million, a decrease of $0.4 million over last year's balance of $10.7 million. There was no APC because the ARC equaled zero, and the interest on the NPO of $0.8 million approximated the $0.8 million adjustment to the ARC. The APC, the percentage of APC contributed, and the NPO for the last three years are shown in Table 29. An actuarial valuation of the LRF's assets and liabilities is made annually. Information on the last valuation, which was performed as of June 30, 1999, is also shown in Table 29. The aggregate cost method that was used for the June 30, 1999, valuation does not identify or separately amortize the unfunded actuarial accrued liability; therefore, this liability is not shown in Table 29.

E. Volunteer Firefighters' Length of Service Award Fund

Plan Description: CalPERS administers the VFF, which is an agent multiple-employer defined benefit retirement plan. The VFF membership includes volunteer firefighters. There are 57 fire departments participating in the VFF for the year ended June 30, 2000.

The excess of the actuarial value of assets over the actuarial accrued liability of VFF was $0.2 million at June 30, 1999. This is a result of the difference between actuarial value of assets of $2.0 million and the actuarial accrued liability of $1.8 million. Contributions are actuarially determined.

F. State Peace Officers' and Firefighters' Defined Contribution Plan Fund

Plan Description: CalPERS administers the SPOFF, which is a defined contribution pension plan. The plan is a qualified money purchase pension plan under Section 401(a) of Title 26 of the Internal Revenue Code, and is intended to supplement the retirement benefits provided by the PERF to correctional officers employed by the State of California in Bargaining Unit 6.

Funding Policy: Contributions to the plan are funded entirely by the primary government with a contribution rate of 2% of the employee's base pay not to exceed contribution limits established by the Internal Revenue Code. Contribution requirements are established and may be amended through a memorandum of understanding from the State of California Department of Personnel Administration. These contributions, as well as the participant's share of the net earnings of the fund, are credited to the

participant's account. For the year ended June 30, 2000, contributions by the primary government to the SPOFF were approximately $30 million.

The net earnings of the fund are allocated to the participant's account as of each valuation date, in the ratio that the participant's account balance bears to the aggregate of all participants' account balances. The benefit paid to a participant will depend only on the amount contributed to the participant's account and earnings on the value of the participant's account. Plan provisions are established and may be amended by statute. At June 30, 2000, there were approximately 31,800 participants.

G. State Teachers' Retirement Fund

Plan Description: CalSTRS administers the State Teachers' Retirement Fund (STRF) that includes the Defined Benefit Program (DB Program) and the Cash Balance Benefit Program (CBB Program). These programs are cost-sharing multiple-employer defined benefit retirement plans that provide 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, 2000, the DB Program had approximately 1,160 contributing employers. At June 30, 1999, there were approximately 471,000 plan members and 161,000 benefit recipients. The primary government is a non-employer contributor to the DB Program. The payroll for employees covered by the DB Program in 2000 was approximately $18.6 billion.

The CBB Program is designed for employees of California public schools who are hired to perform creditable service for less than 50% of the full time equivalent for the position. Participation in the CBB Program is optional to employers. However, if the employer elects to offer the CBB Program, each eligible employee will automatically be covered by the CBB Program unless the member elects to participate in the DB Program or an alternative plan provided by the employer within 60 days of hire or the election period determined by the employer. At June 30, 2000, the CBB Program had 20 contributing school districts and approximately 9,500 contributing participants. Assets of the CBB Program of $10.9 million are combined with the assets of the DB Program in the STRF.

Funding Policy: DB Program benefits are funded by contributions from members, employers, the primary government, and earnings from investments. Member and employer contributions are a percentage of applicable member earnings. The Teachers' Retirement Law governs member rates, employer contribution rates, and primary government contributions.

DB Program contribution rates of members are 8.0% of applicable member earnings. The employer contribution rate is 8.25% of applicable member earnings. The primary government's contribution to the system, under California Education Code Section 22955, known as the "Elder Full Funding Act," is 4.3% of previous calender year's member payroll. Subsequent to achieving a fully funded system, the primary government will contribute only the amount necessary to help fund the normal cost of the current benefit program unless a subsequent unfunded obligation occurs. Beginning July 1, 1999, the primary government shall transfer annually to the DB Program an amount equal to 3.102% of total creditable earnings of the immediately preceding calendar year to fund certain benefit enhancements that became effective January 1, 1999. Beginning October 1, 1998, a statutory contribution rate of 0.524%, adjustable annually in 0.25% increments up to a maximum of 1.505%, of the creditable earnings of the immediately preceding calendar year under Section 22955 was established. This rate is reduced to zero if there is no unfunded obligation or normal cost deficit. As of the June 30, 1999, actuarial valuation, there was no unfunded obligation or normal cost deficit for benefits in place as of July 1, 1990.

For the year ended June 30, 2000, the APC for the DB Program was approximately $1.2 billion, and the employer and primary government contributions were approximately $1.6 billion and $0.5 billion, respectively. The APC and the percentage of APC contributed for the last three years are shown in Table 29. Actuarial valuations of the DB Program are performed biennially. Information from the last valuation is also shown in Table 29.

H. CalSTRS 403(b) Program

Plan Description: CalSTRS administers a 403(b) program through a third party administrator. The 403(b) program is a defined contribution plan and is open to any employee who is eligible to participate. Contributions to the program are voluntary; however, the Internal Revenue Code does impose a maximum amount that can be contributed annually. At June 30, 2000, the 403(b) program had approximately 250 participating employers (school districts) and 2,300 plan members.

Table 29

Actuarial Information – Pension Trusts – Primary Government
June 30, 2000

	Public Employees' Retirement	Judges' Retirement	Judges' Retirement II	Legislators' Retirement	State Teachers' Retirement Defined Benefit Program
Last actuarial valuation	June 30, 1999	June 30, 1999	June 30, 1999	June 30, 1999	June 30, 1999
Actuarial cost method	Individual Entry Age Normal	Aggregate Cost	Aggregate Entry Age Normal	Aggregate Cost	Entry Age Normal
Amortization method	Level % of Payroll, Closed	None	Level % of Payroll, Closed	None	Level % of Payroll, Open
Remaining amortization period	21 years	None	6 years	None	None
Asset valuation method	Smoothed Market Value	Market Value	Smoothed Market Value	Smoothed Market Value	Expected Value, 33.33% Adjustment to Market Value
Actuarial assumption					
Investment rate of return	8.25 %	7.50 %	7.75 %	7.50 %	8.00 %
Projected salary increase	3.5-17.99	3.75	3.75	3.75	4.25
Includes inflation at	3.50	3.50	3.50	3.50	3.50
Post retirement benefit increases	2 or 3	3.75	3.00	3.50	2.00
Annual pension costs (In millions)					
Year ended 6/30/98	$ 1,178	$ 133	$ 5.4	$ 2.0	$ 1,911
Year ended 6/30/99	829	134	7.3	0.0	1,473
Year ended 6/30/00	171	136	7.5	0.0	1,150
Percent contribution					
Year ended 6/30/98	100 %	42 %	102 %	34 %	105 %
Year ended 6/30/99	100	63	101	—	115
Year ended 6/30/00	100	54	100	—	183
Net pension obligation (In millions)					
Year ended 6/30/98	$ —	$ 623.0	$ —	$ 11.4	$ —
Year ended 6/30/99	—	673.0	—	10.7	—
Year ended 6/30/00	—	735.2	—	10.3	—
Funding as of last valuation (In millions)					
Actuarial value – assets	$ 61,233	N/A	$ 27.2	N/A	$ 90,001
Actuarial accrued liabilities (AAL) – Entry Age	49,090	N/A	26.9	N/A	86,349
Excess of actuarial value of assets over AAL (EAV)	12,143	N/A	0.3	N/A	3,652
Covered payroll	10,778	N/A	40.0	N/A	17,185
Funded ratio	125 %	N/A	101 %	N/A	104 %
EAV as percent of covered payroll	113 %	N/A	0.6 %	N/A	21 %

I. University of California Retirement System - Discretely Presented Component Unit

The UCRS consists of: the University of California Retirement Plan, a single-employer defined benefit plan funded with University and employee contributions; the Public Employees' Retirement System Voluntary Early Retirement Incentive Program (PERS-VERIP), a defined benefit plan for University employees who elected early retirement under the plan; and two defined contribution plans with several investment portfolios funded with employee non-elective and elective contributions. Most University career employees participate in UCRS.

The University of California Retirement Plan provides lifetime retirement income, disability protection, death benefits and pre-retirement survivor benefits to eligible employees of the University of California and its affiliates. Membership in the retirement plan is required for all employees appointed to work at least 50% time for a year or more. Generally, five years of service are required to be entitled to plan benefits. The maximum monthly benefit is 100% of the employee's highest average compensation over a 36-month period. The amount of the pension benefit is determined by salary rate, age, and years of service credit with certain cost-of-living adjustments.

Members' contributions are accounted for separately and accrue interest at 6% annually. Upon termination, members can elect a refund of their contributions plus accumulated interest. Vested terminated members who are eligible to retire can also elect a lump sum payment equal to the present value of their accrued benefits. Both actions thereby forfeit the member's rights to further accrued benefits.

The annually determined rates for employer contributions as a percentage of payroll are based on recommendations of the consulting actuary and appropriations received from the primary government.

Employee contributions may be required to be made to the University of California Retirement Plan. The rate of employee contributions is established annually as a percentage of covered wages, pursuant to the Regents' funding policy, recommended and certified by an enrolled, independent actuary and approved by the Regents, the plan's trustee. During the year ended June 30, 2000, employee contributions to the University of California Retirement Plan were redirected to the University of California Defined Contribution Plan.

There were no changes in actuarial assumptions or benefit provisions that significantly affected the actuarial accrued liability or contribution requirements during the year ended June 30, 2000.

The PERS-VERIP is a defined benefit pension plan providing lifetime supplemental retirement income and survivor benefits to members of the University of California CalPERS program (UC-PERS) who elected early retirement under provisions of the plan. The University contributed to the CalPERS on behalf of these UC-PERS members. The cost of contributions made to the plan is borne entirely by the University and the federal Department of Energy laboratories. Over the five-year period ended June 30, 1996, the University and the federal Department of Energy laboratories were required to make contributions to the plan as determined by the plan's consulting actuary, sufficient to maintain the promised benefits and the qualified status of the plan.

The University of California maintains two defined contribution plans providing savings incentives and additional retirement security for all eligible University employees. The Defined Contribution Plan (the DC Plan) accepts both after-tax and pretax contributions. In addition, the University has established a Tax Deferred 403(b) Plan (the 403(b) Plan). There are no employer contributions to either of these two plans. Participants in the DC Plan and 403(b) Plan may direct their elective and nonelective contributions to investment funds managed by the Treasurer of the Regents of the University. They may also invest contributions in, and transfer plan accumulations to, certain external mutual funds on a custodial plan basis.

The DC Plan pretax contributions are fully vested and are mandatory for all employees who are members of the University of California Retirement Plan. Monthly employee contributions range from approximately 2% to 4% of covered wages depending upon whether wages are above or below the Social Security wage base. The 403(b) Plan and the DC Plan after-tax options are generally available to all University employees. During the year ended June 30, participants contributed $347 million and $207 million to the 403(b) Plan and the DC Plan, respectively.

Table 30

Actuarial Information – University of California – Discretely Presented Component Unit

June 30, 2000

	University of California Retirement Plan	Voluntary Early Retirement Incentive Plan
Last actuarial valuation	June 30, 2000	June 30, 2000
Actuarial cost method	Entry Age Normal	Unit Credit
Amortization method	Level % of Payroll, Open	N/A
Remaining amortization period	21.8 years	N/A
Asset valuation method	Smoothed Fair Value	Fair Value
Actuarial assumption		
Investment rate of return	7.5 %	7.5 %
Projected salary increase	4.5 to 6.5	—
Includes inflation at	4.00	4.00
Annual pension costs (In millions)		
Year ended 6/30/98	$ —	$ —
Year ended 6/30/99	—	—
Year ended 6/30/00	—	—
Percent contribution		
Year ended 6/30/98	N/A	N/A
Year ended 6/30/99	N/A	N/A
Year ended 6/30/00	N/A	N/A
Net pension obligation (In millions)		
Year ended 6/30/98	$ —	$ —
Year ended 6/30/99	—	—
Year ended 6/30/00	—	—
Funding as of last valuation (In millions)		
Actuarial value – assets	$ 37,026	$ 94.7
Actuarial accrued liabilities (AAL)	24,067	41.9
Excess of actuarial value of assets over AAL (EAV)	12,959	52.8
Covered payroll	5,903	N/A
Funded ratio	154 %	226 %
EAV as percent of covered payroll	220 %	N/A

NOTE 24. POST-RETIREMENT HEALTH CARE BENEFITS

Health care and dental benefits are provided by the primary government and certain special purpose authorities, which are discretely presented component units, to annuitants of retirement

systems to which the primary government contributes as an employer. The special purpose authorities' participation in these benefits is not a material portion of the program. To be eligible for these benefits, first-tier plan annuitants must retire on or after attaining 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. As of June 30, approximately 106,100 annuitants were enrolled to receive health benefits and approximately 84,200 annuitants were enrolled to receive dental benefits. In accordance with the Government Code, the primary government 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 primary government generally pays 100% of the dental insurance premium for annuitants, the Government Code does not specify the primary government's contribution toward dental insurance costs. The primary government recognizes the cost of providing health and dental insurance to annuitants on a pay-as-you-go basis. The cost of these benefits for the year ended June 30 was approximately $352 million.

Also, the University of California, a discretely presented component unit, provides certain health plan benefits to retired employees in addition to pension benefits. Employees who meet specific requirements may continue their medical and dental benefits into retirement and continue to receive University of California contributions for those benefits. There are approximately 35,000 retirees currently eligible to receive such benefits. The cost of retiree medical and dental coverage is recognized when paid. The cost of providing medical and dental benefits for retirees and their families and survivors for the year ended June 30 was approximately $108 million.

NOTE 25. SUBSEQUENT EVENTS

The following information represents significant events that occurred subsequent to June 30, 2000, but prior to the date of the auditors' report.

From July 1, 2000, through November 17, 2000, the primary government issued $1.8 billion in general obligation bonds, $117 million of which were used to refund existing general obligation bonds and $1.7 billion of which were used to retire previously issued commercial paper. In addition, the primary government issued approximately $27 million in revenue bonds. There were no revenue anticipation notes issued during this period.

On September 7, 2000, Standard and Poor's raised its rating on California's General Obligation Bonds from "AA-" to "AA". Moody's also raised its rating on California's General Obligation Bonds from "Aa3" to "Aa2".

In the general election held on November 7, 2000, voters approved the sale of $500 million in bonds with the passage of Proposition 32, the "Veterans' Bond Act of 2000".

On October 25, 2000, Governor Davis announced that the State's sales tax will be reduced by one-quarter percent for a period of at least one calendar year, effective January 1, 2001. This reduction will result in approximately $525 million less General Fund revenue in the last half of fiscal year 2000-01 and approximately $575 million less in the first half of fiscal year 2001-02.

From July 1, 2000, to November 17, 2000, the Regents of the University of California issued approximately $359 million in revenue bonds and the special purpose authorities, which are discretely presented component units, issued approximately $916 million in revenue bonds.

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STATEMENT of GENERAL FUND CASH RECEIPTS and DISBURSEMENTS

December 2000

KATHLEEN CONNELL
California State Controller

KATHLEEN CONNELL
Controller of the State of California

January 8, 2001

Users of the Statement of General Fund Cash Receipts and Disbursements

Attached is the Statement of General Fund Cash Receipts and Disbursements for the period July 1, 2000, through December 31, 2000. This statement reflects the State of California's General Fund cash position and compares actual receipts and disbursements for the 2000-01 fiscal year to cash flow estimates presented by the Department of Finance based upon the 2000-01 Budget Act. The statement is prepared in compliance with Government Code Section 12461.1, as well as Item 0840-001-0001, Provision 10, of the 2000-01 Budget Act, using records compiled by the State Controller. Prior year actual amounts are also displayed for comparative purposes.

These statements are also available on the Internet at the State Controller's home page at www.sco.ca.gov, under the category Statements of General Fund Cash Receipts and Disbursements.

Any questions concerning this report may be directed to Walter Barnes, Chief Deputy State Controller, Finance at (916) 445-7447.

Sincerely,

KATHLEEN CONNELL
State Controller

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STATEMENT OF GENERAL FUND CASH RECEIPTS AND DISBURSEMENTS
A Comparison of Actual to 2000-01 Budget Act Estimates
(Amounts in thousands)

	July 1 through December 31				
	2000				1999
	Actual	Estimate (a)	Actual Over or (Under) Estimate Amount	%	Actual
GENERAL FUND BEGINNING CASH BALANCE	**$ 8,531,322**	**$ 8,531,322**	**$ -**	**-**	**$ 847,936**
Add Receipts:					
Revenues	32,675,546	31,850,000	825,546	2.6	29,824,523
Nonrevenues	299,170	79,432	219,738	276.6	211,202
Total Receipts	32,974,716	31,929,432	1,045,284	3.3	30,035,725
Less Disbursements:					
State Operations	9,123,869	9,412,432	(288,563)	(3.1)	8,385,721
Local Assistance	28,058,026	31,508,622	(3,450,596)	(11.0)	23,887,767
Capital Outlay	702,799	2,012,676	(1,309,877)	(65.1)	71,976
Nongovernmental	(90,825)	102,480	(193,305)	(188.6)	344,103
Total Disbursements	37,793,869	43,036,210	(5,242,341)	(12.2)	32,689,567
Receipts Over / (Under) Disbursements	(4,819,153)	(11,106,778)	6,287,625	-	(2,653,842)
Net Increase / (Decrease) in Temporary Loans	-	2,575,456	(2,575,456)	(100.0)	1,805,906
GENERAL FUND ENDING CASH BALANCE	**3,712,169**	**-**	**3,712,169**	**-**	**-**
Special Fund for Economic Uncertainties (b)	815,641	-	815,641	-	454,711
TOTAL CASH	**$ 4,527,810**	**$ -**	**$ 4,527,810**	**-**	**$ 454,711**
BORROWABLE RESOURCES					
Available Borrowable Resources	$ 10,018,949	$ 10,182,458	$ (163,509)	(1.6)	$ 9,534,506
Outstanding Loans	-	2,575,456	(2,575,456)	(100.0)	1,805,906
Unused Borrowable Resources	$ 10,018,949	$ 7,607,002	$ 2,411,947	31.7	$ 7,728,600

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 2000-01 fiscal year prepared by the Department of Finance for the Budget Act of 2000. Any projections or estimates are set forth as such and not as representations of fact.
(b) Includes the Disaster Response-Emergency Operations Account within the Special Fund for Economic Uncertainties.
(c) Negative balances are the result of repayments received that are greater than disbursements made.
(d) Excludes State School Building Aid Bonds.

SCHEDULE OF CASH RECEIPTS
(Amounts in thousands)

	Month of December		July 1 through December 31				
			2000				1999
	2000	1999	Actual	Estimate (a)	Actual Over or (Under) Estimate Amount	%	Actual
REVENUES							
Alcoholic Beverage Excise Tax	$ 26,176	$ 25,765	$ 150,520	$ 151,000	$ (480)	(0.3)	$ 147,173
Bank and Corporation Tax	964,695	958,990	3,057,121	3,117,000	(59,879)	(1.9)	2,869,479
Cigarette Tax	12,735	20,887	65,195	68,000	(2,805)	(4.1)	70,312
Horse Racing Fees	170	150	1,536	-	1,536	-	773
Estate, Inheritance, and Gift Tax	76,221	154,155	450,698	499,000	(48,302)	(9.7)	506,786
Insurance Companies Tax	303,339	300,601	645,263	639,000	6,263	1.0	621,118
Personal Income Tax	3,835,938	4,001,520	17,230,426	16,661,000	569,426	3.4	15,018,011
Retail Sales and Use Taxes	1,734,731	1,855,748	10,433,155	10,118,000	315,155	3.1	9,770,633
Pooled Money Investment Interest	57,001	15,068	373,553	172,000	201,553	117.2	149,755
Not Otherwise Classified	26,649	495,602	268,079	425,000	(156,921)	(36.9)	670,483
Total Revenues	**7,037,655**	**7,828,486**	**32,675,546**	**31,850,000**	**825,546**	**2.6**	**29,824,523**
NONREVENUES							
Transfers from Special Fund for Economic Uncertainties	-	-	440	-	440	-	-
Transfers from Other Funds	1,209	11,461	123,349	(51,073)	174,422	-	82,425
Miscellaneous	8,821	9,041	175,381	130,505	44,876	34.4	128,777
Total Nonrevenues	**10,030**	**20,502**	**299,170**	**79,432**	**219,738**	**276.6**	**211,202**
Total Receipts	**$ 7,047,685**	**$ 7,848,988**	**$ 32,974,716**	**$ 31,929,432**	**$ 1,045,284**	**3.3**	**$ 30,035,725**

See notes on page 1.

SCHEDULE OF CASH DISBURSEMENTS
(Amounts in thousands)

	Month of December		July 1 through December 31				
			2000				1999
	2000	1999	Actual	Estimate (a)	Actual Over or (Under) Estimate Amount	%	Actual
STATE OPERATIONS (c)							
Legislative/Judicial/Executive	$ 84,647	$ 77,228	$ 552,337	$ 563,680	$ (11,343)	(2.0)	$ 531,396
State and Consumer Services	29,717	26,416	219,016	220,400	(1,384)	(0.6)	203,457
Business, Transportation and Housing	(1,466)	146	41,903	21,300	20,603	96.7	5,398
Trade and Commerce	1,992	2,648	28,409	26,330	2,079	7.9	17,445
Resources	74,601	74,197	448,459	522,760	(74,301)	(14.2)	425,670
Environmental Protection Agency	6,099	15,778	73,457	217,800	(144,343)	(66.3)	76,824
Health and Human Services:							
Health Services	44,666	34,012	165,166	238,230	(73,064)	(30.7)	164,929
Mental Health Hospitals	41,675	41,329	247,757	254,400	(6,643)	(2.6)	204,773
Other Health and Human Services	97,526	42,913	279,480	294,420	(14,940)	(5.1)	262,756
Education:							
University of California	269,083	276,747	1,549,694	1,681,830	(132,136)	(7.9)	1,418,772
State Universities and Colleges	167,133	179,546	1,167,429	1,295,910	(128,481)	(9.9)	1,163,949
Other Education	13,708	(1,810)	96,611	97,520	(909)	(0.9)	82,340
Corrections and Youth Authority	406,109	209,947	2,454,433	2,158,820	295,613	13.7	2,140,367
General Government	67,773	67,263	544,656	491,340	53,316	10.9	391,493
Public Employees Retirement System	(9,341)	(365)	(27,674)	(19,590)	(8,084)	-	132,748
Debt Service (d)	105,861	71,866	1,281,065	1,345,553	(64,488)	(4.8)	1,157,319
Interest on Loans	-	-	1,671	1,729	(58)	(3.4)	6,085
Total State Operations	**1,399,783**	**1,117,861**	**9,123,869**	**9,412,432**	**(288,563)**	**(3.1)**	**8,385,721**
LOCAL ASSISTANCE (c)							
Public Schools - K-12	2,026,621	1,716,604	11,652,654	13,227,360	(1,574,706)	(11.9)	10,409,224
Community Colleges	114,565	109,638	1,386,940	1,385,270	1,670	0.1	1,145,940
Contributions to State Teachers' Retirement System	-	-	725,500	725,501	(1)	-	677,236
Other Education	188,023	303,484	1,037,863	1,298,540	(260,677)	(20.1)	1,059,233
Corrections and Youth Authority	10,788	4,508	54,699	191,890	(137,191)	(71.5)	48,707
Dept. of Alcohol and Drug Program	64,629	22,044	106,005	71,830	34,175	47.6	51,348
Dept. of Health Services:							
Medical Assistance Program	712,355	824,324	4,025,077	4,745,670	(720,593)	(15.2)	4,207,607
Other Health Services	36,239	41,349	188,246	215,440	(27,194)	(12.6)	163,683
Dept. of Developmental Services	95,765	39,568	876,322	881,230	(4,908)	(0.6)	593,728
Dept. of Mental Health	148,007	(48,530)	181,507	325,460	(143,953)	(44.2)	195,692
Dept. of Social Services:							
SSI/SSP/IHSS	288,530	131,624	1,978,843	1,640,000	338,843	20.7	1,508,476
CalWORKs	143,915	125,616	1,994,934	1,930,192	64,742	3.4	1,705,385
Other Social Services	78,448	96,682	524,141	570,500	(46,359)	(8.1)	494,886
Tax Relief	297,002	172,409	1,365,412	1,130,734	234,678	20.8	299,550
School Facility Aid Program	-	-	20,733	17,000	3,733	22.0	25,736
Other Local Assistance	382,286	213,504	1,939,150	3,152,005	(1,212,855)	(38.5)	1,301,336
Total Local Assistance	**4,587,173**	**3,752,824**	**28,058,026**	**31,508,622**	**(3,450,596)**	**(11.0)**	**23,887,767**

See notes on page 1.

(Continued)

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

	Month of December		July 1 through December 31				
			2000				1999
	2000	1999	Actual	Estimate (a)	Actual Over or (Under) Estimate Amount	%	Actual
CAPITAL OUTLAY	**81,377**	**12,882**	**702,799**	**2,012,676**	**(1,309,877)**	**(65.1)**	**71,976**
NONGOVERNMENTAL (c)							
Transfer to Special Fund for Economic Uncertainties	-	-	-	-	-	-	(45)
Transfer to Other Funds	14,679	93,395	116,903	102,480	14,423	14.1	603,216
Transfer to Revolving Fund	5,456	19,275	89,326	-	89,326	-	53,538
Advance:							
State-County Property Tax Administration Program	2,208	19,741	12,881	-	12,881	-	30,733
Social Welfare Federal Fund	5,641	46,492	(33,778)	-	(33,778)	-	75,832
Tax Relief and Refund Account	2,500	3,100	2,500	-	2,500	-	33,200
Trial Court Trust Fund	-	-	-	-	-	-	(187,000)
Counties for Social Welfare	-	-	(278,657)	-	(278,657)	-	(265,371)
Total Nongovernmental	**30,484**	**182,003**	**(90,825)**	**102,480**	**(193,305)**	**(188.6)**	**344,103**
Total Disbursements	**$ 6,098,817**	**$ 5,065,570**	**$ 37,793,869**	**$ 43,036,210**	**$ (5,242,341)**	**(12.2)**	**$ 32,689,567**
TEMPORARY LOANS (d)							
Special Fund for Economic Uncertainties	$ -	$ (454,713)	$ -	$ 880,000	$ (880,000)	(100.0)	$ 805,906
Other Internal Sources	-	(2,328,705)	-	1,695,456	(1,695,456)	(100.0)	-
Revenue Anticipation Notes	-	-	-	-	-	-	1,000,000
Net Increase / (Decrease) Loans	**$ -**	**$ (2,783,418)**	**$ -**	**$ 2,575,456**	**$ (2,575,456)**	**(100.0)**	**$ 1,805,906**

See notes on page 1.

(Concluded)

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

	July 1 through December 31			
	General Fund		Special Funds	
	2000	1999	2000	1999
MAJOR TAXES, LICENSES, AND INVESTMENT INCOME:				
Alcoholic Beverage Excise Taxes	$ 150,520	$ 147,173	$ -	$ -
Bank and Corporation Tax	3,057,121	2,869,479	20	36
Cigarette Tax	65,195	70,312	536,396	593,352
Estate, Inheritance, and Gift Tax	450,698	506,786	-	-
Horse Racing Fees	1,536	773	20,305	20,328
Insurance Companies Tax	645,263	621,118	-	-
Motor Vehicle Fuel Tax:				
Gasoline Tax	-	-	1,332,354	1,294,063
Diesel & Liquid Petroleum Gas	-	-	243,268	230,096
Jet Fuel Tax	-	-	1,160	1,096
Vehicle License Fees	-	-	1,616,839	1,682,340
Motor Vehicle Registration and Other Fees	-	-	951,894	923,527
Personal Income Tax	17,230,426	15,018,011	142	2
Retail Sales and Use Taxes	10,433,155	9,770,633	2,605,275	2,029,717
Pooled Money Investment Interest	373,553	149,755	152	272
Total Major Taxes, Licenses, and Investment Income	**32,407,467**	**29,154,040**	**7,307,805**	**6,774,829**
NOT OTHERWISE CLASSIFIED:				
Alcoholic Beverage License Fee	941	976	16,894	16,360
Electrical Energy Tax	-	-	110,329	109,180
Private Rail Car Tax	6,275	6,568	-	-
Penalties on Traffic Violations	-	-	38,759	37,915
Health Care Receipts	2,867	8,346	-	-
Revenues from State Lands	12,218	11,336	52,035	822
Abandoned Property	114,485	224,362	-	-
Trial Court Revenues	453	747	-	-
Miscellaneous	130,840	418,148	2,108,420	1,894,232
Not Otherwise Classified	**268,079**	**670,483**	**2,326,437**	**2,058,509**
Total Revenues, All Governmental Cost Funds	**$ 32,675,546**	**$ 29,824,523**	**$ 9,634,242**	**$ 8,833,338**

See notes on page 1.

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APPENDIX B

THE DEPARTMENT OF VETERANS AFFAIRS OF THE STATE OF CALIFORNIA, THE PROGRAM AND THE 1943 FUND

This APPENDIX B includes information about the Department, its Program, the 1943 Fund (including audited financial statements) and the Department's allocation of receipts from Contracts of Purchase, including Excess Revenues.

THE DEPARTMENT

General

In 1921, the California Legislature created the Veterans' Welfare Board and the Program. The Department of Veterans Affairs became the successor to the Veterans' Welfare Board under the Farm and Home Purchase Act of 1943. The Department is a subdivision of the State and constitutes a public corporation. One of the Department's basic objectives is to provide eligible veterans the opportunity to acquire homes with long-term low-interest financing provided under the Program.

The California Veterans Board ("Board") determines the policies for all operations of the Department. The Board is composed of seven members appointed by the Governor, subject to Senate confirmation, for respective terms of four years. All of the members of the Board must be veterans, one member must be retired from the active or reserve forces of the United States military service, one member must have substantial training or expertise in mortgage lending and real estate finance, one member must have substantial training or expertise in geriatrics, gerontology, or long-term care, and one member must be a resident of one of the California veterans homes run by the Department established for qualified aged and disabled veterans and their spouses. There now exist two vacancies on the Board.

There are four principal divisions within the Department: the Division of Veterans Services, the Division of Administration, the Veterans' Home Division and the Division of Farm and Home Purchases. The Program is administered by the Division of Farm and Home Purchases with support from the Division of Administration and other Department support units. See "THE PROGRAM."

Administration

In addition to its headquarters in Sacramento, the Division of Farm and Home Purchases maintains field offices located throughout the State. These local offices, in addition to providing information to all veterans concerning the Program, are responsible for Contract of Purchase originations and the initial collection and evaluation of data regarding applicants for the Program and the properties to be acquired under the Program. This includes examinations as to the qualification of veterans to participate in the Program, a credit analysis for each applicant, appraisals of properties and the initial processing of the veterans' applications for Contracts of Purchase.

Final processing and servicing of the Contracts of Purchase are performed by the Department at its headquarters and entail Contract of Purchase accounting, insurance and property damage claims adjustment and services, Contract of Purchase alterations and contract performance services. The Department allows mortgage brokers to originate Contracts of Purchase. All Contracts of Purchase are serviced by the Department. Effective July 1, 1999 the Department began utilizing its new Integrated Loan Processing and Financial Information System for origination and servicing of all new Contracts of Purchase. General administration of the Program, including fiscal, legal, personnel and other administrative functions, is also performed at the Department's headquarters. As of January 31, 2001, the Department had a staff of approximately 222 persons in support of the Program.

The Secretary and other staff personnel of the Department principally responsible for the administration of the Program are listed below. The Secretary is appointed by the Governor of the State, serves at the pleasure of the Governor and must be a veteran.

Bruce Thiesen
Interim Secretary of Veterans Affairs since May 2000 and Deputy Secretary for Operations since January 1999

Interim Secretary Thiesen is a Vietnam-era Army veteran with a long history as a veterans' activist. Mr. Thiesen has more than 30 years of broad experience as an independent agribusinessman in farm management, farm labor acquisition and benefits administration. Mr. Thiesen served as National Commander of the American Legion in 1993-1994 and from 1995 through 1998 he was appointed by the Secretary of the United States Department of Veterans Affairs as a member of the Veterans Advisory Committee on Rehabilitation. In addition to his work on behalf of veterans, Mr. Thiesen is involved in a number of other community and philanthropic efforts.

Gerald Rucker
Undersecretary since December 1999

Mr. Rucker brings a 28-year history of California State management to the Department. Recent experience includes eight years as Chief of Veterans Services Division and State Service Officer for the Department. From May 1999 to December 1999 Mr. Rucker served as Senior Assistant to the Secretary of the Department. Prior to joining the Department management team in 1991, he held a variety of management posts with the departments of Social Services and Rehabilitation. These positions included Personnel Management, Loma Prieta Earthquake Disaster Recovery Team manager as well as assignments with fiscal information technology and systems development responsibility. Mr. Rucker is a service-connected disabled veteran who served with the 1st Cavalry Division in Vietnam, including combat action during the TET Offensive of 1968.

Sheryl A. Schmidt
Deputy Secretary since November 1996

After leaving the accounting firm of Touche Ross (now known as Deloitte & Touche LLP) in 1987, Deputy Secretary Schmidt began her state career at the State Controller's Office as a Certified Public Accountant (CPA). In 1995, she accepted the newly created position of Chief of Audits at the Department and developed the Internal Audit Division. In 1996, the Governor of California appointed United States Air Force Veteran Sheryl Schmidt as the Deputy Secretary Women Veterans Affairs. Ms. Schmidt also provides administrative oversight over the Information Systems Division and Business Services. Ms. Schmidt holds a Bachelor's degree in management from St. Leo's College in Florida, a Master's of Business Administration (MBA) from California State University, Sacramento, and a CPA license from the California State Board of Accountancy.

John M. Hanretty
Chief, Financial Services Division since October 1999

Mr. Hanretty is a United States Air Force, Vietnam-era veteran who graduated from California State University, Sacramento in 1975 with a degree in Government. After graduation, he worked for eight years in the California Department of Health Services regulating Prepaid Health Plans for Medicaid clients. He then spent twelve years in management positions with private health maintenance organizations in Arizona and California rising to the level of Chief Executive Officer. His responsibilities included sales, medical management, provider staffing, member services, contracting, financial accounting and budgeting. He returned to State government service in 1994 as a Budget Manager. Mr. Hanretty served as the Budget Officer for the Department from August 1998 until December 1999 and was appointed Chief, Financial Services Division in September 1999. He has continuously served on community non-profit boards of directors during his professional career.

George Flores
Chief, Farm and Home Purchases Division since May 1999

Mr. Flores has been with the Department for 23 years. He has served as Manager of the Title and Escrow Unit, Headquarters Operation Manager, Southern Regional Manager and the Assistant Division Chief. He is a United States Army veteran who was graduated from California State University, Sacramento, in 1973 with a Bachelors of Science degree in Business Administration, and he attended the McGeorge School of Law, University of the Pacific, Sacramento.

Kandis L. Mendonsa
Chief, Bond Finance Division since May 1998

Ms. Mendonsa brings to her current position more than a quarter century of service in California state government. For most of that time, she has worked exclusively in the area of financial management. Prior to joining the Department in 1998, Ms. Mendonsa was employed for 10 years by the Department of Social Services and for 12 years at the State Department of

Corrections. While at Corrections, among Ms. Mendonsa's responsibilities was the management of a $4 billion tax exempt bond program for the construction of youth and adult correction facilities.

Joseph Maguire
Deputy Secretary/Chief Counsel of Legal Affairs since January 2001

Mr. Maguire received a bachelor's degree in business administration from American University in Washington, D.C. in 1967. He then served two years in the U.S. Army. After leaving the military he worked in the private sector for several years as a franchise business consultant. He then taught mathematics and science in the Philadelphia Public School System while earning a master's degree in education at Temple University in Philadelphia, Pa. In 1976, Mr. Maguire began attending McGeorge School of Law while teaching science and mathematics at Sacramento Country Day School in Sacramento. After graduating in 1980, Mr. Maguire practiced business law for one year as an associate with a private law firm. Mr. Maguire then became a supervisor and senior trial prosecutor. In January 2001, Governor Davis appointed Mr. Maguire to the position of Deputy Secretary/Chief Counsel for Legal Affairs of the Department.

The Office of Inspector General for Veterans Affairs was created by statute in 1999, and in 2000 the Governor appointed and the Senate confirmed the appointment of an Inspector General for Veterans Affairs. The Inspector General is subject to the direction of the Governor, and is to provide ongoing and independent advice to the Board regarding any issue under Board consideration. The Inspector General is responsible for reviewing and reporting on the operations and financial condition of all veterans programs supported by the State, which include the Program. The Inspector General is required to submit an annual report to the Board and to the State Legislature, which is to include any recommendations for improving the operations of veterans programs, including the Program.

THE PROGRAM

General

The Department began making low interest rate farm and home financing available to veterans after World War I, following the enactment by the California Legislature (the "Legislature") of the Veterans Farm and Home Purchase Act of 1921. In 1943, the Legislature enacted the Veterans Farm and Home Purchase Act of 1943 ("1943 Act") which modified the Program to meet new needs of veterans. The 1943 Act was superseded by the Veterans Farm and Home Purchase Act of 1974 ("1974 Act") which again modified the Program. The 1943 Act established the 1943 Fund in the State Treasury, which is the principal fund utilized by the Program.

Since its inception, the Program has assisted over 411,300 veterans to purchase farms and homes throughout the State through long-term housing and farm loans. The sales of revenue bonds (including Revenue Bonds) and Veterans G.O. Bonds, combined with surplus revenues under the Program not needed at any given time to meet the then-current bond retirement schedules and operating costs, have financed the purchase of farms and homes since Program inception. As of January 31, 2001, there were 34,079 Contracts of Purchase outstanding with a remaining principal

balance of $2,723,914,882. As of January 31, 2001, the Department had approximately 351 pending applications for Contracts of Purchase in the approximate total principal amount of $57,000,000. See EXHIBIT 2 to this APPENDIX B - "CERTAIN DEPARTMENT FINANCIAL INFORMATION AND OPERATING DATA - Contracts of Purchase - Existing Contracts of Purchase" and "- Amounts Expected to be Available to Finance Contracts of Purchase and Related Investments" for information regarding existing Contracts of Purchase and moneys available to finance additional Contracts of Purchase.

The description of the Program under this heading is a description of the Program as it currently exists under the Veterans Code and the Department's implementation thereof. The Veterans Code and the Department's implementation of the Program are subject to change. The Program is also subject to the Federal Tax Code, as noted below.

Qualifying Veteran Status

Veterans Code. A veteran must meet qualifications established under State law in the Veterans Code in order to participate in the Program. The qualifications specified in the Veterans Code are subject to change by the Legislature. The Veterans Code currently requires, generally, that a veteran must have served at least ninety days on active duty in the Armed Forces of the United States, unless sooner discharged because of a service-connected disability, or as a member of the National Guard or reserves called to active duty by Presidential order, and must have received an honorable discharge or been released from active duty under honorable conditions. The Veterans Code allows the Department to finance Contracts of Purchase for:

(a) veterans who have served during one of the following periods:

(i) April 6, 1917 through November 11, 1918; December 7, 1941 through December 31, 1946; or June 27, 1950 through January 31, 1955 (such veterans are referred to as "Earlier War Veterans");

(ii) February 28, 1961 through August 4, 1964 if the veteran served in the Republic of Vietnam during that period ("Early Vietnam Veterans"); or August 5, 1964 through May 7, 1975 (all veterans referred to in this clause (ii) are "Vietnam Era Veterans"); or

(iii) on or after August 2, 1990, through a date as yet to be determined by the President of the United States; at any time in Somalia, or in direct support of the troops in Somalia, during Operation Restore Hope; or at any time in an expedition or campaign for which a medal was authorized by the United States Government such as the Armed Forces Expeditionary and Vietnam Service Medals (such veterans are referred to as "Recent War Veterans"); and

(b) any person who qualifies under the Federal Tax Code for financing from Revenue Bonds or unrestricted funds of the Department and who served in the active military, naval, or air service for a period of not less than 90 consecutive days and who received an honorable discharge or was released from active duty under honorable conditions (such veterans are referred to as "Peacetime Veterans").

Amendments to the Veterans Code effective January 1, 1998 added Early Vietnam Veterans and Peacetime Veterans as veterans eligible to receive Contracts of Purchase. These amendments, together with various financial and programmatic changes implemented by the Department, have significantly increased the universe of potential eligible veterans and increased demand for Contracts of Purchase. See EXHIBIT 2 to this APPENDIX B – "CERTAIN DEPARTMENT FINANCIAL INFORMATION AND OPERATING DATA."

Federal Tax Code. In order to determine which Department moneys can be used to finance Contracts of Purchase, the Department must also take into account the requirements of Federal law set forth in the Federal Tax Code, which limits the universe of veterans eligible to receive Contracts of Purchase financed from certain sources. See APPENDIX E – "CERTAIN FEDERAL TAX CODE REQUIREMENTS." Applying the current Federal Tax Code separates the Department's lendable moneys into three classes:

(a) "Unrestricted Moneys" (derived from certain moneys in the 1943 Fund, certain proceeds of pre-Ullman (as defined below) Revenue Bonds and Veterans G.O. Bonds, and certain future issues of taxable bonds, if any), which can finance Contracts of Purchase for those veterans who qualify under the applicable provisions of the Veterans Code (there are no loan eligibility requirements imposed by the Federal Tax Code with respect to Contracts of Purchase financed by Unrestricted Moneys; these are requirements principally limiting the family income of applicants and the property purchase price, and, subject to certain exceptions, requiring that the veteran not have had a present ownership interest in his principal residence in the three years prior to obtaining such financing ("QMB Loan Eligibility Requirements")). The Department has implemented a policy (which is subject to change) to make such moneys available for Earlier War Veterans, Vietnam Era Veterans, and Recent War Veterans. ("Pre-Ullman" refers to the period prior to enactment of Federal Tax Code programmatic restrictions on the use of proceeds of tax-exempt bonds to finance mortgage loans.);

(b) "Qualified Veterans Mortgage Bond Proceeds" (derived exclusively from proceeds of Veterans G.O. Bonds) which can finance Contracts of Purchase for any veteran who (i) qualifies under the Veterans Code, (ii) served on active duty prior to January 1, 1977, and (iii) was released from active duty fewer than 30 years before receiving such financing. The last date of veteran eligibility under clause (iii) is December 31, 2036 for a veteran with 30 years of continuous service after December 31, 1976. (The QMB Loan Eligibility Requirements do not apply to Contracts of Purchase financed by moneys derived exclusively from proceeds of Veterans G.O. Bonds.) These proceeds can finance Contracts of Purchase for Earlier War Veterans and Vietnam Era Veterans; and

(c) "Qualified Mortgage Bond Proceeds" (which are principally derived from Revenue Bond proceeds), can finance Contracts of Purchase for any veteran who (i) qualifies under the Veterans Code, and (ii) satisfies the QMB Loan Eligibility Requirements. These proceeds can finance Contracts of Purchase for Earlier War Veterans, Vietnam Era Veterans, Recent War Veterans, and Peacetime Veterans.

Allocation of Lendable Moneys

For those veterans seeking financing who would qualify for Contracts of Purchase from two or more of the above-described financing sources, the Department will select the source of funds to use in its sole discretion. The Department's goal is to maximize the availability of Program benefits. The Board has approved a policy (which is subject to change) to make Qualified Mortgage Bond Proceeds derived from Revenue Bonds the only financing source for Contracts of Purchase for veterans who did not serve during "wartime" (as defined in the Veterans Code).

Administration of the Farm and Home Purchase Program

The Department finances new and existing single-family homes, farms and mobile homes located in the State by acquiring the property selected by a veteran under a Contract of Purchase. The Department also finances home improvements with respect to properties covered by existing Contracts of Purchase, subject to applicable restrictions of the Federal Tax Code. A Contract of Purchase creates an installment land contract between the Department and the veteran which is somewhat analogous to a loan from the Department to the veteran. The amount which the Department finances is reflected in the Contract of Purchase as the "purchase price." See "THE PROGRAM – CONTRACTS OF PURCHASE" in this APPENDIX B.

At present under the Veterans Code, the maximum purchase price to the Department of an existing home or the sum to be expended by the Department pursuant to a Contract of Purchase for a home to be constructed is $250,000 and for farms is $300,000 (*except* that the limitation with respect to certain mobile homes in mobile home parks is $70,000 and *except* that the maximum purchase price for any home may be increased by an additional $5,000 for certain purposes). The Legislature has periodically made changes in the maximum amount that may be financed under a Contract of Purchase. The Federal Tax Code imposes maximum purchase prices on properties which are the subject of Contracts of Purchase financed by Qualified Mortgage Bond Proceeds. The Federal Tax Code permits such maximums to be adjusted periodically. (No Federal Tax Code purchase price limits apply to Contracts of Purchase financed from Unrestricted Moneys or Qualified Veterans Mortgage Bond Proceeds.) These Federal Tax Code requirements vary depending upon where the property is located, if it is in a targeted or non-targeted area, and whether it is a new or existing home. The maximum purchase price under the Program is, therefore, the Veterans Code maximum amount or, if the Contract of Purchase is being financed by Qualified Mortgage Bond Proceeds, the lesser of the Veterans Code maximum amount or the maximum amount under applicable provisions of the Federal Tax Code.

Although the Veterans Code does not impose maximum income limits, the Federal Tax Code imposes maximum income limits applicable only to veterans obtaining Contracts of Purchase financed by Qualified Mortgage Bond Proceeds. The income limits vary by statistical area and family size. No maximum income limits apply to veterans obtaining Contracts of Purchase financed by Unrestricted Moneys or Qualified Veterans Mortgage Bond Proceeds.

Any veteran who qualifies under the Veterans Code and the Federal Tax Code may be granted a subsequent Contract of Purchase so long as any previous Contract of Purchase has been

paid in full or the veteran lost his interest in the previous Contract of Purchase through divorce or dissolution of marriage.

Contracts of Purchase

General. Pursuant to the Program, the Department and the veteran enter into a Contract of Purchase for a farm, home or mobile home. Under a Contract of Purchase, the veteran has the benefits of ownership as the equitable owner, but title to the property and improvements is held by the Department as the legal owner until the final principal payment is made. Property sold under a Contract of Purchase may not be transferred, assigned, encumbered, leased, let or sublet without the written consent of the Department. Any permitted encumbrance must be junior or secondary to the Department's interest in the property.

Before 1998, Contracts of Purchase were not insured or guaranteed by the Federal Housing Administration, the United States Department of Veterans Affairs (the "USDVA"), Rural Development (formerly Farmers' Home Administration), or any private primary mortgage insurer. In 1998, the Department was approved by the USDVA as an originator of loans eligible to receive a guaranty from the USDVA. In addition to the USDVA guaranty, the Department has secured primary mortgage insurance for certain prior and all future Contracts of Purchase with loan-to-value ratios ("LTV") above 80% from Radian Guaranty Inc. ("Radian"). See "THE PROGRAM – Loan Insurance – Primary Mortgage Insurance." Certain Contracts of Purchase are not the subject of loan insurance or guarantees. See EXHIBIT 2 to this APPENDIX B – "CERTAIN DEPARTMENT FINANCIAL INFORMATION AND OPERATING DATA – Contracts of Purchase – Existing Contracts of Purchase."

The terms of the Contracts of Purchase are substantially identical, except for interest rates on Contracts of Purchase originated after January 1, 1999, regardless of whether they are funded by Unrestricted Moneys, Qualified Veterans Mortgage Bond Proceeds or Qualified Mortgage Bond Proceeds, except for Federal Tax Code-mandated differences in Contracts of Purchase financed with Qualified Mortgage Bond Proceeds. Two ways in which such Contracts of Purchase are different are: (a) Contracts of Purchase financed by Qualified Mortgage Bond Proceeds have more restrictions on the right of a purchaser to assume the obligations under the Contract of Purchase than do Contracts of Purchase financed by Unrestricted Moneys or Qualified Veterans Mortgage Bond Proceeds; and (b) certain Contracts of Purchase financed by Qualified Mortgage Bond Proceeds are subject to Federal Tax Code-mandated recapture provisions. In addition, the Federal Tax Code contains numerous loan eligibility restrictions on borrowers receiving financing from proceeds such as Qualified Mortgage Bond Proceeds. These restrictions require, among other things, and subject to certain exceptions contained in the Federal Tax Code, that borrowers (i) not have had a present ownership interest in their principal residence during the three-year period preceding the extension of financing, (ii) are eligible to finance the purchase of residences with purchase prices not in excess of limits stated in the Federal Tax Code, (iii) must not have family incomes in excess of limits stated in the Federal Tax Code, (iv) may not use the proceeds of the financing to refinance an existing mortgage loan, and (v) may use the proceeds of the financing only to finance one-family or one-to-four family dwelling units meeting certain criteria. The Federal Tax Code includes certain procedures that an issuer of Qualified Mortgage Bonds may

undertake to satisfy these requirements but requires that 95% or more of the proceeds of the issue be used in full compliance with the loan eligibility restrictions.

Since the number and aggregate principal balance of Contracts of Purchase relating to farms and mobile homes and Contracts of Purchase financed pursuant to the 1943 Act are statistically insignificant, the discussion below is limited to Contracts of Purchase financed under the 1974 Act for homes, excluding farms and mobile homes in rental parks, unless otherwise indicated. See EXHIBIT 2 to this APPENDIX B - "CERTAIN DEPARTMENT FINANCIAL INFORMATION AND OPERATING DATA - Contracts of Purchase - Existing Contracts of Purchase."

Many factors affect the ability or willingness of homebuyers to make mortgage loan payments and of potential homebuyers to borrow money to purchase homes. These factors include, among others, general economic conditions and costs of living.

Origination. The Veterans Code, in most cases, requires the veteran to make an initial payment of 2% of either the purchase price or the market value of the property, whichever is less. In the case of veterans who are ineligible for a full USDVA guaranty, Department policy requires the veteran to make an initial payment of 3% of either the purchase price or the market value of the property, whichever is less. The balance of the purchase price, including USDVA guaranty fees, may be amortized over a period fixed by the Department, not exceeding 30 years and 32 days for all Contracts of Purchase guaranteed by USDVA, and 40 years for any other Contracts of Purchase. Pursuant to its policy, the Department issues all new Contracts of Purchase for terms of 30 years unless a shorter term is requested. Existing contracts are occasionally extended beyond 30 years in cases of extreme financial hardship.

In addition to the initial payment referred to in the prior paragraph, a Loan Origination Fee ("LOF") of 1% of the loan amount is collected at close of escrow on all contracts issued after January 1, 1999. This fee must be paid in escrow by the buyer or seller. If the loan application is submitted through an approved mortgage broker, the 1% fee is paid directly to the mortgage broker through the escrow. Otherwise, the fee is retained by the Department. While the Department's field offices will continue to originate Contracts of Purchase, the Department expects the bulk of the Contracts of Purchase to be originated by mortgage brokers. After a preliminary screening in the field offices, applications will be forwarded to a centralized underwriting unit in Sacramento for processing. The mortgage brokers deal directly with the central underwriting, escrow and administrative staff in Sacramento. An appraisal fee of $300 to $425 is collected from the applicant and is paid directly to the appraiser upon completion of the assignment. In rare cases, where the appraisal is performed by a Department employee, the fee is retained by the Department.

The Veterans Code permits the Department to finance permanent home and property improvements for veterans with existing Contracts of Purchase. When a home improvement loan is approved, total financing, including the balance of the original loan, the amount of the improvement loan, and any other encumbrances, cannot exceed 90% of the improved market value of the property. Typically this total LTV ratio is much lower than 90%. Improvement loans are not approved for veterans who have had significant delinquencies in the 12 months immediately preceding the application. Funds are disbursed by the Department directly to the contractors (or vendors) as the improvements are completed. A separate Contract of Purchase covering only the

improvements is executed, bearing interest at the same rate as the veteran's existing Contract of Purchase. The new Contract of Purchase is payable over a term up to 15 years based on the amount of the Contract of Purchase. In no event can the term, from the inception of the original Contract of Purchase through the pay-off of the improvement Contract of Purchase, exceed 40 years. A LOF of 1.5% of the improvement Contract of Purchase amount is charged. The maximum home improvement loan for veterans funded with Qualified Mortgage Bond Proceeds is $15,000 over the term of the original Contract of Purchase. Home improvement loans funded with Unrestricted Moneys or Qualified Veterans Mortgage Bond Proceeds are available up to a maximum of $50,000. Subsequent home improvement Contracts of Purchase may be granted, if funds are available, so long as there is only one home improvement Contract of Purchase to any veteran outstanding at any time. Currently, less than one percent of the total principal balance of all Contracts of Purchase is derived from home improvement loans.

Contracts of Purchase for the purchase of a building site and construction of a home are available. Qualifying sites include undeveloped sites/acreage, lots in subdivision developments, and sites in non-profit self help developments. Mobile homes in parks do not qualify. Construction of the improvements must be performed by a licensed California contractor. The Department does not submit Contracts of Purchase which finance home construction for USDVA guaranty.

The Department also limits availability of financing to veterans on the basis of their personal credit status. The Department's current lending criteria conform to those of the USDVA for participation in the USDVA guaranty program for all Contracts of Purchase, including those not eligible for USDVA guarantees. Department procedures are consistent with those established by USDVA for its loan guaranty program.

The history of the Department's originations of Contracts of Purchase is set forth in EXHIBIT 2 to this APPENDIX B - "CERTAIN DEPARTMENT FINANCIAL INFORMATION AND OPERATING DATA - Contracts of Purchase - Contracts of Purchase Origination and Principal Repayment Experience."

Servicing. All Contracts of Purchase are serviced by the Department. Late penalty charges are applied to Contracts of Purchase that have a remaining amount due of $25 or more at the close of any account month. A $10 late penalty charge is imposed on Contracts of Purchase originated before October 1984. Contracts of Purchase originated during and after October 1984 are subject to a late penalty charge of 4% of the principal and interest portion of the installment, consistent with penalties authorized by USDVA.

The Department may, in any individual case and for good cause, permit the postponement from time to time, and upon such terms as it deems proper, of the payment of the whole or any part of any installment. Contracts of Purchase may also have terms in excess of 30 years if home improvement loans have been obtained, as discussed above. The terms of Contracts of Purchase guaranteed by USDVA, however, cannot exceed 30 years and 32 days.

Prepayment Penalties. There are no prepayment penalties on any Contracts of Purchase.

Cancellations and Delinquencies. The Department's policies regarding delinquencies and cancellations conform to USDVA loan guaranty program requirements. In the event of a failure

to comply with any of the terms of a Contract of Purchase, the Department may cancel the Contract of Purchase and be released from all obligations, at law or in equity, to convey the property. In such event, the veteran's rights under the Contract of Purchase may be forfeited and all payments made by the veteran prior to termination of the Contract of Purchase deemed to be rental paid for occupancy. Upon such forfeiture, the Department takes possession of the property covered by the Contract of Purchase and resells it.

If a veteran does not make a payment by the close of the account month in which the payment is due (usually the 18th day of the month), the payment is considered "delinquent." A warning letter is issued on the 20th day of the same account month which advises the veteran that the account is delinquent. Department personnel initiate telephone contact with veterans with delinquent accounts. If the account remains delinquent through the second account month, a Notice of Intent to Cancel Contract is issued at the beginning of the third account month giving notice that the Contract of Purchase may be canceled at the end of the 30-day notice period unless the account is brought current. A schedule for liquidation of delinquent payments satisfactory to the Department is arranged during this period; *however,* if the account remains delinquent after such 30-day period and no schedule for liquidation of delinquent payments has been agreed upon, the Department may begin cancellation of the Contract of Purchase. The Department's headquarters Central Collections Unit monitors the delinquency throughout this process, orders a title search to identify any junior lienholders and forwards the pertinent information to the Department's Foreclosure Unit for further precancellation processing in accordance with the California Code of Regulations, Title 12, Section 344, Military and Veterans Affairs. Junior lienholders are identified and sent notices giving them 30 days (40 days in the case of Federal tax liens) to protect their interest by beginning foreclosure proceedings. If the account is not brought current during such notice period to junior lienholders and no junior lienholder proceeds with a foreclosure action to protect its interest, the Department's Foreclosure Unit cancels the contract, and a Notice of Cancellation is mailed to the veteran and recorded. The Department's Foreclosure Unit then takes steps to evict occupants and clear any remaining liens. If judicial action is required, the case is referred to the Department's Law Division for additional processing.

After all remaining liens are removed and the property is vacant, the repossessed property is repaired and improved, if necessary, and is marketed through the Department's centralized repossession sales unit. The Department is required to advertise and accept sealed offers after a 2-week period, and the property is sold to the highest acceptable bidder. If no acceptable bids are received, the property is sold through a real estate broker and a commission of between 3% to 6% of the selling price is paid.

Federal law provides certain protections to military personnel on active duty or reservists ordered to report for military service under The Soldiers' and Sailors' Civil Relief Act of 1940, as amended. If a veteran obtained a Contract of Purchase prior to the relevant period of military service, then during the period of military service the interest rate on the Contract of Purchase cannot exceed 6% (unless the ability of the veteran to pay interest in excess of 6% is not materially impaired by such military service). Also, the veteran may seek a stay (or a court may on its own motion grant a stay) of any court action or proceeding.

See EXHIBIT 2 to this APPENDIX B – "CERTAIN DEPARTMENT FINANCIAL INFORMATION AND OPERATING DATA – CONTRACTS OF PURCHASE – Cancellations and Delinquencies" for additional information regarding the status of Contracts of Purchase.

Interest Rates. Contracts of Purchase originated prior to January 1, 1999 bear interest at a rate which is set by the Department and may be changed with the approval of the Board and the Veterans' Finance Committee of 1943. Most of such Contracts of Purchase currently bear interest at a rate of 6.95%. The Veterans Code currently requires that, generally, all Contracts of Purchase originated prior to January 1, 1999 bear the same interest rate. In accordance with the current provisions of the Veterans Code, the interest rate for such Contracts of Purchase can be changed at any time and as often as deemed necessary. The effective date of a higher rate of interest on Contracts of Purchase may occur only once in any calendar year unless a finding is made by the Board and the Veterans' Finance Committee of 1943 that such additional action is necessary to protect the solvency of the 1943 Fund.

Legislation passed in 1998 (i) eliminated the uniform interest rates requirement for Contracts of Purchase originated on or after January 1, 1999 and (ii) allows the Department to establish non-uniform fixed or variable interest rates for such Contracts of Purchase. As of March 1, 2001, the interest rates for new Contracts of Purchase are: 6.40% for Contracts of Purchase financed using Qualified Mortgage Bond Proceeds, 6.50% for Contracts of Purchase financed using Qualified Veterans Mortgage Bond Proceeds and 7.95% for Contracts of Purchase using Unrestricted Moneys. During 2000, the Department received approval to implement a flexible mechanism to provide for periodic adjustments of the interest rate on new Contracts of Purchase. Such interest rates are expected to be established in the future based on various factors deemed appropriate by the Department, subject in all cases to the requirements of the resolution authorizing the issuance of Revenue Bonds (the "Revenue Bond Resolution") for the filing of Cash Flow Statements and conformance with Program Operating Procedures. As noted herein, the Program Operating Procedures are operating policies of the Department governing the discretionary activities of the Department under the Revenue Bond Resolution. The Cash Flow Statement consists of the conclusion by an authorized representative of the Department that projected revenues will be sufficient to provide for timely payment of principal of and interest on the Revenue Bonds and expenses, under each scenario in attached cash flow projections.

Loan Insurance

Since 1997, the Department has completed several programmatic changes, including obtaining loan insurance from a private primary mortgage insurer for certain existing Contracts of Purchase with high LTVs, and USDVA guarantees or private primary mortgage insurance for all new Contracts of Purchase (except mobile homes in parks and home improvement loans) with LTVs above 80% up to 100%. In addition to the LOF and initial payment, the Department collects a funding fee of from 1.25% up to 3% of the Contract of Purchase amount, based on the LTV for each Contract of Purchase which exceeds an LTV of 80%. The fee may be paid in escrow by the buyer or seller, or it may be added to the base loan amount. Veterans described above who are ineligible for a full USDVA guaranty and therefore are obligated to make an initial 3% payment must advance a funding fee of up to 2% of the base loan amount to the Department at close of

escrow, and the funding fee may not be added to the base loan amount. With respect to eligible Contracts of Purchase, this fee is paid to the USDVA for the cost of the loan guaranty. If the veteran or the property is not eligible for a USDVA loan guaranty, the funding fee is retained by the Department, and a portion of such funding fees is used by the Department to pay costs related to the Radian primary mortgage insurance. Although the Department has no current expectation that it will change its current policies regarding insurance and guarantees, it may change such expectations. Any change to the foregoing insurance and guaranty expectations could require an amendment to the Department's Program Operating Procedures and delivery of a new Cash Flow Statement. A significant principal amount of Contracts of Purchase, including Contracts of Purchase with LTVs above 80%, are not covered by loan insurance. See EXHIBIT 2 to this APPENDIX B - "CERTAIN DEPARTMENT FINANCIAL INFORMATION AND OPERATING DATA - Contracts of Purchase - Existing Contracts of Purchase."

Primary Mortgage Insurance. The Department purchased from Radian a policy of primary mortgage insurance for a pool of certain prior Contracts of Purchase with LTVs above 80%. This Radian policy provides coverage on such pool back to February 1, 1998. The Department has purchased an additional policy of primary mortgage insurance from Radian which provides the same coverage as provided in the original policy, except that the Department now includes certain existing and all new Contracts of Purchase with 97% to 100% LTV ratios that are not qualified for USDVA guarantees (except mobile homes in parks, construction loans and home improvement loans, all of which continue to be covered by the Department). Under this second policy, Radian has committed to insure Contracts of Purchase until the earlier of December 31, 2004 or when the aggregate principal amount of Contracts of Purchase insured under the second policy reaches $1.6 billion. Each of the Radian policies provides for coverage for aggregate losses incurred on Contracts of Purchase following property disposition, above an aggregate 2% deductible based upon a percentage of the originally insured balances of the Contracts of Purchase of the applicable pool. Under both Radian policies, once the applicable aggregate deductible has been reached, insurance claims may be made based upon the individual LTV of the particular defaulted Contract of Purchase, as set forth below. For these purposes, LTV is calculated using the original appraised value of the property.

Radian Mortgage Insurance Coverage Rates Subject to a Deductible of 2% of the Originally Insured Balances of the Contracts of Purchase in the Applicable Insured Pool

LTV Category	% of Coverage
97.01% to 100.00%	35%
95.01% to 97.00%	35%
90.01% to 95.00%	30%
85.01% to 90.00%	25%
80.01% to 85.00%	17%

See EXHIBIT 2 to this APPENDIX B – "CERTAIN DEPARTMENT FINANCIAL INFORMATION AND OPERATING DATA – Contracts of Purchase – Existing Contracts of Purchase."

USDVA Guaranty Program. The Department was approved by the USDVA as a "supervised lender with automatic processing authority" as of March 10, 1998. On July 27, 1998, the Department received USDVA approval under the Lender Appraisal Processing Program ("LAPP") to process appraisals and determine reasonable value without prior USDVA review. The Department seeks USDVA loan guarantees for all Contracts of Purchase with an LTV of 80% or higher, unless the Contract of Purchase is not eligible for USDVA guaranty. Contracts of Purchase not eligible for guaranty are primarily contracts with veterans who have previously used their USDVA guaranty eligibility and do not qualify for reinstatement, and contracts for the purchase of new homes not inspected by USDVA during construction. Also, a very small number of veterans have service that meets Veterans Code eligibility requirements but does not meet USDVA eligibility requirements.

The Servicemen's Readjustment Act of 1944, as amended, permits a veteran (or in certain instances the veteran's spouse) to obtain a mortgage loan guaranty from USDVA covering mortgage financing of the purchase or construction of a one-to-four family dwelling unit at interest rates permitted by USDVA. The USDVA program has no preset mortgage loan limits and permits the guaranty of mortgage loans of up to 30 years and 32 days' duration. Under the USDVA program, the maximum USDVA guaranty on a loan is the lesser of (a) the veteran's available entitlement (a maximum of $36,000, or if the original loan amount exceeds $144,000, a maximum of $50,750), or (b) (1) 50% of the original loan amount if such amount does not exceed $45,000, (2) $22,500 if the original loan amount is between $45,000 and $56,250, (3) the lesser of $36,000 or 40% of the original loan amount, if such amount is between $56,250 and $144,000, or (4) the lesser of $50,750 or 25% of the original loan amount, if such amount is in excess of $144,000. The liability on the guaranty is reduced or increased pro rata with any reduction or increase in the amount of indebtedness, but in no event will the amount payable on the guaranty exceed the amount of the original guaranty. Notwithstanding the dollar and per centum limitations of the guaranty, a mortgage holder will ordinarily suffer a monetary loss only where the difference between the unsatisfied indebtedness and the proceeds of a foreclosure sale of a mortgaged property is greater than the original guaranty as adjusted. Periods without interest payments prior to foreclosure will also increase the potential for losses. In the event of a default in the payment of a USDVA loan, but prior to a suit or foreclosure, USDVA may, at its option, pay to a mortgage holder the unpaid balance of the obligation plus accrued interest and receive an assignment of the loan and security.

Property and Life and Disability Insurance

The Veterans Code and/or long-standing Department policy have called for a veteran to maintain certain insurance with respect to the property covered by a Contract of Purchase. Insurance must be in the amount and under the conditions specified by the Department, and is either provided by the Department or by insurance companies selected by the Department. Any change to the insurance requirements could require amending the Department's Program Operating Procedures.

Fire and Hazard Coverage. The Department self-insures for fire and hazard losses, using the 1943 Fund to make payments to veterans, up to a Department deductible. The Master Policy

described below (the "Master Policy") provides coverage in excess of the Department deductible, except that the Master Policy does not cover mobile homes, condominiums or planned unit development properties covered by blanket insurance policies provided by homeowners' associations. The Master Policy is provided by commercial insurers (the "provider"). The lead insurance company for the provider is Affiliated F.M. Insurance Company.

Under each Contract of Purchase, the veteran is required to pay the sum charged to his or her account to cover costs of providing the insurance coverage including the insurance premium due under the Master Policy with respect to his or her property. From the amount charged to each veteran, the Department retains a portion to provide the sums necessary to pay all losses up to the Department deductible, which is $1,250,000 per occurrence or $10,000,000 per policy year. If the total losses from a single occurrence exceed $1,250,000 or if the aggregate of all fire and hazard insurance losses for a policy year exceed $10,000,000, liability for the excess will be covered under the Master Policy. The coverage under the Master Policy extends to October 31, 2001. The Master Policy is an all-physical loss form.

Fire and hazard insurance coverage for participants in the Program is adjusted annually to reflect increasing building costs and is maintained on a guaranteed replacement cost basis for homes and on an actual cash value basis for outbuildings. A $250 deductible payable by the veteran applies to each loss. Claims must be submitted within 12 months of loss. Each veteran with a Contract of Purchase pays an annual insurance premium equal to $0.22 per $100 of insured value which is prorated and included in the veteran's monthly installment. Claims adjustments and payments are made on behalf of the Department and the provider of the Master Policy by an affiliate of such provider.

Disaster Indemnity Plan. The Department provides certain disaster indemnity and catastrophe real property insurance ("Disaster Indemnity Plan"). Neither such insurance nor the indemnity fund described below are payable from or a part of the 1943 Fund. The Disaster Indemnity Plan indemnifies participants against the cost of repairing damage in excess of a deductible caused by flood, earthquake or other perils not covered by the fire and hazard insurance policy (not otherwise excluded). The deductible for flood losses is $500 and the deductible for earthquake losses is $500 or 5% of the amount of loss, whichever is higher. The catastrophe insurance has been obtained from a consortium of twelve insurance companies for a total of $50,000,000 of coverage with a $4,000,000 deductible per occurrence and in the aggregate annually; $100,000 per occurrence maintenance deductible thereafter. The 2000-2001 one-year premium for this coverage is $3,385,000.

Each veteran in the Program participates in the Disaster Indemnity Plan and pays his or her pro rata share of the annual premium. Such payments are deposited in an indemnity fund created in the Treasury of the State to be utilized to pay the deductible discussed above. Each veteran pays an initial assessment of $.95 per $1,000 of insured value, and any assessments as may be required to sustain the indemnity fund. The value of the indemnity fund as of June 30, 2000 was $17,309,407.

Effective December 1, 1997, the Department has purchased individual flood policies through the Federal Emergency Management Agency ("FEMA") covering all properties financed

by Contracts of Purchase that are located in designated flood zones. Coverage under this policy extends to December 1, 2001.

Life and Disability Coverage. In the past, the Department self-insured from the 1943 Fund life and disability coverage for veterans with Contracts of Purchase. Following a period of significant and recurring losses incurred by the 1943 Fund, the Department, effective June 1, 1996, replaced most of the Department's self-insured life and disability insurance program with an interim life and disability insurance plan (the "Life and Disability Plan") provided by Pacific Life and Annuity Company ("Pacific Life") (previously PM Group Life Insurance Company). Effective February 1, 1998, after a competitive bidding process, the interim plan was replaced with a long-term life insurance and disability plan, also provided by Pacific Life. The Department continues to self-insure those veterans who were already receiving disability benefits at the time the Life and Disability Plan was implemented, with benefits equal to the amount of the monthly Contract of Purchase payment at the time of their disability. Those benefits will continue under the provisions of the self-insured plan until the beneficiary returns to active employment or dies, or his or her contract is paid off. Loss reserves for these obligations are actuarially based. A portion of the required loss reserves is maintained under a third-party administrator agreement and is shown in the financial statements for the 1943 Fund as deposits with insurance administrators. The remaining amount is unfunded, but reserved in the form of a loss against retained earnings. See "THE 1943 FUND – Selected Financial Data of the 1943 Fund and Department's Discussion" in this APPENDIX B.

As noted above, effective February 1, 1998, the Department implemented a new life and disability protection plan which is provided by Pacific Life. All holders of Contracts of Purchase who had life and disability coverage (exclusive of those receiving self-insured benefits as described in the preceding paragraph) under the prior plan were transferred automatically to the new plan. Major elements of the life and disability coverage will continue unchanged for all currently insured Contract of Purchase holders up to age 60. For formerly insured holders of Contracts of Purchase under age 60, 100% of the loan balance is covered. Life insurance coverages at subsidized rates for those currently insured Contract of Purchase holders in the program over age 60 are limited to a maximum of the loan amount or $75,000, if less, reducing in increments every 5 years to a maximum of $5,000 after age 80. Such Contract of Purchase holders can obtain, at commercial insurers' rates, full coverage. Holders of new Contracts of Purchase after February 1, 1998 are covered under a revised insurance plan. The Department continues to require life insurance coverage but in an amount sufficient to cover home payments for five, three or one year(s) depending on the health of the individual loan applicant. All new Contract of Purchase applicants must apply for and must be provided the minimum life insurance coverage. Disability coverage for a period up to two years is optional for new Contract of Purchase holders after February 1, 1998, but is a mandatory requirement for Contract of Purchase holders with Contracts of Purchase in existence prior to February 1, 1998. The disability insurance benefit provides home loan protection by paying the participant's monthly loan installment (including insurance premiums) for a maximum benefit period of two years per disability, unless due to a psychiatric condition which would then limit the maximum benefit period to 12 months. Additional, full coverage, life insurance may also be purchased as an option by new Contract of Purchase holders. Spouse life insurance coverage is available as an option. The new plan is an experience rate plan subject to

annual rating reviews of insurance claims, expenses, risk charges, profits and premiums. In addition to the new insurance coverages, the Department has established a one-time $5 million rate stabilization reserve, which the Department will retain with interest as part of the 1943 Fund.

The Department's life and disability insurance program is the subject of a state audit report released in March 2001. See "External Reviews of the Program" in this APPENDIX B. The Department is in the process of going out to bid to determine if the disability benefits can be increased with little or no increase in premiums.

THE 1943 FUND

General

The components of the 1943 Fund are (i) proceeds derived from the sale of Revenue Bonds, (ii) proceeds from the sale of Veterans G.O. Bonds, (iii) amounts receivable under all Contracts of Purchase and from sales of properties subject to cancelled Contracts of Purchase, (iv) temporary investments, cash and funds, and (v) certain other miscellaneous assets. Proceeds of Veterans G.O. Bonds may not be applied to payment of principal of, and interest or any redemption premium on, the Revenue Bonds. The holders of Revenue Bonds are not entitled to compel the sale of Contracts of Purchase and the properties to which they relate, but are entitled to receive payment out of the Revenues derived from those Contracts of Purchase and properties, subject to the prior claims, if any, of the Veterans G.O. Bonds.

In addition to financing Contracts of Purchase and paying or reimbursing of debt service on the Veterans G.O. Bonds and Revenue Bonds, as described below, moneys in the 1943 Fund are used to pay administrative costs of the Department, and to fund certain losses from and reserves for property insurance and life and disability insurance described above in this APPENDIX B under "THE PROGRAM – Property and Life and Disability Insurance."

For financial information concerning the 1943 Fund, see "Selected Financial Data of the 1943 Fund and Department's Discussion" and also see EXHIBIT 1 to this APPENDIX B – "FINANCIAL STATEMENTS OF THE 1943 FUND FOR FISCAL YEARS 2000 AND 1999 AND INDEPENDENT AUDITOR'S REPORT."

The Act and the Veterans Code provide that the undivided interest created by Resolution RB-1 in favor of the holders of Revenue Bonds in the assets of the 1943 Fund is secondary and subordinate to the interest of the people of the State and the holders of Veterans G.O. Bonds. Moneys in the 1943 Fund must be paid, on the debt service payment dates of Veterans G.O. Bonds, to the General Fund in the amount of the principal of (whether at maturity or upon redemption or acceleration), and premium and interest on Veterans G.O. Bonds then due and payable (other than debt service payable from the proceeds of refunding bonds). Debt service on Veterans G.O. Bonds is payable from the General Fund, even if the amount transferred from the 1943 Fund to the General Fund is less than such debt service amount. The balance remaining unpaid to the General Fund from the 1943 Fund must be transferred to the General Fund out of the 1943 Fund as soon thereafter as it becomes available, together with interest thereon at the rate borne by the applicable Veterans G.O. Bonds, compounded semiannually. Until such amounts are

repaid to the General Fund, no payments may be made on the Revenue Bonds other than from amounts then in the Bond Reserve Account and the Loan Loss Account. These rights with respect to the 1943 Fund do not grant any lien on the 1943 Fund or the moneys therein to the holders of any Veterans G.O. Bonds.

As of April 1, 2001, there were outstanding $2,419,070,000 aggregate principal amount of Veterans G.O. Bonds, not including the Offered Veterans G.O. Bonds, and $538,435,000 aggregate principal amount of Revenue Bonds, not including the 2001 Revenue Bonds. As of April 1, 2001, $676,835,000 of new issue Veterans G.O. Bonds will be authorized but not issued. The Offered Veterans G.O. Bonds will use $29,250,000 of such $676,835,000 authorization. Under the Act, Revenue Bonds in an aggregate principal amount not to exceed $1,500,000,000, at any given time, may be outstanding. The Legislature may increase the amount of Revenue Bonds issuable under the Act or may decrease such amount to an amount not less than the amount of Revenue Bonds then outstanding. See "THE OFFERED VETERANS G.O. BONDS – Purpose" for information about the issuance of Revenue Bonds and Veterans G.O. Bonds during 2001. Additional information about outstanding Veterans G.O. Bonds and Revenue Bonds is in EXHIBIT 2 to this APPENDIX B – "CERTAIN DEPARTMENT FINANCIAL INFORMATION AND OPERATING DATA – Veterans G.O. Bonds and Revenue Bonds."

For additional information regarding the existing interest rates of, and setting interest rates on, Contracts of Purchase, see "THE PROGRAM – Contracts of Purchase" in this APPENDIX B and EXHIBIT 2 to this APPENDIX B – "CERTAIN DEPARTMENT FINANCIAL INFORMATION AND OPERATING DATA – Contracts of Purchase."

Selected Financial Data of the 1943 Fund and Department's Discussion

Selected Financial Data of the 1943 Fund

The following selected financial data of the 1943 Fund for fiscal years ended June 30, 2000 and 1999 has been derived from the financial statements of the 1943 Fund audited by Deloitte & Touche LLP, independent auditors, whose report thereon appears in EXHIBIT 1 to APPENDIX B in this Official Statement. The following selected financial data of the 1943 Fund for fiscal years ended June 30, 1998, 1997 and 1996 has also been derived from the audited financial statements of the 1943 Fund which are not included herein. **This selected financial data should be read in conjunction with the financial statements and notes thereto of the 1943 Fund contained in said EXHIBIT 1 and the Department's Discussion of Financial Data contained herein.**

Beginning with the fiscal year ended June 30, 1998, the financial statements of the 1943 Fund are required to reflect accounting changes required by promulgation of Statement No. 31 by the Governmental Accounting Standards Board ("GASB 31"). GASB 31 requires all investments to be reported at their fair market value (rather than book value) and investment income to be adjusted to reflect the difference between the fair market and book value of investments as either a capital gain or loss. The financial data derived from the financial statements of the 1943 Fund for FY 1996 through FY 1997 and presented in the tables below have been adjusted to reflect the impact of GASB 31 on investments and investment income so as to make such data consistent with

the accounting procedures used in preparing the Department's financial statements for FY 1998 and thereafter.

The impact of GASB 31 adjustments over the five-year period reflected in the tables below (including FY 2000) are a cumulative increase of $15,156,000 in the deficiency of revenues over expenses and cumulative decrease of the same amount in retained earnings.

SELECTED FINANCIAL DATA OF THE 1943 FUND
(Dollars in Thousands)

	June 30, 2000	June 30, 1999	June 30, 1998	Restated June 30, 1997	Restated June 30, 1996
ASSETS AND LIABILITIES RELATED TO LENDING AND FINANCING ACTIVITIES:					
CASH AND INVESTMENTS					
Cash and amounts on Deposit in SMIF*	$226,076	$239,979	$325,321	$317,178	$295,140
Guaranteed Investment Contracts	562,380	890,692	938,888	365,542	475,744
Treasury Securities	112,107	183,645	187,851	347,214	363,426
Total	900,563	1,314,316	1,452,060	1,029,934	1,134,310
DUE FROM VETERANS DEBENTURE REVENUE FUND	33,847	22,471	12,686	86,279	137,141
OTHER CURRENT ASSETS	30,903	18,335	13,755	22,596	26,191
NET OTHER NON-CURRENT ASSETS	33,255	33,262	36,406	15,123	15,824
CONTRACTS OF PURCHASE					
Performing Contracts	2,418,292	2,040,587	2,035,879	2,154,142	2,231,994
Non Performing Contracts	16,764	28,669	62,872	75,038	74,268
Total	2,435,056	2,069,256	2,098,751	2,229,180	2,306,262
Allowance For Contract Losses	(19,676)	(21,263)	(22,005)	(26,412)	(15,801)
Reduction of REO to Fair Value	(3,050)	(8,104)	(19,003)	(24,003)	(17,113)
Total	(22,726)	(29,367)	(41,008)	(50,415)	(32,914)
BONDS PAYABLE					
General Obligation Bonds	(2,528,330)	(2,687,390)	(2,947,165)	(2,632,045)	(2,812,810)
Revenue Bonds	(505,815)	(404,215)	(275,055)	(327,580)	(374,975)
Total	(3,034,145)	(3,091,605)	(3,222,220)	(2,959,625)	(3,187,785)
OTHER CURRENT LIABILITIES	(93,298)	(56,369)	(58,458)	(80,502)	(86,716)
Net Lending & Financing Activities Assets	**283,455**	**280,299**	**291,972**	**292,570**	**312,313**
ASSETS AND LIABILITIES RELATED TO INSURANCE ACTIVITIES:					
LIFE AND DISABILITY COVERAGE					
Deposits with Insurance Administrators	23,010	30,573	40,823	48,762	56,843
Insurance Reserves and Claims Payable	(31,642)	(39,751)	(53,185)	(65,828)	(78,246)
Total	(8,632)	(9,178)	(12,362)	(17,066)	(21,403)
FIRE AND HAZARD COVERAGE					
Net Insurance Reserves and Claims Payable	(1,386)	(1,552)	(1,209)	(1,405)	(2,744)
Net Insurance Activities Liabilities	**(10,018)**	**(10,730)**	**(13,571)**	**(18,471)**	**(24,147)**
RETAINED EARNINGS	**$ 273,437**	**$ 269,569**	**$ 278,401**	**$ 274,099**	**$ 288,166**
SUMMARY INFORMATION					
Total Assets	$3,411,000	$3,435,000	$3,587,000	$3,377,000	$3,639,000
Total Liabilities	$3,137,000	$3,166,000	$3,309,000	$3,103,000	$3,351,000
Total Number of Contracts of Purchase	33,440	32,243	35,906	39,343	42,650

*Surplus Money Investment Fund

SELECTED FINANCIAL DATA OF THE 1943 FUND
(Dollars in Thousands)

	June 30, 2000	June 30, 1999	June 30, 1998	Restated June 30, 1997	Restated June 30, 1996
NET INCOME FROM LENDING AND FINANCING ACTIVITIES:					
INTEREST INCOME					
Interest on Contracts	$150,213	$139,839	$162,086	$175,186	$182,636
Interest on Investments	69,471	75,292	74,077	67,373	79,510
Transfers of Interest From Veterans Debenture Revenue Fund	1,476	887	3,317	10,843	11,144
Total	221,160	216,018	239,480	253,402	273,290
BOND INTEREST EXPENSE	(193,495)	(201,772)	(218,757)	(230,871)	(245,971)
Net Interest Income	**27,665**	**14,246**	**20,723**	**22,531**	**27,319**
RESERVE FOR RATE STABILIZATION	(5,700)				
GASB 31 ADJUSTMENT	479	(6,897)	(4,578)	8,420	(12,580)
GAIN ON SALE OF SECURITIES	270	2,351	13,460		
RESTRUCTURING EXPENSES	(2,629)	(6,342)	(3,068)		
	(7,580)	(10,888)	5,814	8,420	(12,580)
CONTRACTS OF PURCHASE					
PMI	(86)	(2,330)	(1,551)		
Net loss on Sale of REO'S	(2,683)	(3,886)	(3,128)	(8,309)	(5,510)
(Increase) Decrease in Allowance for Contract Losses	6,641	3,343	(1,312)	(22,677)	(5,515)
Total	3,872	(2,873)	(5,991)	(30,986)	(11,025)
Net Lending/Financing Activities Income (Expense)	**23,957**	**485**	**20,546**	**(35)**	**3,714**
NET INCOME FROM ADMINISTRATIVE ACTIVITIES					
Operating Revenues	5,779	3,826	1,891	2,290	1,769
Operating Expenses	(23,902)	(19,543)	(20,381)	(20,218)	(18,810)
Net Administrative Activities Expense	**(18,123)**	**(15,717)**	**(18,490)**	**(17,928)**	**(17,041)**
NET INCOME FROM INSURANCE ACTIVITIES					
Life and Disability Coverage	(3,374)	5,290	160	3,570	(5,424)
Fire and Hazard Coverage	1,408	1,110	2,086	326	(538)
Net Insurance Activities Income (Expense)	**(1,966)**	**6,400**	**2,246**	**3,896**	**(5,962)**
TOTAL EXCESS (DEFICIENCY) OF REVENUES AND TRANSFERS OVER EXPENSES	**3,868**	**(8,832)**	**4,302**	**(14,067)**	**(19,289)**
RETAINED EARNINGS	$ 273,437	$ 269,569	$ 278,401	$ 274,099	$ 288,166

Department's Discussion of Financial Data

Certain aspects of the Department's financial results as presented in the five-year tables are discussed below. While the financial results for FY 2000 are largely positive, the continued implementation of the Department's programmatic and financial management revisions may result in losses in future years.

Overview. Although the Program has experienced losses during three of the last five years, the impact of significant programmatic and financial management changes implemented beginning in FY 1996 is evidenced in the FY 2000 financial results. Since FY 1996, the Department has (a) expanded eligibility requirements for borrowers and created competitive Program terms to stimulate growth of its portfolio of Contracts of Purchase, (b) established a flexible interest rate setting mechanism to increase its interest rate spread on new Contracts of Purchase, (c) secured primary mortgage insurance for over $700,000,000 of outstanding Contracts of Purchase previously self-insured by the 1943 Fund, (d) implemented requirements for guarantees by the United States Department of Veterans Affairs or other primary mortgage insurance on most newly originated high loan-to-value ratio ("LTV") Contracts of Purchase, (e) converted a majority of its life and disability coverage plan from a self-insured program to third-party insurance, and (f) revised Contract of Purchase underwriting and servicing procedures in ways intended to improve the performance of the Contracts of Purchase portfolio, including more aggressive disposition of its inventory of repossessed properties ("REOs") to reduce carry and exposure on previously defaulted Contracts of Purchase.

The 1943 Fund, which is the sole operating fund for the Program, reflects a retained earnings balance of $273,437,000 as of June 30, 2000, which is substantially equivalent to the Department's fund balance prior to the programmatic and financial restructuring implemented beginning in FY 1997. Although retained earnings have decreased in three of the last five years, the overall asset-to-liability ratio for the 1943 Fund has remained nearly constant at approximately 108% during the same period. The excess of revenues over expenses for the Program for FY 2000 was $3,868,000 and represents a $12,700,000 improvement over the FY 1999 loss of $8,832,000. In FY 2000, the 1943 Fund realized a significant improvement in net interest income. Significant reductions occurred in costs for Contract of Purchase losses and insurance, as well as certain non-cash charges for GASB 31 accounting charges and amortization of restructuring expenses. *However,* these reductions were offset in part by increased administrative costs and reserves for insurance.

Assets and Liabilities. From FY 1996 to FY 1999 the Program experienced a declining balance of outstanding Contracts of Purchase (as measured at fiscal year-end) due to fluctuating levels of new originations and prepayments. However, from FY 1999 to FY 2000, the outstanding balance of Contracts of Purchase increased by 18% from $2,069,256,000 to $2,435,056,000 which is the largest Contracts of Purchase balance since FY 1993. Prior to FY 2000, substantially all newly originated Contracts of Purchase were funded at the same interest rate as outstanding Contracts of Purchase (6.95%). As a part of the Department's continued implementation of Program revisions, beginning January 1, 1999 through FY 2000, the reservation interest rates on Contracts of Purchase were 5.95% for Contracts of Purchase financed using Qualified Mortgage

Bond Proceeds, and 6.65% for all other Contracts of Purchase. As a result of this revised interest rate policy, as well as expanded Program eligibility requirements, the amount of Contracts of Purchase funded during FY 2000 was $610,724,000, an increase of 139% over Contracts of Purchase funded during FY 1999 of $255,534,000. These new Contracts of Purchase were funded from multiple sources consisting of (a) $220 million of Revenue Bond and Veteran G.O. Bond proceeds, (b) $244 million of recycled Contracts of Purchase principal receipts and (c) $146 million of other invested funds. In addition, during FY 2000, prepayments of Contracts of Purchase decreased by 25% from $183,776,000 in FY 1999 to $138,401,000 in FY 2000. Going forward, the Department's Contract of Purchase interest-rate setting procedures permit it to establish the interest rates on newly originated Contracts of Purchase at rates that more closely reflect its current cost of funds.

During FY 2000, cash and investments declined by $413,753,000. Most of this reduction is due to the application of such funds to finance new Contracts of Purchase. The balance of this reduction is the result of such funds being applied to debt retirement.

In aggregate, total Program assets have declined 6.3% since FY 1996. The debt structure of the Program, *however,* accommodated this downward trend in assets through a series of bond redemptions which resulted in a similar reduction in the principal amount of bonds outstanding.

Beginning in FY 1996, the Department moved aggressively to repossess properties of canceled Contracts of Purchase and dispose of its REOs which had increased significantly in the early 1990's due to the decline in real estate values and overall economic conditions in certain California housing sub-markets. As a result, the principal balance of Contracts of Purchase classified as REOs decreased by $11,905,000 from June 30, 1999 to June 30, 2000. The aggregate reduction in Contracts of Purchase classified as REOs from June 30, 1997 to June 30, 2000 is $58,274,000. Due to the reduced intake of new REOs and ongoing property sales, non-performing Contracts of Purchase at June 30, 2000 represented 0.7% of the Department's portfolio – the lowest level since the start of real estate market difficulties in the early 1990's.

In conjunction with this effort, the Department periodically reassesses the adequacy of its loss reserves. During FY 2000, the Department's loss allowance was reduced by $6,641,000 due to the adequacy of reserves funded in prior years, improvement in the overall performance of the Contracts of Purchase portfolio and insurance coverage. Accumulated loss reserves decreased $27,689,000 or 54.9% over the last three years. The remaining loss reserve of $22,726,000 at June 30, 2000, together with the Department's (a) purchase of primary mortgage insurance during FY 1998 with respect to certain outstanding Contracts of Purchase with high LTVs, (b) imposition of USDVA guarantees for certain high LTV Contracts of Purchase originated beginning in April 1998, and (c) imposition of additional primary mortgage insurance provided by Radian for certain newly originated high LTV Contracts of Purchase which are not eligible for USDVA guarantees, are intended to provide for future potential REO losses. (See "THE PROGRAM – Loan Insurance" in this APPENDIX B).

In FY 2000 the Department continued to reduce its exposure to market volatility with continued reduction of a portfolio of Treasury securities (which are now entirely liquidated) and

increased use of investment contracts for various revenue accounts. See EXHIBIT 2 to this APPENDIX B - "CERTAIN DEPARTMENTAL FINANCIAL INFORMATION AND OPERATING DATA."

The Department continued the addition of long-term Revenue Bonds into its overall debt structure with such bonds making up 16.6% of all outstanding Veterans G.O. Bonds and Revenue Bonds – the highest level since 1995. The growth rate of additional Revenue Bonds should decrease as a result of the substantial completion of the Department's pre-Ullman (defined herein) refunding efforts, which provide Unrestricted Moneys to finance Contracts of Purchase for certain veterans. In addition, during FY 2000, the Department continued to reduce the impact of non-callable Veterans G.O. Bonds issued in the early 1980's. By February 1, 2001, approximately $674,000,000 of such bonds remained outstanding with a remaining average life of only five years and an average interest cost of approximately 9.0%. This represented 23% of total Veterans G.O. Bonds and Revenue Bonds outstanding.

Effective June 1, 1996, the Department's self-insured life and disability coverage plan was transferred to a fully-insured interim plan underwritten by an outside commercial insurer except for that portion of the Program covering existing claims of disabled Contract of Purchase holders for whom the Department continues to provide coverage. For those Contract of Purchase holders for whom the Department continues to provide self-insured coverage, loss reserves for such obligations have been actuarially based and have been reduced in FY 2000 based on the characteristics of the Department's Contracts of Purchase portfolio and the amount of funded reserves. Approximately 73% of such loss reserves are funded and maintained under a third party administrator agreement. The remaining amount is unfunded, but reserved in the form of an accrued liability. Effective February 1, 1998, the interim plan was replaced after a competitive bidding process, by a replacement, long-term life insurance and disability plan provided by the same commercial insurer. See "THE PROGRAM – PROPERTY AND LIFE AND DISABILITY INSURANCE" in this APPENDIX B.

Income and Expenses. The Program's FY 2000 net interest income (total interest income less bond interest expense) of $27,665,000 was $13,419,000 greater than FY 1999. However, this amount includes a non-recurring item of approximately $7,300,000 for recognition of investment earnings which were received on refunding escrows established in prior years. Applying an adjusted net interest income amount of $20,365,000 to exclude this non-recurring item, results in net interest margin (net interest income divided by average interest-bearing assets) of 0.60%. This increase in net interest margin from 0.41% in FY 1999 reflects (a) the substantial conversion of lower yielding investments to higher yielding Contracts of Purchase and (b) reduced interest expense as high coupon non-callable bonds matured. During FY 2000, interest expense on non-callable debt exceeded interest income on related Contracts of Purchase by approximately $15,000,000.

In addition, income was positively affected in FY 2000 by a $270,000 increase in the effect of realized and unrealized gains on securities due to changes in market value and a $479,000 increase to reflect GASB 31 accounting requirements. These effects were minimal compared to prior years, due to the Department's relatively smaller and shorter maturity investment portfolio. During FY 2000 income was negatively affected by continued amortization of $2,629,000 of the

financing and redemption costs relating to the issuance of and refunding of bonds, which are expected to represent recurring expenses for future years' operations.

In FY 2000, the Department achieved a net gain in its real estate risk activities – the first year without a loss since 1992. This resulted from several factors, including (a) a reduction in the Department's cost of private mortgage insurance as it implemented a policy of veteran reimbursement of premium costs, (b) a reduction in the net loss on the disposition of REOs and (c) a reduced allowance for Contract of Purchase losses due to improved Contracts of Purchase performance and increased insurance coverage.

In FY 2000 there was no significant impact on the Department's insurance activities from the existing life and disability coverage plan or fire and hazard coverage plan. Income was reduced by $5,700,000 to cover potential premium increases and provide additional benefits to certain veterans adversely affected by termination of eligibility under the Department's prior self-insured life and disability plan.

Program administrative operating expenses in FY 2000 were $23,902,000, an increase of 22.3% from FY 1999. This increase was largely due to the Department's implementation of a new information system relating to the Program and the Veterans G.O. Bonds and Revenue Bonds and increased staffing costs to cover incremental Contracts of Purchase origination activity. After taking into account a $1,953,000 increase in operating revenue, net administrative operating expenses increased 15.3% over FY 1999 results.

The Financial Statements of the 1943 Fund for Fiscal Years 2000 and 1999 and Independent Auditors' Report can be found in EXHIBIT 1 to this APPENDIX B. "CERTAIN DEPARTMENT FINANCIAL INFORMATION AND OPERATING DATA" can be found in EXHIBIT 2 to this APPENDIX B.

External Reviews of the Program

The Program has been the subject of several external reviews by the executive and legislative branches of State government, and one such external review is in process. The focus of these reviews has been various public policy concerns relating to the Program. A summary of certain of these reviews is presented below.

The Legislative Analyst's Office of the State of California

The Legislative Analyst's Office of the State of California (the "LAO") issued a 1998 report entitled "Rethinking the Cal-Vet Loan Program (the "1998 Report") and an analysis of the then-proposed Governor's Budget 1999/2000, which analysis included a discussion of the Department (the "1999 Report" and, together with the 1998 Report, the "1998/99 LAO Reports.") The stated purpose of the LAO is to provide analysis and nonpartisan advice to the California Legislature on fiscal and policy issues. The LAO is overseen by the Joint Legislative Budget Committee, a 14-member bipartisan committee composed of an equal number of State Assembly and State Senate members.

In the 1998/99 LAO Reports, the LAO analyzed the historical and recent financial performance and lending activities of the Department and made various recommendations. The 1998/99 LAO Reports described the financial losses experienced by the Department, the increasing rate of repayment of Contracts of Purchase, and the decreased lending activity in recent years. The 1998/99 LAO Reports were issued before the impact of the Department's recent programmatic changes had been realized.

In his proposed budget for Fiscal Year 1999-2000, Governor Davis listed several steps intended to improve the operation of State programs for veterans. Those most relevant to the Program are (a) appointment of an inspector general or internal auditor for the Department, (b) a request to the Bureau of State Audits (the "BSA") to conduct a fiscal and program compliance audit of the Program, and (c) direction to the Secretary of Veterans Affairs to report to the Governor on the need for further restructuring of the Program and on ways that the "surplus funds in the home program" might be redirected to other pressing needs of veterans. As directed, the Department submitted a report to the Governor which, among other things, advised the Governor that, in its view, there are no "surplus" funds in the home program as the term implies. No new gubernatorial directives have been issued to the Department.

On February 17, 2000, the LAO issued an analysis of the proposed Governor's Budget for Fiscal Year 2000-01, which analysis included a discussion of the Department. The report recognized that the administrative costs of the Program are not part of the State budget, but recommended that the Department report to the State Legislature during budget hearings on the reasons for certain cost increases and the steps it is taking to reduce such costs. The LAO did not address the Program, Veterans G.O. Bonds, Revenue Bonds, or the 1943 Fund in its report on the Governor's Budget for Fiscal Year 2001-2002.

Bureau of State Audits

On January 5, 2000, the Legislature directed the BSA to conduct an audit of the California Veterans Farm and Home Loan Purchase Program (loan program). The legislative request called for assessment of, among other things, whether the Department achieves its mission with its loan programs, the financial condition of the loan program and the reasonableness and appropriateness of expenditures, the relationship of the Department's lending standards to those in the lending industry and whether those standards are adhered to in the Department's lending process, and the demographics of eligible war veterans and the impact thereof on the loan program's viability.

On May 25, 2000, the BSA released an audit report concluding that the loan program will substantially lose its ability to offer low-cost home loans to veterans beyond the next decade due to the restrictive eligibility requirements attributed to certain program funding and the limited availability of other funding sources. The BSA further concluded that the Department was eroding loan program funds due to insufficient budget controls, inefficient and inconsistent loan operations and by charges to the loan program for unrelated administrative positions and costs. Finally, the BSA concluded, based in part upon its conclusion that the Department's testing of its integrated information system was incomplete, that the Department will need to spend more time and money to ensure that its integrated information system provides necessary, reliable program and financial information.

In a written response to the May 25, 2000 report, the Department disagreed with certain conclusions of the BSA and expressed the belief that it has already addressed certain report findings. In particular, the Department projects that the loan program will be attractive to a much higher percentage of eligible veterans than estimated by the BSA. Further, the Department believes that additional loan sources can be created through additional allocations of Qualified Mortgage Bonds loans and the blending of Unrestricted Moneys tax-exempt bonds with taxable bonds. In addition, the Department contends that steps have already been taken to ensure that information systems are properly administered and that loan program data and assets are adequately safeguarded. As part of the Department's plan to implement corrective action in certain areas identified by the BSA, the Department, upon the recommendations of an outside consultant, has undertaken steps designed to ensure proper allocation of its direct and indirect administrative costs to the loan program.

On March 28, 2001, the BSA released an audit report prepared in response to the Legislature's direction for an audit of the Department's life and disability insurance program. In its report, the BSA concluded that changes made to the Department's life and disability insurance program in 1996 reduced the Department's financial liabilities but also reduced the insurance program's benefits for veterans. The analysis in the audit report divides the Department's insurance program into two principal parts: the self-funded plan and the commercial plan. The self-funded plan is closed to new participants and covers veterans who were disabled when the Department converted in 1996 to the commercial plan. The commercial plan includes veterans in the Department's self-funded mandatory plan which preceded the commercial insurance and veterans who obtained their Contracts of Purchase after implementation of the commercial insurance. The BSA concluded that the self-funded portion of the insurance program is currently underfunded. In addition, the BSA concluded that the short-term nature of commercial insurance policies, the high cost of a self-funded insurance program, the scarcity of available funding sources, and the unpredictability of future participation in the loan and insurance programs impose difficulties in forecasting the long-term costs of the insurance program. The BSA also concluded that the Department's administration of the insurance program contains flaws that weaken the Department's ability to manage the insurance program and safeguard assets.

The BSA urged the Department to develop a long-term strategy to address its insurance program. The BSA suggested that the Department, in deciding the future of the insurance program, consider the above-listed factors in forecasting costs of the program. The BSA further suggested that the Department could increase funding for the insurance program using a limited amount of loan program funds that would not adversely affect the Department's ability to meet bond payments, through modest increases in premiums, and through savings in the operational costs for the loan program. In addition, the BSA suggested that the Department consider discontinuing the insurance program for certain veterans who are not currently disabled. Finally, the BSA suggested that the Department follow State guidelines to improve the administration of the insurance program.

In a written response to a draft of the audit report, the Department stated that sufficient funds to pay liabilities under the self-funded plan are made available as needed and that the current cash reserves are more than adequate for such purposes for the immediate future. The

Department agreed with the BSA's suggestion of factors it should consider when deciding the future of the insurance program, but noted that its primary responsibility is to ensure the health of the Program overall. Finally, the Department asserted that it has already taken steps to conform its administration of the insurance program to State guidelines. See "THE PROGRAM – Property and Life and Disability Insurance" and EXHIBIT 2 to this APPENDIX B –"CERTAIN DEPARTMENT FINANCIAL INFORMATION AND OPERATING DATA" herein.

Copies of the 1998/99 LAO Reports and the May 25, 2000 and March 28, 2001 reports of the BSA, including the Department's responses thereto, are available from the Department upon request.

The financial performance of and loan origination activities of the Department are discussed elsewhere in this Official Statement. The Department does not believe that either termination of loan originations or use of Department moneys to fund other programs, if either or both of such actions were implemented, would have an adverse impact on the Department's ability to pay scheduled principal of and interest on any Veterans G.O. Bonds or Revenue Bonds. While the Legislature could enact any or all of the recommendations in the 1998/99 LAO Reports or any recommendations of the BSA, use of moneys in the 1943 Fund for veterans benefits outside of the Program may be subject to approval by the electorate of the State and may also be subject to other legal restrictions. See "AUTHORIZATION OF AND SECURITY FOR THE OFFERED VETERANS G.O. BONDS – Security For and Payment of Veterans G.O. Bonds", APPENDIX B – "THE 1943 FUND – Selected Financial Data of the 1943 Fund and Department's Discussion", EXHIBIT 1 to this APPENDIX B – FINANCIAL STATEMENTS OF THE 1943 FUND FOR FISCAL YEARS 2000 AND 1999 AND INDEPENDENT AUDITOR'S REPORT" and EXHIBIT 2 to this APPENDIX B "– CERTAIN DEPARTMENT FINANCIAL INFORMATION AND OPERATING DATA" herein.

Debbs Litigation

On June 25, 1996, the Department was served with a summons and complaint initiating a lawsuit entitled *John L. Debbs, et al. v. California Department of Veterans Affairs, et al.* (Superior Court of California, County of Los Angeles, Case No. BC 151476). The third amended complaint alleges "fraudulent concealment, declaratory relief, injunctive relief, and damages for monies unlawfully taken from the California Veterans Farm and Home Life and Disability Protection Plan." Plaintiff claims that in 1983, when the Department canceled its contracts with two life insurance companies then responsible for underwriting the life and disability programs, over $100 million in insurance reserves, which was returned to the Department, thereafter was illegally expended by the Department, and that certain transfers from the life and disability reserves to the 1943 Fund were unlawful. The complaint seeks, among other things, a determination that premiums under the life and disability program be reduced to prior levels and the return of the moneys, plus interest, from the 1943 Fund to the life and disability reserves. Plaintiffs failed in their attempts to obtain a preliminary injunction and temporary restraining order, seeking to stop the Department from foreclosing Contracts of Purchase of veterans who have disability claims under the Department's current disability insurance program. Plaintiffs are appealing the denial of the preliminary injunction. In July 1998, the court certified the case as a class action and ordered Plaintiffs to provide notice to the class by December 27, 1999. At a

hearing on December 5, 2000, the class was decertified because the class members had not been notified. That decision has been appealed, and the record on appeal is to be filed by the appellants on or before April 16, 2001. Meanwhile, the case as to the original named plaintiffs is proceeding, and a status conference has been scheduled for July 16, 2001.

The Department is vigorously opposing the lawsuit. While the outcome of any litigation cannot be predicted with certainty, the Department expects ultimately to prevail in this matter. Even if the Plaintiffs should prevail in this matter, the Department does not expect such an outcome to affect its ability to make timely payment of debt service on the Offered Veterans G.O. Bonds.

Excess Revenues

The Department has covenanted with the holders of its Revenue Bonds to apply Revenues received with respect to Contracts of Purchase, after payment or reimbursement of debt service on Veterans G.O. Bonds, in a specified order of priority. For this purpose, "Revenues" means all moneys received by or on behalf of the Department representing (i) principal and interest payments on the Contracts of Purchase including all prepayments representing the same and all prepayment premiums or penalties received by or on behalf of the Department in respect to the Contracts of Purchase, (ii) interest earnings received on the investment of amounts to the extent deposited in the revenue account established under the Revenue Bond Resolution, (iii) amounts transferred to the revenue account from the bond reserve account or the loan loss amount established under the Revenue Bond Resolution, and (iv) any other amounts payable by parties executing Contracts of Purchase or private participants in the Program or related to recoveries on defaulted Contracts of Purchase, including origination and commitment fees, servicing acquisition fees, liquidation proceeds, and insurance proceeds, *except* to the extent not included as "Revenues" pursuant to the provisions of any resolution authorizing the issuance of a series of Revenue Bonds.

The Department has covenanted with the Revenue Bond holders to administer the 1943 Fund and the Program and perform its obligations to such holders in accordance in all material respects with the then-current Program Operating Procedures. The Program Operating Procedures are operating policies of the Department governing the discretionary activities of the Department under the Revenue Bond Resolution. The Department may amend the Program Operating Procedures. The Program Operating Procedures will affect the Excess Revenues that will become available to redeem the Offered Veterans G.O. Bonds.

The Department has covenanted with the Revenue Bond holders to apply Revenues in the following order, after paying, or reimbursing for payments of, debt service on Veterans G.O. Bonds, including the costs of liquidity and credit enhancement facilities related thereto, and setting aside moneys as required under the Federal Tax Code to preserve the tax-exempt status of certain Veterans G.O. Bonds and Revenue Bonds, (1) to pay debt service on Revenue Bonds, (2) to pay the costs associated with liquidity and credit enhancement facilities, if any, for Revenue Bonds, (3) to replenish certain reserve funds established for the Revenue Bonds, (4) if the Department elects, to pay Department expenses, (5) to set aside a monthly accrual of Veterans G.O. Bond debt service, (6) if the Department elects, to finance Contracts of Purchase, and (7) with respect to

Excess Revenues and certain tax restricted moneys, to redeem Veterans G.O. Bonds, including the Offered Veterans G.O. Bonds, and Revenue Bonds. For such purposes:

(a) "Excess Revenues" means, as of any date of calculation, Revenues in excess of Accrued Debt Service;

(b) "Accrued Debt Service" means, as of any date of determination and, as the context requires, with respect to all Revenue Bonds and Veterans G.O. Bonds (including the Offered Veterans G.O. Bonds), the sum of:

(i) the aggregate amount of scheduled interest and principal (*except* to the extent otherwise to be redeemed pursuant to clause (ii) or (iii) below) to become due after such date but on or before the end of the current debt service year, less the product of (x) the number of whole months remaining in the current debt service year and (y) the Monthly Debt Service Requirement;

(ii) the redemption price of bonds for which notice of redemption has been issued, provided such redemption price is to be paid from amounts on deposit in the revenue account created under the Revenue Bond Resolution; and

(iii) the redemption price of bonds that the Department will be obligated to redeem prior to the end of the next succeeding debt service year, to the extent that such obligation arises on account of amounts on deposit in such revenue accounts; and

(c) "Monthly Debt Service Requirements" means, as of any date of determination, one-twelfth of the aggregate amount of scheduled interest and principal to become due during the debt service year in which such date falls, as computed on the first day of such debt service year.

Maintenance of Fund Parity

The Revenue Bond Resolution requires the Department to calculate "Fund Parity" at least annually. "Fund Parity" means (a) an amount equal to the difference between (i) all assets in the 1943 Fund and in the accounts established under the Revenue Bond Resolution, and (ii) the principal amount of all Revenue Bonds and Veterans G.O. Bonds outstanding (plus accrued interest) reduced by (b) defined allowances and reserves for loss coverage on Contracts of Purchase and life and disability coverage on persons obligated under Contracts of Purchase. If any such calculation shall not reflect that Fund Parity at least equals the percentage required by the Revenue Bond Resolution, the Department may be required to expend Excess Revenues to redeem Revenue Bonds until its recalculations of Fund Parity meet the test required by the Revenue Bond Resolution.

EXHIBIT 1

FINANCIAL STATEMENTS OF THE 1943 FUND
FOR FISCAL YEARS 2000 AND 1999
AND INDEPENDENT AUDITORS' REPORT

VETERANS FARM AND HOME BUILDING FUND OF 1943,
DEPARTMENT OF VETERANS AFFAIRS, STATE OF CALIFORNIA

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VETERANS FARM AND HOME BUILDING FUND OF 1943, DEPARTMENT OF VETERANS AFFAIRS, STATE OF CALIFORNIA

Financial Statements for the Years Ended June 30, 2000 and 1999 and Independent Auditors' Report

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INDEPENDENT AUDITORS' REPORT

To the California Veterans Board
State of California
Sacramento, California

We have audited the accompanying balance sheets of the Veterans Farm and Home Building Fund (Fund) of 1943, which is administered by the Department of Veterans Affairs of the State of California (Department) as of June 30, 2000 and 1999, and the related statements of revenues, expenses and changes in retained earnings, and cash flows for the years then ended These financial statements are the responsibility of the Department's management Our responsibility is to express an opinion on these financial statements based on our audits

We conducted our audits in accordance with auditing standards generally accepted in 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 An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation We believe that our audits provide a reasonable basis for our opinion

As discussed in Note 1, the financial statements present only the Veterans Farm and Home Building Fund of 1943, and are not intended to present the financial position of the Department of Veterans Affairs of the State of California and the results of its operations and cash flows of its proprietary fund types

In our opinion, such financial statements referred to above present fairly, in all material respects, the financial position of the Veterans Farm and Home Building Fund of 1943, Department of Veterans Affairs of the State of California as of June 30, 2000 and 1999, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America

Deloitte + Touche LLP

October 27, 2000

VETERANS FARM AND HOME BUILDING FUND OF 1943, DEPARTMENT OF VETERANS AFFAIRS, STATE OF CALIFORNIA

BALANCE SHEETS
JUNE 30, 2000 AND 1999 (in thousands)

	2000	1999
ASSETS		
Investments		
Unrestricted	$ 279,662	$ 464,965
Restricted	620,901	849,351
Insurance administrators	24,860	32,423
Total investments	925,423	1,346,739
Receivables under contracts of sale, net of allowance for uncollectible contracts of $19,676 in 2000 and $21,263 in 1999	2,398,616	2,008,813
Due from Veterans Debenture Revenue Fund	33,847	22,471
Interest receivable		
Contracts of sale	15,455	10,511
State of California's Surplus Money Investment Fund	3,528	3,998
Other investments	4,968	8,214
Due from other funds	6,952	6,123
Other real estate owned, net of allowance for losses of $3,050 in 2000 and $8,104 in 1999	13,714	20,565
Land, improvements and equipment, net of accumulated depreciation of $8,080 in 2000 and $6,986 in 1999	7,288	7,578
Other	933	466
TOTAL ASSETS	$3,410,724	$3,435,478
LIABILITIES AND RETAINED EARNINGS		
LIABILITIES		
Cash overdraft due to State Treasury	$ 17,340	$ 6,393
Accrued interest and other liabilities	71,785	49,976
Bonds payable - net	3,009,111	3,066,387
Insurance claims payable and loss reserves	39,051	43,153
Total liabilities	3,137,287	3,165,909
RETAINED EARNINGS	273,437	269,569
TOTAL LIABILITIES AND RETAINED EARNINGS	$3,410,724	$3,435,478

See notes to financial statements

VETERANS FARM AND HOME BUILDING FUND OF 1943, DEPARTMENT OF VETERANS AFFAIRS, STATE OF CALIFORNIA

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN RETAINED EARNINGS
YEARS ENDED JUNE 30, 2000 AND 1999 (in thousands)

	2000	1999
PROGRAM OPERATIONS:		
Interest revenues:		
Contracts of sale of properties	$ 150,213	$ 139,839
Investments and other	71,607	74,079
Transfers of revenue from Veterans Debenture Revenue Fund	1,476	887
Total program operations revenues	223,296	214,805
Expenses		
Interest expense	193,495	201,772
Reversal of allowance for uncollectible contracts	(6,641)	(3,343)
Total program operations expenses	186,854	198,429
Excess of program operations revenues over program operations expenses	36,442	16,376
PROGRAM ADMINISTRATION:		
Revenues		
Loan servicing fees	4,784	3,261
Other income	995	565
Excess of amounts charged to contract holders over fire and hazard insurance claims and expenses and changes in insurance reserves	1,408	1,110
Excess of amounts charged to contract holders and changes in insurance reserves over self-insured life and disability claims and expenses		1,957
Total program administration revenues	7,187	6,893
Expenses		
Payroll and related costs	12,241	11,171
General and administrative expenses	20,076	17,044
Excess of self-insured life and disability insurance claims and expenses and changes in insurance reserves over amounts charged to contract holders	4,761	
Total program administration expenses	37,078	28,215
Excess of program administration expenses over program administration revenues	(29,891)	(21,322)
LOSS ON SALE OF REPOSSESSED PROPERTY	(2,683)	(3,886)
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENSES	3,868	(8,832)
RETAINED EARNINGS:		
Beginning of year	269,569	278,401
End of year	$ 273,437	$ 269,569

See notes to financial statements

VETERANS FARM AND HOME BUILDING FUND OF 1943, DEPARTMENT OF VETERANS AFFAIRS, STATE OF CALIFORNIA

STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2000 AND 1999 (in thousands)

	2000	1999
CASH FLOWS FROM OPERATING ACTIVITIES		
Excess (deficiency) of revenues over expenses	$ 3,868	$ (8,832)
Adjustments to reconcile to net cash used by operating activities		
Amortization of bond premiums, discounts and issuance costs	1,855	3,207
Depreciation expense	1,094	1,042
Loss on sale of repossessed property	2,683	3,886
Effect of changes in assets and liabilities		
Interest receivable - State of California's Surplus Money Investment Fund	470	(897)
Interest receivable - other investments	3,246	1,394
Interest receivable - contracts of sale	(4,944)	1,234
Due from other funds	(829)	(5,077)
Other real estate owned	4,168	19,418
Other assets	(467)	(374)
Accrued interest and other liabilities	21,809	(8,482)
Insurance claims payable and loss reserves	(4,102)	(13,091)
Net cash provided (used) by operating activities	28,851	(6,572)
CASH FLOWS FROM INVESTING ACTIVITIES		
Net increase in receivables under contracts of sale	(389,803)	(6,684)
Net decrease in investment securities	421,316	141,441
Purchase of land, improvements and equipment	(804)	
Net cash provided by investing activities	30,709	134,757
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Increase in cash overdraft due to State Treasury	10,947	6,393
Proceeds from sales of bonds	243,700	591,755
Maturities of bonds payable	(162,991)	(82,235)
Early redemption of bonds payable	(139,840)	(640,866)
Net decrease in Due from Veterans Debenture Revenue Fund	(11,376)	(9,785)
Net cash used by noncapital financing activities	(59,560)	(134,738)
DECREASE IN CASH IN STATE TREASURY	-	(6,553)
CASH IN STATE TREASURY		
Beginning of year	-	6,553
End of year	$ -	$ -

See notes to financial statements

VETERANS FARM AND HOME BUILDING FUND OF 1943, DEPARTMENT OF VETERANS AFFAIRS, STATE OF CALIFORNIA

NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2000 AND 1999

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Description - The California Department of Veterans Affairs (the Department) is a separate legal entity and a Cabinet level agency of the State of California A seven-member California Veterans Board (the Board) has policy oversight of the operations of the Department The Board's membership consists of the Department Secretary and six members, all of whom are appointed by the Governor, subject to confirmation by the State Senate The Veterans Farm and Home Building Fund of 1943 (the Fund) was established under the authority of the California Constitution to provide low-interest, long-term farm and home mortgage loan contracts to veterans living in California The contract loan program has been continuous since 1922 Proceeds from the sale of general obligation bonds, periodically authorized by the vote of the people of California, and revenue bonds authorized by the Legislature are used for contract loans to veterans Expenditures are primarily for debt service and administration of the program The Fund is tax exempt

The financial statements represent only the activities of the Veterans Farm and Home Building Fund of 1943, and are not intended to present the financial position of the Department of Veterans Affairs of the State of California and the results of its operations and cash flows of its proprietary fund types The financial statements of the Fund are included in the financial statements of the State of California as the State represents the primary government and has ultimate oversight responsibility for the Fund

Use of Estimates in the Preparation of Financial Statements - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period Actual results could differ from those estimates

Basis of Accounting - The Fund has been classified as a governmental proprietary fund type for accounting purposes Generally, revenues are recorded when earned and expenses are recognized as incurred

Governmental Accounting Standards Board Statement No 20 (GASB No 20), *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Funds Accounting*, established standards for accounting and financial reporting for proprietary funds In accordance with GASB No 20, the Fund's proprietary fund accounting and financial reporting practices are based on all applicable GASB pronouncements as well as the following pronouncements issued on, or before, November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions, and Accounting Research Bulletins (ARBs) of the Committee on Accounting Procedures

Investments - The Department reports all investments at fair value except for certain nonparticipating fixed interest investment contracts which are valued using cost based measures The fair value of

investments is based on published market prices and quotations from major investment brokers and from the State of California for the Surplus Money Investment Fund Uncommitted bond proceeds restricted for loans to veterans are reflected in the balance sheet as restricted cash and investments

Receivables Under Contracts of Sale - Receivables under contracts of sale consist of the remaining contract principal balance net of the reserve for uncollectible accounts

Allowance for Uncollectible Contracts - The allowance for uncollectible contracts is established through a provision charged to operations The allowance is an amount that management believes will be adequate to absorb losses inherent in existing contracts and commitments to extend credit, based on evaluations of the collectibility and prior loss experience of contracts and commitments to extend credit The evaluations take into consideration such factors as changes in the nature and volume of the portfolio, overall portfolio quality, specific problem contracts, commitments, and current and anticipated economic conditions that may affect the borrowers' ability to repay the obligation

Contract Guarantees and Primary Mortgage Insurance – During 1998, the Department started collecting a contract guarantee fee on all contracts with down payments less than 20% Such contracts are classified as high loan to value (HLTV) contracts For eligible borrowers, the fee is used to purchase contract guarantees from the U S Department of Veterans Affairs (USDVA) or primary mortgage insurance For certain HLTV contracts not eligible for USDVA guarantees, the Fund purchases primary mortgage insurance (PMI) from Radian Guaranty Inc , formerly, the Commonwealth Mortgage Assurance Company The PMI provides lifetime coverage on the HLTV contracts, not covered by USDVA guarantees, subject to an aggregate 2% deductible The Department is responsible for any losses not covered by the USDVA guarantees or the PMI

Other Real Estate Owned - Real estate acquired by repossession is carried at the lower of the contract balance or its net realizable value After repossession, the value of the underlying contract is written down to the estimated fair value of the real estate, if necessary Any subsequent write-downs are charged against operating expenses Operating expenses of such properties, net of any related income, are included in other expenses

Insurance Claims Payable and Loss Reserves - Insurance claims payable and loss reserves include unpaid claims, incurred but not reported claims and loss reserves for the fire and hazard insurance plan and the remaining benefits payable under the Department's former self-insured life and disability protection plan

Fire and Hazard Insurance - This insurance program is provided to eligible contract holders as part of the loan program The difference between premiums charged to contract holders and claims and expenses incurred and the change in loss reserves is included as a net amount in the statement of revenues, expenses and changes in retained earnings

Self-Insured Life and Disability Protection Plan - Beginning in 1984, the Department operated a self-funded protection plan whereby life and disability insurance was provided to eligible contract holders This plan was terminated June 1, 1996 The life and disability benefits previously available to these members under the self-insured protection plan continue to be available to those contract holders who were receiving benefits at the time the plan was terminated Loss reserves to satisfy these obligations of the protection plan which include future disability and life benefits were derived from an actuarial evaluation performed in 1997 Significant actuarial assumptions and methodologies used to calculate the reserve are interest, mortality, disability, prepayment, and a long-term discount rate of 7%

Amortization of Bond Premiums, Discounts and Issuance Costs - Premiums and discounts arising from the issuance of bonds and expenses incurred in connection with the issuance of bonds are capitalized and amortized using the monthly amortization method, which approximates the interest method

New Accounting Pronouncements – In June 1999, the Governmental Accounting Standards Board issued Statement of Governmental Accounting Standards ("SGAS") No 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments* The statement establishes financial reporting standards for certain governmental entities which will require expanded financial information, management discussion and analysis and required supplemental information in their financial reporting This statement will be effective for the Department for the year ended June 30, 2002 The Department has not determined what effect adopting SGAS No 34 will have on the Fund's financial statements

Reclassification - Certain 1999 amounts have been reclassified to conform with the 2000 presentation

2. CASH AND INVESTMENTS

The cash overdrafts of $17,340,335 and $6,393,464 as of June 30, 2000 and 1999 represent a liability due to the State Treasury Cash in the State Treasury represents amounts held in the Fund's general operating accounts with the State Treasury These monies are pooled with the monies of other State agencies and invested by the State Treasurer's office These assets are not individually identifiable

Investment of bond funds is restricted by applicable California law and the various bond resolutions associated with each issuance, generally, to certain types of investments, including direct obligations of the U S Government and its agencies, the State of California's Surplus Money Investment Fund, and investment agreements with financial institutions or insurance companies rated within the top two ratings of a nationally recognized rating service The investments with the insurance administrator, held as a deposit in accordance with a master agreement for the remaining active life and disability insurance program for disabled contract holders, is authorized by California law

The Fund's investments in investment agreements totaling $562,379,567 as of June 30, 2000 are carried at cost The interest rates on investment agreements are fixed and range from 4 98% to 7 055% The investment agreements expire from 2000 to 2032

All of the Fund's investments in U S Treasury notes and bonds, corporate bonds, and the amounts administered by the insurance company are categorized as risk category 1, which is defined by GASB Statement No 3 as investments that are insured or registered or for which the securities are held by the Fund or its agent in the Fund's name In accordance with GASB Statement No 3, the Fund's investments held in the State of California's Surplus Money Investment Fund, the investment agreements and the mutual fund are not categorized as to risk

The Fund's investments at June 30, 2000 and 1999 are as follows (in thousands)

	2000	1999
Category 1		
U S Treasury notes and bonds	$ 112,107	$ 183,645
Amounts held in trust fund with insurance administrators		
U S Treasury notes	5,433	15,627
Corporate bonds	7,441	9,596
Other	10,452	4,371
Investments Not Subject to Categorization		
State of California's Surplus Money Investment Fund	226,076	239,979
Investment agreements (at cost)	562,380	890,692
Amounts held in trust fund with insurance administrators		
Mutual fund	1,534	2,829
	$ 925,423	$ 1,346,739

3. RECEIVABLES UNDER CONTRACTS OF SALE

The Fund retains title to all real property subject to contracts of sale until the contract is satisfied The veteran's contracts have original terms of 25-30 years and bear interest at rates of 4 4% to 11 0%, depending on the age and type of contract and the classification of the current contract holder During 1998, the Department lowered the rate on most of the existing contracts of purchase from 8 0% to 6 95%

4. BONDS PAYABLE

At June 30, 2000 and 1999, bonds payable included the following (in thousands)

	2000	1999
General obligation bonds of the State of California, annual interest rates from 3 6% to 11 0% due in varying annual installments through 2032 (subject to varying redemption provisions)	$2,528,330	$2,687,390
Home purchase revenue bonds, annual interest rates from 3 65% to 6 15%, due in varying annual installments through 2028 (subject to varying redemption provisions)	505,815	404,215
	3,034,145	3,091,605
Discounts	(4,048)	(4,276)
Unamortized bond origination costs	(13,417)	(12,370)
Unamortized bond redemption premiums	(7,569)	(8,572)
Total	$3,009,111	$3,066,387

Future scheduled bond maturities at June 30, 2000 are as follows (in thousands)

2001	$ 84,740
2002	82,350
2003	83,320
2004	131,840
2005	143,325
Thereafter	2,508,570
	$3,034,145

General obligation bonds of the State of California are payable in accordance with the various veterans bond acts by the State General Fund The full faith and credit of the State of California is pledged for the payment of both principal and interest All general obligation bonds have an equal claim against the General Fund of the State of California These bonds are included as obligations of the Fund when the proceeds from bond sales are received The repayment for the bonds is the responsibility of the Fund Authorized and unissued bonds under the Veterans Bond Acts of 1990 and 1996 at June 30, 2000 and 1999 were $176,835,000

Home Purchase Revenue bonds are special obligations of the Department payable solely from, and by a pledge of, an undivided interest in the assets of the Veterans Farm and Home Building Fund of 1943 and the Veterans Debenture Revenue Fund, a separate fund of the Department The undivided interest in the net revenues of the 1943 Fund is secondary and subordinate to any interest or right in the 1943 Fund of the people of the State of California and of the holders of general obligation veterans bonds At any point in time, authorized and unissued revenue bonds equal the $1 5 billion ceiling authorized in 1987 less revenue bonds outstanding at that time At June 30, 2000 and 1999, authorized and unissued revenue bonds were $994,185,000 and $1,095,785,000, respectively

During fiscal year 1998, the Department amended the revenue bond resolution provisions regarding the Bond Reserve Account in the Veterans Debenture Revenue Fund (a separate entity) The revenue bond resolution requires the establishment and maintenance of a Bond Reserve Account in an amount equal to at least three percent of the aggregate outstanding principal amount of all Revenue Bonds with interest rates fixed to maturity To calculate the reserve requirement, the Ninth Supplemental Resolution established, with respect to the revenue bonds with interest rates fixed to maturity issued pursuant to such resolution (1997 Series A, B and C Bonds, 1998 Series A Bonds, 1999 Series A and B Bonds, 2000 Series A, B and C Bonds), a requirement equal to at least seven percent of the outstanding principal amount of such Revenue Bonds Amounts in the Bond Reserve Account shall be used solely for the purposes of paying the principal of and the interest on the Revenue Bonds and for making Mandatory Sinking Fund Account Payments on Revenue Bonds Amounts on deposit in the Bond Reserve Account as of any date, in excess of the bond reserve requirement, may be transferred out of the Veterans Debenture Revenue Fund to the Fund, at the request of the Department Investment earnings of the Veterans Debenture Revenue Fund are transferred to the Fund At June 30, 2000 and 1999 the total assets of the Veterans Debenture Revenue Fund are shown as a receivable of the Fund Complete financial statements of the Veterans Debenture Revenue Fund, Department of Veterans Affairs, State of California can be obtained by contacting the California Department of Veterans Affairs

5. BOND REFUNDING

During fiscal year 2000, the Department issued General Obligation bonds totaling $126,500,000 and Home Purchase Revenue bonds totaling $117,200,000 with an average interest rate of 5 77% Bond proceeds from the General Obligation bond issues and proceeds from the Home Purchase Revenue bond issues were used to refund previously issued General Obligation bonds of $243,700,000

For those bonds that could not be called for immediate redemption, approximately $17,295,000 is deposited in an escrow account held by the State Treasurer, as escrow trustee, to provide for all future debt service payments on the defeased bonds As a result, these bonds are considered to be defeased and the liability for those bonds is not included in the Fund's balance sheet

During the 2000 fiscal year, the escrow trustee retired approximately $6,015,000 of bonds which were considered defeased as of June 30, 1999

6. FIRE AND HAZARD INSURANCE

Fire and hazard insurance coverage is provided on behalf of contract holders for substantially all properties subject to contracts of sale The program is funded by amounts charged to contract holders which are considered appropriate to cover losses incurred, premiums paid for excess insurance coverage and administration fees From the amounts charged to contract holders, the Department pays losses up to $1,500,000 per occurrence or $12,000,000 per policy year Coverage in excess of the above amounts is provided under a master policy with an insurance carrier which also administers the program The loss reserve is based on the third party administrators estimate of incurred but not reported claims based on the historical trends and loss experience within the portfolio

The excess of premiums charged to contract holders over claims, expenses and change in loss reserves for the year ended June 30, 2000 and 1999 was as follows (in thousands)

	2000	1999
Amounts charged to contract holders	$ 8,768	$ 8,820
(Less) plus		
(Increase) decrease in estimated loss reserve	115	(370)
Claims loss expense	(6,475)	(6,213)
Master policy premium	(469)	(478)
Administrative fees	(531)	(649)
Excess of amounts charged to contract holders over claims and expenses and changes in reserves	$ 1,408	$ 1,110

7. SELF-INSURED LIFE AND DISABILITY PROTECTION PLAN

The Department was responsible for a self-insured life and disability protection plan for all contract holders until June 1, 1996 At that time, except for contract holders receiving benefits, the self-insured life and disability protection plan was replaced by an interim life and disability insurance plan provided by a commercial insurer, Pacific Mutual Group (PMG) Effective February 1, 1998, PMG was selected to provide a replacement, long-term life and disability plan

As of June 30, 2000, the Department remains self-insured for approximately 903 remaining contract holders Under the provisions of the self-insured plan benefits continue until the beneficiary returns to

active employment, dies or their contract is paid off Loss reserves for these obligations have been actuarially determined A portion of the required loss reserves are maintained under a third party administrator (TPA) agreement and are shown in the financial statements as investments with insurance administrators During the year, the TPA reserves have been used to satisfy benefits payable under the self-insured protection plan Earnings on investments held by the TPA were $1,386,635 and $2,836,005 in 2000 and 1999, respectively, and are included in interest revenues - investments and other in the financial statements

The excess of claims expenses, changes in loss reserves, and administrative expenses over plan revenues whose coverages continue as obligations of the self-funded life and disability protection plan for the years ended June 30, 2000 and 1999 was as follows (in thousands)

	2000	1999
Claims expenses		
Life insurance program	$ (2,220)	$ (941)
Disability insurance program	(10,456)	(10,102)
Total claims expenses	(12,676)	(11,043)
Decrease in estimated loss reserves	8,109	13,267
Net claims expenses and change in loss reserves	(4,567)	2,224
Plus plan revenues		
Life insurance program	94	124
Disability insurance program	134	158
Total	228	282
Less administrative fees	(422)	(549)
Excess (deficiency) of plan revenues over net claims expense	$ (4,761)	$ 1,957

8. COMMITMENTS AND CONTINGENCIES

As of June 30, 2000 and 1999, the Fund had loan commitments to veterans for the purchase of properties under contracts of sale of approximately $369,507,830 and $18,313,948, respectively

The Department is a defendant in certain litigation related to the Department's former Self-Insured Life and Disability Protection Plan, and other matters The Department, based on the advice of its counsel, believes that the suits are without merit and intends to vigorously defend its position Management is of the opinion that the potential liability will not have a material adverse effect on the financial statements

The Fund leases several buildings used as district offices Rent expense for the years ended June 30, 2000 and 1999 was $445,083 and $435,865, respectively Lease terms generally range from five to ten years with options to renew for additional periods As of June 30, 2000, minimum annual rentals under operating leases are as follows (in thousands)

2001	$ 270
2002	152
2003	135
2004	68
	$ 625

9. RETIREMENT PLAN

The Fund, through the Department and the State of California, contributes to the California Public Employees Retirement System (CalPERS), which includes an agent multiple-employer public employee retirement system and a cost sharing multiple-employee plan that acts as a common investment and administrative agent for participating entities within the State of California Substantially all full-time employees of the Department, whose compensation is paid from the Fund, are members of CalPERS The Plan provides a monthly allowance based on age, years of credited service, and highest average compensation over an established period of time of one to three years Vesting occurs after five to ten years The Plan also provides death and disability benefits The benefits are established by contract with CalPERS in accordance with the provisions of the Public Employees Retirement Law CalPERS issues a publicly available Comprehensive Annual Financial Report (CAFR) that includes financial statements and required supplementary information for CalPERS A copy of that report may be obtained by writing to CalPERS, Central Supply, P O Box 1802, Sacramento, CA 95812-1802

Contributions to the Plan are funded by both the Department and the employee, and are actuarially determined by CalPERS based on covered compensation State employees, with the exception of employees in the second-tier plan, are required to contribute to the fund The contribution rates of active plan members are based on a percentage of salary over a monthly base compensation amount of $238 to $863 With the exception of employees in the second-tier plan, state employees' required contributions vary from 5% to 8% of their salary over their base compensation amount

Contributions by the Department to the Plan for the years ended June 30, 2000 and 1999 were approximately $98,000 and $625,000, or approximately 0 8% and 5 6% of participants' salaries, respectively Employee contributions to the Plan for the years ended June 30, 2000 and 1999 were approximately $378,000 and $457,000 or approximately 3 1% and 4 1% of participants' salaries, respectively

For fiscal years ended June 30, 2000 and 1999, the Department's annual pension cost was equal to the Department's required and actual contributions The required contribution was determined as part of the June 30, 1997 actuarial valuation using the entry age normal actuarial cost method The actuarial assumptions included (a) 8 25% investment rate of return, and (b) projected salary increases that vary by duration of service Both (a) and (b) included an inflation component of 3 5% The actuarial value of the Department's assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a five-year period The unfunded actuarial accrued liability is

being amortized as a level percentage of projected payroll on a closed basis The remaining amortization period at June 30, 1997 was 32 years Three-year fund trend information is as follows

Three-Year Fund Trend Information

Fiscal Year End	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
June 30, 1998	$ 956,000	100 %	$ -
June 30, 1999	$ 625,000	100 %	$ -
June 30, 2000	$ 98,000	100 %	$ -

The most recent actuarial valuation of CalPERS indicated that there was an unfunded liability for vested benefits due current employee participants in the plan The amount of the unfunded liability applicable to each agency or department cannot be determined Trend information, which presents CalPERS progress in accumulating sufficient assets to pay benefits when due is presented in the June 30, 1998 CalPERS CAFR

Since all state agencies and departments are considered by CalPERS collectively as a single employer, the actuarial value of plan assets, the actuarial accrued liability, the total unfunded liability, the actuarial value of assets as a percentage of the actuarial accrued liability, and the ratio of unfunded actuarial liability to annual covered payroll attributable to the Department's employees, whose compensation is paid from the Fund, cannot be determined

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EXHIBIT 2

CERTAIN DEPARTMENT FINANCIAL INFORMATION AND OPERATING DATA

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EXHIBIT 2

CERTAIN DEPARTMENT FINANCIAL INFORMATION AND OPERATING DATA

Contracts of Purchase

Set forth below is certain financial information regarding Contracts of Purchase.

Existing Contracts of Purchase

The following charts describe the current loan to value ratios and geographic distribution of Contracts of Purchase financed under the Program as of January 31, 2001 using proceeds of Veterans G.O. Bonds, Revenue Bonds and other amounts under the 1943 Fund.

Current Loan-to-Value Ratio of Contracts of Purchase[1][2]

	Uninsured	Radian Insured[5]	Radian Insured[6]	VA Guaranteed	Total
Single Family Homes					
Less than 30% LTV	$ 111,873	$ 118	$ 14	$ 107	$ 112,112
30-49% LTV	260,915	643	--	343	261,901
50-59% LTV	180,600	783	--	168	181,551
60-69% LTV	214,994	3,584	--	493	219,071
70-79% LTV	250,728	66,638	141	2,543	320,050
Sub-total	$ 1,019,110	$ 71,766	$ 155	$ 3,654	$ 1,094,685
80-84% LTV	$ 24,096	$ 148,004	$ 12,129	$ 6,575	$ 190,804
85-89% LTV	28,229	277,249	50,395	24,072	379,945
90-94% LTV	46,579	155,368	98,580	75,420	375,947
95-97% LTV	49,726	2,455	118,857	55,519	226,557
Sub-total	$ 148,630	$ 583,076	$ 279,961	$ 161,586	$ 1,173,253
Greater than 97% LTV	$ 40,234	$ 1,596	$ 148,763	$ 201,097	$ 391,690
Other Property Types					
Farms	$ 5,521	$ 201	--	--	$ 5,722
Mobile Homes in Parks	8,967	--	--	--	8,967
Sub-total	$ 14,488	$ 201	--	--	$ 14,689
Special Status Contracts of Purchase					
Real Estate Owned[3]	$ 14,444	$ 4,036	$ 913	$ 211	$ 19,604
Disability Program[4]	28,234	--	1,760	--	29,994
Sub-total	$ 42,678	$ 4,036	$ 2,673	$ 211	$ 49,598
Total Portfolio	$ 1,265,140	$ 660,675	$ 431,552	$ 366,548	$ 2,723,915

(1) 000's omitted
(2) LTV based on current Contracts of Purchase balance divided by original appraised value of the property, except that the Department updates the appraised value of the home when the veteran applies for a home improvement loan. In such cases, the LTV is calculated with the new appraised value.
(3) Repossessed properties and delinquent Contracts of Purchase carried as REO on financial statements.
(4) Contracts of Purchase where payments are made on behalf of veterans by the Department's life and disability coverage plan.
(5) The policy was executed on February 28, 1998.
(6) The policy was executed on July 1, 2000.

Geographic Distribution of Contracts of Purchase

County	Approximate Current Contract Balance
San Diego	$ 305,605,192
Sacramento	283,234,743
Los Angeles	198,743,941
San Bernardino	177,594,023
Riverside	167,190,963
Orange	126,051,267
Fresno	120,469,697
Kern	108,337,350
Solano	101,759,463
Placer	94,270,955
San Joaquin	80,788,937
Contra Costa	66,381,217
Shasta	66,115,170
Other Northern California Counties	433,363,907
Other Central California Counties	289,340,647
Other Southern California Counties	104,667,410
Statewide--California	$ 2,723,914,882

Contracts of Purchase Origination and Principal Repayment Experience

The following tables represent, respectively, a historical picture of Contract of Purchase originations since the 1985-86 fiscal year and selected principal repayments with respect to Contracts of Purchase since the 1985-1986 fiscal year.

New Contracts of Purchase During the Fiscal Year[1]

Fiscal Year Ending June 30	Veterans G.O. Bonds		Unrestricted Funds		Revenue Bonds		Total	
	Number	Amount	Number	Amount	Number	Amount	Number	Amount
1985	4,196	$ 290,885,900			2,301	$ 154,244,600	6,497	$ 445,130,500
1986	3,484	243,955,800			2,401	160,782,200	5,885	404,738,000
1987	1,569	108,789,700			1,160	75,836,800	2,729	184,626,500
1988	2,958	236,054,500			1,397	99,040,900	4,355	335,095,400
1989	3,112	252,796,300			1,154	83,076,100	4,266	335,872,400
1990	2,097	187,445,600			522	38,150,800	2,619	225,596,400
1991	1,927	200,393,500			359	29,189,600	2,286	229,583,100
1992	1,086	111,600,500			388	34,671,600	1,474	146,272,100
1993	740	94,417,100			286	27,443,800	1,026	121,860,900
1994	843	117,213,779			337	34,740,536	1,180	151,954,315
1995	2,109	286,178,376			822	84,860,894	2,931	371,039,270
1996	762	107,751,444			222	22,723,617	984	130,475,061
1997	766	118,344,636			201	21,853,933	967	140,198,569
1998	615	99,224,002	188	$ 17,716,376	164	18,871,066	967	135,811,444
1999	758	129,521,359	575	92,728,280	274	33,284,343	1,607	255,533,982
2000	1,045	185,180,534	1,725	333,328,690	708	92,214,409	3,478	610,723,633
2001[2]	715	114,868,012	1,124	218,184,692	586	88,289,012	2,425	421,341,716

(1) Number of new Contracts of Purchase does not include home improvement loans.
(2) 7-month period through January 31, 2001.

Selected Principal Flows with respect to Contracts of Purchase Funded by both Veterans G.O. Bonds and Revenue Bonds

Fiscal Year Ending June 30	Contracts Funded During Year (000s)	Contract Prepayments During Year (000s)	Other Principal Receipts-Losses During Year (000s)	Contract Balance at End of Year (000s)	Average Rate on all Outstanding Contracts	Average of Monthly FHLMC 30-year Conventional Loan Rate	Annual Average Prepayment Rate	Annual Average Origination Rate
	Principal Flows				Rates			
1985	$ 445,131	$ 123,669	$ 88,308	$ 3,142,526	8.0%	13.8%	4.1%	14.7%
1986	404,738	179,809	94,970	3,272,485	8.0	11.5	5.6	12.6
1987	184,627	261,675	99,569	3,095,868	7.7	9.8	8.2	5.8
1988	335,095	198,396	114,178	3,118,389	7.0	10.5	6.4	10.8
1989	335,872	207,471	105,896	3,140,894	7.3	10.6	6.6	10.7
1990	225,596	232,085	96,639	3,037,766	8.0	10.1	7.5	7.3
1991	229,583	191,895	92,722	2,982,732	8.0	9.9	6.4	7.6
1992	146,272	246,150	92,975	2,789,879	8.0	9.0	8.5	5.1
1993	121,861	273,817	105,629	2,532,294	8.0	8.0	10.3	4.6
1994	151,954	359,749	98,773	2,225,726	8.0	7.3	15.1	6.4
1995	371,039	111,984	74,706	2,410,075	7.8	8.7	4.8	16.0
1996	130,475	141,767	92,521	2,306,262	8.0	7.5	6.0	5.5
1997	140,199	111,254	106,027	2,229,180	8.0	7.9	4.9	6.2
1998	135,811	172,134	94,106	2,098,752	7.7	7.2	8.0	6.3
1999	255,534	183,776	103,620	2,066,889	6.9	6.9	8.8	12.3
2000	610,724	138,401	101,533	2,437,679	6.8	8.1	6.1	27.1
2001[1]	421,342	91,663	43,443	2,723,915	6.8	7.6	6.1	28.0
	$ 4,645,853	$ 3,225,695	$ 1,605,615					

Reservation rates on new Contracts of Purchase for period:

Period	Veterans G.O. Bonds*	Unrestricted Funds*	Revenue Bonds*
Prior to January 1, 1999, substantially all newly originated Contracts have the same rate as the then outstanding Contracts.			
January 1, 1999 thru June 30, 2000	6.65%	6.65%	5.95%
July 1, 2000 thru February 28, 2001	7.50%	7.95%	6.95%
March 1, 2001 thru present	6.50%	7.95%	6.40%

* Rates for contracts of purchase for mobile home in parks shall be 1% higher than the applicable established rates.

(1) 7-month period through January 31, 2001.

Amounts Expected to be Available to Fund Contracts of Purchase and Related Investments

The following table shows amounts expected to become available to fund Contracts of Purchase following the expected Veterans G.O. Bonds and Revenue Bonds issuances described in this Official Statement (the "Spring 2001 Transactions" and "Summer 2001 Transactions"). The universe of veterans eligible to receive Contracts of Purchase financed by the different classifications of available moneys is described under "THE PROGRAM--Qualifying Veteran Status." (This section appears in Appendix B in the official statements relating to Veterans G.O. Bonds and in the body of the official statements relating to Revenue Bonds.) Additional moneys may become available to finance Contracts of Purchase through the future issuances of Veterans G.O. Bonds and Revenue Bonds. The Department has full discretion to use moneys available from prior, current or future bond issues in any order of priority it chooses. As of January 31, 2001, the Department had 351 pending applications for Contracts of Purchase in the aggregate amount of approximately $57,000,000.

			Respective Series Bond Proceeds Subaccounts				
Bond Series	Deposit as of	Balance as of	Unrestricted Moneys[1]	Qualified Veterans Mortgage Bond Proceeds[1]	Qualified Mortgage Bond Proceeds[1]	Investment	Investment Rate (%)
Veterans G.O. Bond Proceeds Subaccounts							
Series BP		1/31/01	-0-	$ 3,057	-0-	Trinity[4]	5.702
Series BJ 11/12		1/31/01	-0-	107,493	-0-	AIG[9]	6.481
Series BT/BU		1/31/01	-0-	11,941	-0-	SMIF[3]	Variable
Series BV/BW[13]	4/26/01		-0-	28,630	-0-	SMIF[17]	Variable
Series BV/BW[13]	6/01/01		-0-	56,500	-0-	SMIF[17]	Variable
Series BX/BY[15]	TBD[16]		-0-	TBD[16] *	-0-	TBD[16]	TBD[16]
Sub-total			-0-	$ 207,621 *	-0-		
Veterans G.O. Bond Recycling Subaccounts							
Series BM/BN		1/31/01	-0-	-0-	-0-	WestLB[6][12]	5.380
		1/31/01	$ 6,343	-0-	-0-	SMIF[3]	Variable
	2/26/01		1,700	-0-	-0-	SMIF[3]	Variable
Unrestricted		1/31/01	9,525	-0-	-0-	SMIF[3]	Variable
	2/26/01		20,700	-0-	-0-	SMIF[3]	Variable
Sub-total			$ 38,268	-0-	-0-		
Total Veterans G.O. Bonds			**$ 38,268**	**$ 207,621 ***	**-0-**		
Revenue Bonds Proceeds Subaccounts							
1997 C		1/31/01	-0-	-0-	$ 91,397	Trinity[11]	6.157
2001 A[14]	5/3/01		$ 4,074	-0-	-0-	SMIF[17]	Variable
Sub-total			$ 4,074	-0-	$ 91,397		
Revenue Bonds Recycling Subaccounts							
Section 143		1/31/01	-0-	-0-	$ 18,571	Soc Gen[2][5]	5.730
1991 A Recycling		1/31/01	-0-	-0-	-0-	BLB[7][12]	6.060
		1/31/01	$ 3,042	-0-	-0-	SMIF[3]	Variable
1999 A/B		1/31/01	-0-	-0-	-0-	BLB[8][12]	5.300
		1/31/01	4,814	-0-	-0-	SMIF[3]	Variable
2000 A/B/C		1/31/01	-0-	-0-	-0-	WestLB[10][12]	6.460
1997 C		1/31/01	-0-	-0-	2,850	SMIF[3]	Variable
Sub-total			$ 7,856	-0-	$ 21,421		
Total Revenue Bonds			**$ 11,930**	**-0-**	**$ 112,818**		
Grand Total			**$ 50,198**	**$ 207,621 ***	**$ 112,818**		

Footnotes are on the following page.

(1) 000's omitted.
(2) On August 18, 1999, Moody's confirmed the long-term rating (senior debt and deposits) of Societe Generale at Aa3 with a negative outlook.
(3) Surplus Money Investment Fund.
(4) Investment agreement maturing April 1, 2001 with Trinity Plus Funding Company, LLC ("Trinity"). Under certain circumstances, Trinity will have the benefits of a letter of credit from General Electric Capital Corporation ("GE Capital") and of a revolving liquidity facility under which GE Capital is a lender (there can be additional lenders under the liquidity facility). However, the aggregate of the amounts available under the letter of credit and the liquidity facility may be significantly less than Trinity's obligations under its investment agreements.
(5) Investment agreement maturing December 1, 2001 with Societe Generale.
(6) Investment agreement maturing December 1, 2028 with Westdeutsche Landesbank Girozentrale.
(7) Investment agreement maturing December 1, 2009 with Bayerische Landesbank Girozentrale.
(8) Investment agreement maturing December 1, 2028 with Bayerische Landesbank Girozentrale.
(9) Investment agreement maturing December 1, 2002 with AIG Matched Funding Corporation ("AIG").
(10) Investment agreement maturing June 1, 2010 with Westdeutsche Landesbank Girozentrale.
(11) Investment agreement maturing December 1, 2002 with Trinity. Under certain circumstances, Trinity will have the benefits of a letter of credit and a revolving liquidity facility from GE Capital as described in footnote (4).
(12) Both S&P and Moody's have announced negative rating outlooks for these banks.
(13) Part of the Spring 2001 Transactions, referred to in the official statements with respect to Veterans G.O. Bonds as the "Offered Veterans G.O. Bonds" and in the official statement with respect to Revenue Bonds as the "Spring 2001 Veterans G.O. Bonds".
(14) Part of the Spring 2001 Transactions, referred to in the official statement with respect to Revenue Bonds as the "Offered Revenue Bonds" and in the official statement with respect to the Veterans G.O. Bonds as the "Spring 2001 Revenue Bonds".
(15) Part of the Summer 2001 Transactions, referred to in the official statements with respect to Veterans G.O. Bonds and the Revenue Bonds as the "Summer 2001 Veterans G.O. Bonds".
(16) To be determined upon the issuance of such bonds as part of the Summer 2001 Transactions.
(17) Expected to be invested in Surplus Money Investment Fund. Amounts invested in SMIF may be withdrawn and reinvested at any time.

* Subject to change

Cancellations and Delinquencies

Set forth in the table below is a comparative chart of delinquent, cancelled and repossessed Contracts of Purchase and certain comparative information regarding USDVA guaranteed loans during the same period.

	1994[1]	1995[1]	1996[1]	1997[1]	1998[1]	1999[1]	2000[2]	2001[3]
Percentage of Number of Contracts of Purchase Delinquent								
30-60 days[6]	--[7]	--[7]	--[7]	--[7]	--[7]	--[7]	3.27%	3.50%
60+ days[6]	--[7]	--[7]	--[7]	--[7]	--[7]	--[7]	2.08%	2.00%
Cancelled Contracts and Real Estate in inventory[4]	--[7]	--[7]	--[7]	--[7]	--[7]	--[7]	0.49%	0.62%
USDVA Guaranteed Loans[5]								
Percentages in U.S.								
Delinquent								
30-60 days	4.07%	4.14%	4.59%	4.54%	4.45%	4.35%	4.19%	4.54%
60+ days	2.25%	2.21%	2.20%	2.21%	2.35%	2.26%	2.25%	2.42%
Foreclosures in inventory	1.44%	1.26%	1.54%	1.81%	1.77%	1.82%	1.44%	1.32%
Percentages in California								
Delinquent								
30-60 days	3.42%	4.03%	4.23%	4.30%	4.28%	4.13%	4.05%	4.41%
60+ days	2.36%	2.53%	2.36%	2.52%	2.61%	2.45%	2.27%	2.40%
Foreclosures in inventory	2.28%	2.31%	3.18%	3.54%	2.92%	2.28%	1.39%	1.17%

(1) As of June 18 for Department's and as of June 30 for USDVA data.
(2) As of June 30, 2000 for Department's and USDVA data.
(3) As of January 31, 2001 for Department's and as of September 30, 2000 for USDVA data.
(4) Bankruptcies are included in cancelled Contracts statistics and do not exceed in any period more than 10% of total cancellations and bankruptcy category. Federal bankruptcy law precludes repossession action of Contracts of Purchase when veteran is in bankruptcy proceedings until the automatic stay is lifted.
(5) Source: National Delinquency Survey published by the Mortgage Bankers Association of America.
(6) As of the June 30, 1999 installation of the Integrated Loan Processing and Financial Information System, the Department reports delinquencies on a basis consistent with industry standards.
(7) The data below represents the Department's reporting method prior to the implementation of the Integrated Loan Processing and Financial Information System.

	1994[1]	1995[1]	1996[1]	1997[1]	1998[1]	1999[1]
Percentage of Number of Contracts of Purchase Delinquent[7]						
40-67 days	0.99%	1.45%	2.90%	1.65%	0.78%	0.87%
68+ days	4.24%	3.12%	2.50%	3.22%	1.99%	1.34%
Cancelled Contracts and Real Estate in inventory[4]	0.73%	1.28%	1.89%	1.86%	1.49%	0.94%

Veterans G.O. Bonds and Revenue Bonds

The chart below sets forth certain information regarding Veterans G.O. Bonds and Revenue Bonds, including those expected to be redeemed as a result of the issuance Veterans G.O. Bonds and/or Revenue Bonds as part of the Spring 2001 Transactions and Summer 2001 Transactions.

Selected Information with Respect to Veterans G.O. Bonds and Revenue Bonds

Series	Bonds Outstanding as of 4/1/01	Bonds Expected to be Outstanding as of 8/1/01	Final Maturity or Mandatory Tender Date of Series	Next Optional Call Date	Call Price on Such Date	Maximum Coupon Subject to Optional Call	Bonds Subject to Special Redemption[9]
Veterans G.O. Bonds Issued to Refund Bonds Issued Prior to the Mortgage Subsidy Bond Tax Act of 1980							
BM	$ 66,600,000	$ 53,385,000 [13]	December 1, 2025	--[1]	--[1]	5.450%	Excess Revenues/Unexpended
BN2-4	91,065,000	71,250,000 [13]	December 1, 2028	--[1]	--[1]	5.450%	Excess Revenues/Unexpended
Sub-total	$ 157,665,000	$ 124,635,000					
Veterans G.O. Bonds Issued as Qualified Veterans Mortgage Bonds under the 1954 Code							
AH	$ 42,000,000	-- [15]					
AK	9,000,000	$ 9,000,000	April 1, 2007	Non-callable	N.A.	N.A.	No
AL	26,000,000	26,000,000	April 1, 2007	Non-callable	N.A.	N.A.	No
AM	46,000,000	46,000,000	October 1, 2008	Non-callable	N.A.	N.A.	No
AN/AP	75,000,000	75,000,000	April 1, 2009	Non-callable	N.A.	N.A.	No
AQ	75,000,000	75,000,000	October 1, 2008	Non-callable	N.A.	N.A.	No
AR	34,000,000	34,000,000	October 1, 2009	Non-callable	N.A.	N.A.	No
AS	38,000,000	38,000,000	October 1, 2009	Non-callable	N.A.	N.A.	No
AT	165,325,000	165,325,000	February 1, 2010	Non-callable	N.A.	N.A.	No
AU	113,120,000	113,120,000	October 1, 2010	Non-callable	N.A.	N.A.	No
AV	77,345,000	77,345,000	October 1, 2010	Non-callable	N.A.	N.A.	No
Sub-total	$ 700,790,000	$ 658,790,000 [18]					
Veterans G.O. Bonds Issued as Qualified Veterans Mortgage Bonds under the 1986 Code							
BC/BF[2]	$ 211,245,000	$ 211,245,000 [17]	February 1, 2027	--[4]	100%	6.550%	Allocated Prepayments[3]
BG/BH	586,355,000	586,355,000	December 1, 2032	--[5]	--[5]	5.600%[5]	Excess Revenues/Unexpended
BJ5/6	56,500,000	-- [14]					
BJ7/8	60,000,000	60,000,000	December 1, 2032	--[6]	--[6]	6.200%[6]	Excess Revenues/Unexpended
BJ9/10	40,000,000	40,000,000	December 1, 2032	--[7]	--[7]	6.050%[7]	Excess Revenues/Unexpended
BK/BL	255,615,000	255,615,000	December 1, 2012	--[5]	--[5]	5.300%[5]	Excess Revenues/Unexpended
BP/BN1	14,000,000	14,000,000	December 1, 2026	--[1]	--[1]	5.500%[1]	Excess Revenues/Unexpended
BQ/BR	80,000,000	80,000,000	December 1, 2029	June 1, 2004	101%	5.300%	Excess Revenues/Unexpended
BS	26,500,000	26,500,000	December 1, 2008	Non-callable	N/A	N/A	Excess Revenues/Unexpended
BJ11/12[8]	115,000,000	115,000,000	December 1, 2032	--[8]	--[8]	5.700%	Excess Revenues/Unexpended
BT/BU	115,400,000	115,400,000	December 1, 2026	December 1, 2005	101%	5.650%	Excess Revenues
BV/BW[10]	--	86,225,000	December 1, 2032[10]	June 1, 2006[10]	101%[10]	5.700%[10]	Excess Revenues/Unexpended[10]
BX/BY[12]	--	TBD[16]	-- [12]	-- [12]	-- [12]	-- [12]	-- [12][16]
Sub-total	$ 1,560,615,000	$ 1,590,340,000 [18]					
TOTAL VETERANS G.O. BONDS	$ 2,419,070,000	$ 2,373,765,000 [18]					

Series	Bonds Outstanding as of 4/1/01	Bonds Expected to be Outstanding as of 8/1/01	Final Maturity or Mandatory Tender Date of Series	Next Optional Call Date	Call Price on Such Date	Maximum Coupon Subject to Optional Call	Bonds Subject to Special Redemption[9]
Revenue Bonds Issued as Qualified Mortgage Bonds under the 1986 Code							
1997 A/B	$ 20,225,000	$ 20,225,000	December 1, 2028	December 1, 2008	101%	5.500%	Excess Revenues/Unexpended
1997 C	97,130,000	97,130,000	December 1, 2019	January 9, 2011	101%	5.500%	Excess Revenues/Unexpended
1998 A	121,025,000	121,025,000	December 1, 2019	December 1, 2008	101%	5.450%	Excess Revenues/Unexpended
Sub-total	$ 238,380,000	$ 238,380,000					
Revenue Bonds Issued to Refund Bonds Issued Prior to Mortgage Subsidy Bond Tax Act of 1980							
1999 A	$ 54,170,000	$ 54,170,000	December 1, 2027	June 1, 2004	101%	5.200%	Excess Revenues/Unexpended
1999 B	86,085,000	86,085,000	December 1, 2028	June 1, 2004	101%	5.200%	Excess Revenues/Unexpended
2000 A	54,000,000	54,000,000	December 1, 2004	June 1, 2002	100%	4.750%	Excess Revenues/Unexpended
2000 B	63,200,000	63,200,000	December 1, 2006	June 1, 2002	100%	5.000%	Excess Revenues/Unexpended
2000 C	42,600,000	42,600,000	December 1, 2027	June 1, 2005	101%	6.150%	Excess Revenues/Unexpended
2001 A[11]	--	39,840,000	December 1, 2028 [11]	June 1, 2006[11]	101%[11]	5.600%[11]	Excess Revenues/Unexpended [11]
Sub-total	$ 300,055,000	$ 339,895,000					
TOTAL REVENUE BONDS	$ 538,435,000	$ 578,275,000					
TOTAL ALL BONDS	$ 2,957,505,000	$ 2,952,040,000 [18]					

(1) The Series BM Bonds and Series BN Bonds maturing on and before December 1, 2004 are subject to optional redemption at par on and after June 1, 2000. The remaining Series BM Bonds and Series BN Bonds and all of the Series BP Bonds are subject to optional redemption on and after December 1, 2003, initially at 101% of the principal amount thereof, declining to par on and after December 1, 2004.

(2) Series BC/BF includes Series BC, Series BD, Series BE and Series BF.

(3) Subject to redemption at par from a portion of prepayments on all Contracts of Purchase as allocated to Series based on periodically determined ratio of outstanding bonds (including Veterans G.O. Bonds and Revenue Bonds) of Series to all outstanding bonds. Series BC/BF is now subject to optional redemption at par.

(4) The Series BC/BF Bonds are subject to optional redemption prior to their respective stated maturity dates, in whole on the first day of any month, or in part on any interest payment date.

(5) Except as described in the next sentence, the Series BG Bonds, Series BH Bonds, and Series BL Bonds are subject to optional redemption on and after December 1, 2008, initially at 101% of the principal amount thereof, declining to par on December 1, 2009. The Series BH Bonds maturing on December 1, 2018, December 1, 2024, and December 1, 2032 are subject to optional redemption on and after December 1, 2003 at 102% of the principal amount thereof, declining to 101% of the principal amount thereof on and after December 1, 2004, and declining further to par on December 1, 2005. The Series BK Bonds are not subject to optional redemption.

(6) The BJ-7/8 Serial Bonds maturing on December 1, 2010 through and including December 1, 2016 are subject to optional redemption on December 1, 2009, initially at

101% of the principal amount thereof, declining to par on and after December 1, 2010. The BJ-7/8 Term Bonds maturing on December 1, 2018, December 1, 2024 and December 1, 2032 are subject to optional redemption on December 1, 2005, initially at 102% of the principal amount thereof, declining to par on and after December 1, 2007.

(7) The BJ-9/10 Serial Bonds maturing on December 1, 2010 through and including December 1, 2016 are subject to optional redemption on April 27, 2010, initially at 101% of the principal amount thereof, declining to par on and after April 27, 2011. The BJ-9/10 Term Bonds maturing on December 1, 2018, December 1, 2024 and December 1, 2032 are subject to optional redemption on April 27, 2006, initially at 102% of the principal amount thereof, declining to par on and after April 27, 2008.

(8) The BJ-11/12 Serial Bonds maturing on December 1, 2011 through and including December 1, 2016 are subject to optional redemption on December 19, 2010, initially at 101% of the principal amount thereof, declining to par on and after December 19, 2011. The BJ-11/12 Term Bonds maturing on December 1, 2018, December 1, 2024 and December 1, 2032 are subject to optional redemption on December 19, 2006, initially at 102% of the principal amount thereof, declining to par on and after December 19, 2008.

(9) Excess Revenues includes principal prepayments.

(10) Part of the Spring 2001 Transactions, referred to in the official statements with respect to Veterans G.O. Bonds as the "Offered Veterans G.O. Bonds" and in the official statement with respect to Revenue Bonds as the "Spring 2001 Veterans G.O. Bonds".

(11) Part of the Spring 2001 Transactions, referred to in the official statement with respect to Revenue Bonds as the "Offered Revenue Bonds" and in the official statement with respect to the Veterans G.O. Bonds as the "Spring 2001 Revenue Bonds".

(12) Part of the Summer 2001 Transactions, referred to in the official statements with respect to Veterans G.O. Bonds and the Revenue Bonds as the "Summer 2001 Veterans G.O. Bonds".

(13) Reduction in amount reflects those Veterans G.O. Bonds expected to be retired following expected sale and delivery of Spring 2001 Revenue Bonds on or about May 3, 2001.

(14) Reduction in amount reflects those Veterans G.O. Bonds expected to be retired following expected sale and delivery of Spring 2001 Veterans G.O. Bonds on or about April 25, 2001.

(15) The expected issuance of Summer 2001 Veterans G.O. Bonds would redeem all Series AH bonds. If the Summer 2001 Veterans G.O. Bonds are not issued, the principal amount of the Series AH bonds expected to be outstanding as of August 1, 2001 is $35,000,000.

(16) To be determined upon the issuance of such bonds as part of the Summer 2001 Transactions.

(17) The expected issuance of Summer 2001 Veterans G.O. Bonds would redeem all, part or none of Series BC/BF bonds. The amount of Series BC/BF bonds to be redeemed will depend on a variety of factors including the interest rate.

(18) See footnote (15) and (17), for information regarding circumstances in which this amount would change.

Additional Investments

In addition to the investments described above under "Contracts of Purchase--Amounts Expected to be Available to Fund Contracts of Purchase and Related Investments," the following investments have been made or will be made with respect to moneys in the 1943 Fund and in the Bond Reserve Account which secures the Revenue Bonds:

Bond Series	Account Designation[1]	Amount (000s)	Investment Provider[1]	Initial Investment Date	Investment Maturity Date	Interest Rate (%)
1997/1998	Reserve	$5,251	Societe Generale[3]	3/26/98	12/1/28	5.75
1997/1998	Reserve	$7,001[2]	U.S. Treasury	5/8/98	5/15/05	6.50
1999 A/B	Reserve	$9,817	Westdeutsche Landesbank Girozentrale[9]	3/30/99	12/1/28	5.38
2000 A/B/C	Reserve	$10,186	Trinity Plus Funding Company, LLC	4/1/00	12/1/27	6.895
1997 C	Reserve	$5,733	Westdeutsche Landesbank Girozentrale[9]	1/1/01	12/1/19	5.625
2001 A	Reserve	$2,789	SMIF[19]	5/3/01	--[19]	Variable
BG/BH/BK /BL	Revenue/ Recycling	variable [4]	Societe Generale[3]	12/29/97	12/1/32	5.91
1997/1998	Revenue/ Restricted Recoveries	variable	Societe Generale[3]	3/26/98	12/1/28	5.91
BM/BN2-4	Revenue/ Recycling	variable [5]	Westdeutsche Landesbank Girozentrale[9]	5/5/98	12/1/28	5.38
BP/BN-1	Revenue/ Recycling	variable [5]	Westdeutsche Landesbank Girozentrale[9]	5/5/98	12/1/28	5.38
1999 A/B	Revenue/ Recycling	variable [6]	Bayerische Landesbank Girozentrale[9]	3/30/99	12/1/28	5.30
BQ/BR	Revenue/ Recycling	variable [7]	Westdeutsche Landesbank Girozentrale[9]	4/28/99	12/1/29	5.37

Bond Series	Account Designation[1]	Amount (000s)	Investment Provider[1]	Initial Investment Date	Investment Maturity Date	Interest Rate (%)
BJ 7/8	Revenue/ Recycling	variable[8]	Bayerische Landesbank Girozentrale[9]	12/1/99	12/1/32[8]	6.06
1991 A	Revenue/ Recycling	variable[8]	Bayerische Landesbank Girozentrale[9]	12/1/99	12/1/32[8]	6.06
2000 A/B	Revenue/ Recycling	variable[10]	Westdeutsche Landesbank Girozentrale[9]	3/29/00	12/1/27[10]	6.46
BJ 9/10	Revenue/ Recycling	variable[11]	Westdeutsche Landesbank Girozentrale[9]	4/27/00	12/1/32[11]	6.46
BS	Revenue	variable[11]	Westdeutsche Landesbank Girozentrale[9]	4/27/00	12/1/32[11]	6.46
BJ 11/12	Revenue/ Recycling	variable[12]	Westdeutsche Landesbank Girozentrale[9]	12/19/00	12/1/32[12]	5.50
BT/BU	Revenue/ Recycling	variable[13]	Westdeutsche Landesbank Girozentrale[9]	12/19/00	12/1/26[13]	5.50
1997 C	Revenue/ Restricted Recoveries	variable[14]	Westdeutsche Landesbank Girozentrale[9]	1/9/01	12/1/19	5.50
BV/BW[15]	Revenue/ Recycling	variable[15]	SMIF[19]	4/26/01	--[19]	Variable
2001 A[16]	Revenue/ Recycling	variable[16]	SMIF[19]	5/3/01	--[19]	Variable
BX/BY[17]	Revenue/ Recycling	variable[17]	TBD[18]	TBD[18]	TBD[18]	TBD[18]

Footnotes are on the following page.

1) Accounts are established in the resolutions authorizing the issuance of Revenue Bonds. All investments are investment agreements unless otherwise noted.
2) At cost. Invested in U.S. Treasury Bonds.
3) On August 18, 1999, Moody's confirmed the long-term rating (senior debt and deposits) of Societe Generale at Aa3 with a negative outlook.
4) Maximum permitted amount on deposit under investment agreement at any one time is $250,000,000.
5) Maximum permitted amount on deposit under investment agreement for all (BM, BN, and BP) subaccounts is $50,000,000.
6) Maximum permitted amount on deposit under investment agreement for both subaccounts is $75,000,000.
7) Maximum permitted amount on deposit under investment agreement for both subaccounts is $35,000,000.
8) Maximum permitted amount on deposit under investment agreement for all (BJ 7/8, and 1991 A) subaccounts is $25,000,000. Investment maturity date for the recycling subaccounts is December 1, 2009.
9) Both S&P and Moody's have announced negative rating outlooks for these banks.
10) Maximum permitted amount on deposit under investment agreement for both subaccounts is $20,000,000. Investment maturity date for the recycling subaccount is June 1, 2010.
11) Maximum permitted amount on deposit under investment agreement for all three (BJ 9/10, and BS) subaccounts is $20,000,000. Investment maturity date for BJ-9/10 G.O. Bond Series Recycling Subaccount is June 1, 2010.
12) Maximum permitted amount on deposit under investment agreement for both subaccounts is $25,000,000. Investment maturity date for BJ-11/12 G.O. Bond Series Recycling Subaccount is December 1, 2010.
13) Maximum permitted amount on deposit under investment agreement for both subaccounts is $20,000,000. Investment maturity date for BT/BU G.O. Bond Series Recycling Subaccount is December 1, 2010.
14) Maximum permitted amount on deposit under investment agreement for both subaccounts is $97,130,000.
15) Part of the Spring 2001 Transactions, referred to in the official statement with respect to Veterans G.O. Bonds as the "Offered Veterans G.O. Bonds" and in the official statement with respect to Revenue Bonds as the "Spring 2001 Veterans G.O. Bonds".
16) Part of the Spring 2001 Transactions, referred to in the official statements with respect to Revenue Bonds as the "Offered Revenue Bonds" and in the official statement with respect to the Veterans G.O. Bonds as the "Spring 2001 Revenue Bonds".
17) Part of the Summer 2001 Transactions, referred to in the official statements with respect to Veterans G.O. Bonds and the Revenue Bonds as the "Summer 2001 Veterans G.O. Bonds".
18) To be determined prior to the issuance of such bonds as part of the Summer 2001 Transactions.
19) Expected to be invested in Surplus Money Investment Fund. Amounts invested in SMIF may be withdrawn and reinvested at any time.

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APPENDIX C

BOOK-ENTRY SYSTEM

The information concerning The Depository Trust Company ("DTC") and DTC's book-entry system has been obtained from sources that the State Treasurer believes to be reliable, but the Treasurer and the Underwriters take no responsibility for the accuracy or completeness thereof.

DTC, New York, New York, will act as securities depository for the Offered Veterans G.O. Bonds. The Offered Veterans G.O. 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.

DTC 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, as amended. DTC holds securities that its participants ("Participants") deposit with DTC. DTC also facilitates the settlement among Participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerized book-entry changes in accounts of Participants, thereby eliminating the need for physical movement of securities certificates. Direct Participants (the "Direct Participants") include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. DTC is owned by a number of its Direct Participants and by the New York Stock Exchange, Inc., the American Stock Exchange, Inc., and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as banks, securities brokers and dealers and trust companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). The Rules applicable to DTC and its Participants and Indirect Participants are on file with the Securities and Exchange Commission.

Purchases of the Offered Veterans G.O. Bonds under the DTC System must be made by or through Direct Participants, which will receive a credit for the Offered Veterans G.O. Bonds on DTC's records. The ownership interest of each actual purchaser of each Offered Veterans G.O. 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, but Beneficial Owners are 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 Offered Veterans G.O. Bonds are to be accomplished by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Offered Veterans G.O. Bonds, except in the event that use of the book-entry system for the Offered Veterans G.O. Bonds is discontinued.

To facilitate subsequent transfers, all Securities 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 Offered Veterans G.O. Bonds with DTC and their registration in the name of Cede & Co. do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Offered Veterans G.O. Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Offered Veterans G.O. Bonds are credited, which may or may not be the Beneficial Owners. The Participants and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

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. The State Treasurer will not have any responsibility or obligation to such Participants or the persons for whom they act as nominees with respect to the Offered Veterans G.O. Bonds.

Beneficial Owners of the Offered Veterans G.O. Bonds may wish to take certain steps to augment transmission to them of notices of significant events with respect to the Offered Veterans G.O. Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Offered Veterans G.O. Bond documents. Beneficial Owners of the Offered Veterans G.O. Bonds may wish to ascertain that the nominee holding the Offered Veterans G.O. Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners, or in the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of the notices be provided directly to them.

Redemption notices shall be sent to Cede & Co. If less than all of a maturity of a Series of the Offered Veterans G.O. Bonds is 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.

Neither DTC nor Cede & Co. (nor such other DTC nominee) will consent or vote with respect to Offered Veterans G.O. Bonds. Under its usual procedures, DTC mails an Omnibus Proxy to the issuer 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 Offered Veterans G.O. Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Without limiting the generality of the foregoing, the State Treasurer and the Underwriters have no responsibility or liability for any aspects of the records relating to or payments made on account of beneficial ownership, or for maintaining, supervising or reviewing any records relating to beneficial ownership, or interests in the Offered Veterans G.O. Bonds.

Principal, premium and interest payments on the Offered Veterans G.O. 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 payable date 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 (nor its nominee) or the State Treasurer, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to DTC is the responsibility of the State Treasurer, disbursement of such payments to Direct Participants shall be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners shall be the responsibility of Direct and Indirect Participants.

The State Treasurer and the Underwriters cannot and do not give any assurances that DTC, Participants or others will distribute payments with respect to the Offered Veterans G.O. Bonds received by DTC or its nominee as the registered owner, or any prepayment or other notices, to the Beneficial Owners, or that they will do so on a timely basis, or that DTC will serve and act in the manner described in this Official Statement.

The State Treasurer may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, bond certificates will be printed and delivered. DTC may discontinue providing its services as securities depository with respect to the Offered Veterans G.O. Bonds at any time by giving reasonable notice to the State Treasurer.

Under such circumstances, in the event that a successor securities depository is not obtained, bond certificates are required to be printed and delivered.

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APPENDIX D

SUMMARY OF CONTINUING DISCLOSURE CERTIFICATES

STATE TREASURER'S DISCLOSURE CERTIFICATE

The State Treasurer, on behalf of the State, will execute for the Offered Veterans G.O. Bonds a Continuing Disclosure Certificate (the "Treasurer's Disclosure Certificate"). The following is a summary of the provisions of the Treasurer's Disclosure Certificate. Such summary is qualified by reference to the complete Treasurer's Disclosure Certificate, which is available from the Office of the State Treasurer.

Definitions

Pursuant to the Treasurer's Disclosure Certificate, the following definitions will apply:

"**Annual Report**" shall mean the Annual Report filed by the State Treasurer pursuant to, and as described in, the Treasurer's Disclosure Certificate.

"**Beneficial Owner**" shall mean any person which has or shares the power, directly or indirectly, to make investment decisions concerning ownership of any applicable Offered Veterans G.O. Bonds (including persons holding applicable Offered Veterans G.O. Bonds through nominees, depositories or other intermediaries).

"**Dissemination Agent**" shall mean the State Treasurer, acting in its capacity as Dissemination Agent under the Treasurer's Disclosure Certificates, or any successor Dissemination Agent designated in writing by the State Treasurer.

"**Holder**" shall mean any person listed on the registration books of the State Treasurer as the registered owner of any applicable Offered Veterans G.O. Bonds.

"**Listed Events**" shall mean any of the events listed below under "Reporting of Significant Events."

"**National Repository**" shall mean any Nationally Recognized Municipal Securities Information Repository certified by the Securities and Exchange Commission to be the recipient of information of the nature of the Annual Reports required by the Treasurer's Disclosure Certificate.

"**Official Statement**" shall mean the Official Statement relating to the original issuance of the Offered Veterans G.O. Bonds.

"**Repository**" shall mean each National Repository and the State Repository.

"**Rule**" shall mean Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

"**State**" shall mean the State of California.

"State Repository" shall mean any public or private repository or entity within the State created for the purpose of receiving information of the nature of the Annual Reports or reports of material events required by the Treasurer's Disclosure Certificate and recognized as such by the Securities and Exchange Commission. As of the date of this Official Statement, there is no State Repository.

Annual Reports

The State Treasurer on behalf of the State shall, not later than April 1 of each year in which the applicable Offered Veterans G.O. Bonds are outstanding, commencing with the report for the next Fiscal Year, provide an Annual Report consistent with the requirements of the Treasurer's Disclosure Certificate (an "Annual Report") to each Repository; 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. The State Treasurer shall make a copy of any Annual Report available to any person who requests a copy at a cost not exceeding the reasonable cost of duplication and delivery.

If in any year, the State Treasurer does not provide the Annual Report to each Repository by the time specified above, the State Treasurer shall instead file a notice with each Repository stating that the Annual Report has not been timely completed and, if known, stating the date by which the State Treasurer expects to file the Annual Report.

The Annual Report shall contain or include by reference the following:

(2) The audited General Purpose 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 filed pursuant to the Treasurer's Disclosure Certificate, the Annual Report shall contain unaudited financial statements in a format similar to the financial statements contained in the applicable final Official Statement, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available.

(3) 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:

Table Entitled

Summary of State Revenues and Expenditures
Revenue and Expenditure Assumptions

(4) 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 end 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 Indebtedness" in the Official Statement.

Table Entitled

Authorized and Outstanding General Obligation Bonds

Outstanding State Debt

Schedule of Debt Service Requirements for General Fund General Obligation Bonds

Schedule of Debt Service Requirements for Enterprise Fund General Obligation Bonds

Schedule of Debt Service Requirements for Lease-Purchase Debt

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

State Agency Revenue Bonds and Conduit Financing

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 which have been filed by the State with each of the Repositories, including any final official statement (in which case such final official statement must also be available from the Municipal Securities Rulemaking Board). The State Treasurer shall clearly identify in the Annual Report each such document so included by reference.

Reporting of Significant Events

The State Treasurer, on behalf of the State shall give, or cause to be given, prompt notice of the occurrence of any of the following events with respect to the Offered Veterans G.O. Bonds (hereafter referred to as a "Listed Event"), if material:

2. principal and interest payment delinquencies;
3. non-payment related defaults;
4. modifications to rights of Bondholders;
5. optional, contingent or unscheduled bond calls;
6. defeasances;
7. rating changes;
8. adverse tax opinions or events affecting the tax-exempt status of the applicable Offered Veterans G.O. Bonds;
9. unscheduled draws on debt service reserves reflecting financial difficulties;

10. unscheduled draws on credit enhancements reflecting financial difficulties;
11. substitution of credit or liquidity providers, or their failure to perform; or
12. release, substitution or sale of property securing repayment of the applicable Offered Veterans G.O. Bonds.

The State Treasurer shall timely file a notice of each such occurrence, if it is material under applicable federal securities laws, with the Municipal Securities Rulemaking Board and each Repository. The State notes that items 8, 9, 10 and 11 above are not applicable to the Offered Veterans G.O. Bonds.

Other Provisions

Termination of Reporting Obligation. The State's obligations under the Treasurer's Disclosure Certificates shall terminate upon the maturity, legal defeasance, prior redemption or acceleration of all of the applicable outstanding Offered Veterans G.O. Bonds.

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 the Treasurer's Disclosure Certificate, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. 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.

Amendment; Waiver. Notwithstanding any other provision of the Treasurer's Disclosure Certificates, the State Treasurer may amend or waive any provision of the Treasurer's Disclosure Certificates, provided that the following conditions are satisfied:

(a) If the amendment or waiver relates to the provisions of the Treasurer's Disclosure Certificate dealing with the timing or content of the Annual Report or the giving of notice of Listed Events, 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 applicable Offered Veterans G.O. 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 applicable Offered Veterans G.O. 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 sixty percent (60%) of the applicable Offered Veterans G.O. Bonds, or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the Holders or Beneficial Owners of the applicable Offered Veterans G.O. Bonds.

Additional Information. Nothing in the Treasurer's Disclosure Certificate shall be deemed to prevent the State Treasurer from disseminating any other information, using the means of dissemination set forth in the Treasurer's 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 the Treasurer's 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 the Treasurer's Disclosure Certificate, the State Treasurer shall not have any obligation to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

Beneficiaries. The Treasurer's Disclosure Certificate shall inure solely to the benefit of the Holders and Beneficial Owners from time to time of the Offered Veterans G.O. Bonds, and shall create no rights in any other person or entity (except the right of any Bondholder or Beneficial Owner to enforce the provisions of the Treasurer's Disclosure Certificate on behalf of the Bondholders). The Treasurer's Disclosure Certificate is not intended to create any monetary rights on behalf of any person based upon the Rule. The sole remedy in the event of any failure of the State Treasurer to comply with the Treasurer's Disclosure Certificate shall be an action to compel performance of any act required thereunder.

DEPARTMENT'S DISCLOSURE CERTIFICATE

The Secretary of Veterans Affairs (the "Secretary"), on behalf of the Department, will execute a Continuing Disclosure Certificate (the "Department's Disclosure Certificate") for the Offered Veterans G.O. Bonds. The following is a summary of the Department's Disclosure Certificate. Such summary is qualified by reference to the complete Department's Disclosure Certificate, which is available from the Department.

Certain Definitions

Defined terms used in the Department's Disclosure Certificate and not otherwise defined therein have the meanings set forth elsewhere in this Official Statement.

"Beneficial Owner" means a Beneficial Owner of Subject Bonds, as determined pursuant to the Rule.

"Bonds" means, at any time, all of the State's then Outstanding Offered Veterans G.O. Bonds, collectively.

"Fiscal Year" means that period established by the Department with respect to which its, as applicable, Audited Financial Statements or Unaudited Financial Statements are prepared. As of the date of the Department's Disclosure Certificate, the Department's Fiscal Year begins on July 1 and ends on June 30 of the next calendar year.

"Holders" means the registered owners of the Subject Bonds.

"MSRB" means the Municipal Securities Rulemaking Board established pursuant to Section 15B(b)(1) of the Securities Exchange Act of 1934, as amended.

"Notice" means written notice, sent for overnight delivery via the United States Postal Service or a private delivery service which provides evidence of delivery.

"Notice Address" means with respect to the Department:

State of California Department of Veterans Affairs
1227 O Street
Sacramento, CA 95814
Attention: Bond Finance Division

"NRMSIR" means, at any time, a then-existing nationally recognized municipal securities information repository, as recognized from time to time by the SEC for the purposes referred to in the Rule.

"Official Statement" means the Official Statement relating to the original issuance of the Offered Veterans G.O. Bonds.

"Rule" means the applicable provisions of Rule 15c2-12 promulgated by the SEC under the Securities Exchange Act of 1934, as amended (17 CFR Part 240, § 240.15c2-12), as in effect

on the date of the Department's Disclosure Certificate, including any official interpretations thereof.

"SEC" means the United States Securities and Exchange Commission.

"Securities Counsel" means legal counsel expert in federal securities laws.

"SID" means, at any time, a then-existing state information depository, if any, as operated or designated as such by or on behalf of the State and recognized by the SEC for the purposes referred to in the Rule.*

"Subject Bonds" means those Offered Veterans G.O. Bonds and those Veterans G.O. Bonds subject to the same Department's Disclosure Certificate.

Provision of Annual Financial Information

The Department will, not later than the first day of the tenth calendar month after the end of each of the Department's Fiscal Years, commencing with the report for the 2000-2001 Fiscal Year, provide to the State Treasurer and to each NRMSIR and the SID the Annual Financial Information (as described hereinbelow). The audited financial statements of the Department may be submitted separately from the balance of the Annual Financial Information, and later than the date required for the filing of the Annual Financial Information if not available by that date.

The Department's Disclosure Certificate requires the Department to provide, in a timely manner, notice of any failure by it to provide Annual Financial Information to each NRMSIR and the SID on or before the date described in the first paragraph under this heading, to the SID, to the State Treasurer, and to either (i) each NRMSIR or (ii) the MSRB.

Content of Annual Financial Information

The Department's Annual Financial Information shall contain or include by reference the following:

(a) financial information or operating data of the types included in EXHIBIT 2 to APPENDIX B of the Official Statement entitled "CERTAIN DEPARTMENT FINANCIAL INFORMATION AND OPERATING DATA"; and

(b) the audited financial statements of the 1943 Fund for the Fiscal Year ended on the previous June 30, prepared in accordance with generally accepted accounting principles established by the Financial Accounting Standards Board, if available, or unaudited financial statements for such Fiscal Year.

If not provided as part of the Annual Financial Information by the date required (as described above under "Provision of Annual Financial Information"), the Department shall provide audited financial statements, when and if available, to the State Treasurer and to each NRMSIR and the SID.

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* As of the date of this Official Statement, there is no SID.

Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues of the Department or related public entities, which have been submitted to each NRMSIR and the SID or the SEC. (If such document is an official statement, it must also be available from the MSRB.) Annual Financial Information may be provided in one document or multiple documents, and at one time or in part from time to time.

Additional Information

Nothing in the Department's Disclosure Certificate will be deemed to prevent the Department from disseminating any other information, using the means of dissemination set forth in such Department's Disclosure Certificate or any other means of communication, or including any other information in any Annual Financial Information, in addition to that which is required by the Department's Disclosure Certificate. If the Department chooses to include any information in any Annual Financial Information in addition to that which is specifically required by the Department's Disclosure Certificate, the Department will have no obligation under the Department's Disclosure Certificate to update such information or include it in any future Annual Financial Information.

Amendment of Department's Disclosure Certificate

The Department's Disclosure Certificate may be amended and any provision of the Department's Disclosure Certificates be waived, without the consent of the Holders or Beneficial Owners, except as described in clause 4 (ii) below, under the following conditions: (1) such amendment or waiver is made in connection with a change in circumstances that arises from a change in legal (including regulatory) requirements, a change in law (including rules or regulations) or in interpretations thereof, or a change in the identity, nature or status of the Department or the type of business conducted thereby, (2) the Department's Disclosure Certificate as so amended or waived would have complied with the requirements of the Rule as of the date of each primary offering of Subject Bonds affected by such amendment or waiver, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances, (3) the Department shall have obtained an opinion of Securities Counsel, addressed to the Department and the State Treasurer, to the same effect as set forth in clause (2) above, (4) either (i) a party unaffiliated with the Department (such as bond counsel), acceptable to the Department, has determined that the amendment or waiver does not materially impair the interests of the Beneficial Owners, or (ii) the applicable Holders consent to the amendment to or waiver of such Department's Disclosure Certificate, and (5) the Department shall have delivered copies of such amendment or waiver to the SID, to the State Treasurer, and to either each NRMSIR or the MSRB.

In addition to the foregoing, the Department may amend the Department's Disclosure Certificate, and any provision of the Department's Disclosure Certificate may be waived, if the Department shall have received an opinion of Securities Counsel, addressed to the Department and the State Treasurer, to the effect that the adoption and the terms of the amendment or waiver would not, in and of themselves, cause the undertakings in such Department's Disclosure

Certificate to violate the Rule, taking into account any subsequent change in or official interpretation of the Rule.

Benefit; Enforcement

The provisions of the Department's Disclosure Certificate will inure solely to the benefit of the Holders and Beneficial Owners from time to time.

Except as described in this paragraph, the provisions of the Department's Disclosure Certificate will create no rights in any other person or entity. The obligation of the Department to comply with the provisions of the Department's Disclosure Certificate is enforceable (i) in the case of enforcement of obligations to provide financial statements, financial information, operating data, and notices, by any Beneficial Owner of outstanding Subject Bonds, or (ii) in the case of challenges to the adequacy of the financial statements, financial information, and operating data so provided, by the Holders of not less than twenty-five percent (25%) in aggregate principal amount of the Subject Bonds at the time Outstanding.

The right to enforce the provisions of the Department's Disclosure Certificate is limited to a right, by action in mandamus or for specific performance, to compel performance of the Department's obligations under the Department's Disclosure Certificate. Any failure by the Department to perform in accordance with the Department's Disclosure Certificate will not constitute a default under the Subject Bonds, and the rights and remedies provided by the Subject Bonds upon the occurrence of a default will not apply to any such failure.

Termination of Reporting Obligation

The Department's obligations under the Department's Disclosure Certificate with respect to the Subject Bonds terminate upon the legal defeasance, prior redemption, or payment in full of all of such Subject Bonds. The Department shall give notice of any such termination to the SID and to either each NRMSIR or the MSRB.

The Department's Disclosure Certificate, or any provision thereof, will be null and void to the extent set forth in the opinion of Securities Counsel obtained by the Department and addressed to the Department and the State Treasurer, to the effect that those portions of the Rule which require the provisions of such Department's Disclosure Certificate, or any of such provisions, do not or no longer apply to the applicable Subject Bonds, whether because such portions of the Rule are invalid, have been repealed, or otherwise, as will be specified in such opinion, and the Department delivers notice to such effect to the State Treasurer, to the SID and to either each NRMSIR or the MSRB.

Governing Law

The Department's Disclosure Certificate will be construed and interpreted in accordance with the laws of the State, and any suits and actions arising out of the Department's Disclosure Certificate will be instituted in a court of competent jurisdiction in the State, *provided that,* to the extent such Department's Disclosure Certificate addresses matters of federal securities laws,

including the Rule, the Department's Disclosure Certificate will be construed in accordance with such federal securities laws and official interpretations thereof.

APPENDIX E

CERTAIN FEDERAL TAX CODE REQUIREMENTS

The Federal Tax Code restricts the issuance of Federally tax-exempt bonds to finance mortgage loans for single family housing or to refund such bonds.

Those Federal Tax Code restrictions are not the same for all such tax-exempt bonds. There are three types of such tax-exempt bonds: (i) qualified mortgage bonds, which provide Qualified Mortgage Bond Proceeds, (ii) qualified veterans' mortgage bonds, which provide Qualified Veterans' Mortgage Bond Proceeds, and (iii) pre-Ullman bonds, which provide Unrestricted Moneys. Revenue Bonds may be either qualified mortgage bonds or pre-Ullman Bonds. ("Pre-Ullman bonds" are bonds issued before 1981, or bonds issued to refund such bonds.) Veterans G.O. Bonds may be either qualified veterans' mortgage bonds or pre-Ullman bonds. The principal Federal Tax Code restrictions relate to: (i) the use of proceeds of the bond issue, (ii) the yield on the financed mortgage loans and from certain non-mortgage investments related to the issue, (iii) for qualified mortgage bonds and qualified veterans' mortgage bonds, loan eligibility requirements, (iv) for qualified mortgage bonds, the availability of proceeds of the issue for financing housing located in "targeted areas," and (v) certain matters relating to the issue itself.

See "TAX MATTERS" for information regarding the requirements applicable to the Offered Veterans G.O. Bonds.

Failure to comply with the applicable provisions of the Federal Tax Code may result in interest on the applicable issue of bonds being included in gross income for federal income tax purposes retroactive to the date of issuance thereof.

Loan Eligibility Requirements Imposed by the Federal Tax Code on Qualified Mortgage Bond Proceeds and Qualified Veterans' Mortgage Bond Proceeds

Qualified Mortgage Bond Proceeds

The Federal Tax Code contains the following loan eligibility requirements with respect to Qualified Mortgage Bond Proceeds, except that the requirements described under "First-Time Homebuyer Requirement," "Purchase Price Limitation," and "Other Requirements Imposed by the Code – Recapture Provision" do not apply to home improvement loans, and the requirements described under "Qualified Home Improvement Loans" do not apply to loans for the acquisition of single family homes. None of those requirements applies to pre-Ullman bonds or qualified veterans' mortgage bonds.

Residence Requirement. The Federal Tax Code requires that each of the premises financed with the lendable proceeds of qualified mortgage bonds be a one-to-four-family residence, one unit of which can reasonably be expected to become the principal residence of the veteran within a reasonable time after the financing is provided. Certain documents adopted by the Department establish procedures to be followed in connection with Contracts of Purchase

which finance the acquisition of single family homes in order to assure that interest paid on the qualified mortgage bonds not be included in gross income for Federal income tax purposes under the Federal Tax Code (the "Single Family Program Documents"). Certain documents adopted by the Department establish procedures to be followed in connection with Contracts of Purchase to finance home improvement loans in order to assure that interest paid on the qualified mortgage bonds is not included in gross income for Federal income tax purposes under the Federal Tax Code (the "Home Improvement Program Documents," together with the Single Family Program Documents, the "Program Documents"). In connection with the financing of a Contract of Purchase, the Program Documents require that each veteran submit an affidavit stating such person's intention to occupy the premises as his principal residence within 60 days after closing of the Contract of Purchase.

First-Time Homebuyer Requirement. The Federal Tax Code requires that, subject to certain exceptions, the lendable proceeds of qualified mortgage bonds be used to provide financing to borrowers who have not had a present ownership interest in their principal residence during the three-year period prior to execution of the mortgage loan. This limitation, however, does not apply to the mortgagor's interest in the residence being financed or to certain residences in certain Presidentially-declared disaster areas; and all financing with respect to targeted area residences and residences on land possessed under certain contract for deed agreements is treated as satisfying the first time homebuyer requirement. Veterans subject to this requirement are required to provide federal income tax returns for the previous three years or other appropriate certifications to allow verification that no deductions or other entries have been made that would indicate any such ownership interest.

New Mortgage Requirement. The Federal Tax Code requires that, with certain limited exceptions, the lendable proceeds of qualified mortgage bonds finance new mortgage loans only and that no proceeds may be used to acquire or replace an existing mortgage loan, which would include the refinancing of a pre-existing mortgage loan. The Program Documents state that the Department will verify compliance with the new mortgage requirement by requiring each veteran to certify prior to financing, subject to such exceptions, that no refinancing of a prior mortgage loan is being effected.

Purchase Price Limitation. The Federal Tax Code requires that the purchase price of the residence financed with the lendable proceeds of qualified mortgage bonds may not exceed 90% of the average area purchase price applicable to such residence or 110% of the applicable average area purchase price in the case of residences located in targeted areas or residences in certain Presidentially-declared disaster areas. The Program Documents state that the Department will verify compliance with the purchase price limitations by requiring each veteran and seller of a residence to make certifications regarding the purchase price of such residence.

Income Limitation. The Federal Tax Code requires that all mortgage loans made from the lendable proceeds of qualified mortgage bonds be made only to borrowers whose family income does not exceed 115% (for mortgage loans made to families with fewer than three members, 100%) of the applicable median family income. An exception is provided for mortgage loans financed with the lendable proceeds of qualified mortgage bonds made with respect to

targeted area residences and residences in certain Presidentially-declared disaster areas that permits two-thirds in aggregate amount of such mortgage loans to be made with respect to borrowers whose family income does not exceed 140% (for mortgage loans made to families with fewer than three members, 120%) of the applicable median family income and one-third in aggregate amount of such loans to be made without regard to any income limitation.

Federal tax law permits higher income limits for persons financing homes located in certain "high housing cost areas." A high housing cost area is a statistical area for which the ratios of the area's average purchase price for existing and new single family houses to the area's median income exceed 120% of the same ratios determined on a national basis. These ratios are determined separately with respect to new and existing single family residences. An area is a high housing cost area only if the ratios for both new and existing houses meet the 120% test. In high housing cost areas, the veteran income limits are increased above 115% (or 100%, as applicable) by one percent for each percentage point (1%) by which the new or existing housing price ratio, whichever is smaller, exceeds 120%. However, the new limit cannot exceed 140% (or 120%, as applicable) of the income limits otherwise applicable. Certain areas of the State may qualify as high housing cost areas.

Family income includes income of all individuals executing both the note and mortgage and occupying the dwelling as their principal residence.

Requirements as to Assumptions. The Federal Tax Code provides that a mortgage loan may be assumed only if each of the then applicable residence requirements, first-time-homebuyer requirement, purchase price limitation, and income limitation is met with respect to such assumption. The Contracts of Purchase contain a "due on sale" clause, and the Department will not permit the assumption of a Contract of Purchase unless it has determined that these requirements have been met and has obtained the appropriate certifications.

Qualified Home Improvement Loans. The Federal Tax Code requires that a home improvement loan financed with the lendable proceeds of qualified mortgage bonds not exceed $15,000, be made only with respect to an owner-occupied residence, and finance alterations, repairs, and improvements on or in connection with an existing one-to-four-family residence by the owner thereof, but only if such alterations, repairs and improvements substantially protect or improve the basic livability or energy efficiency of the property.

General. Qualified mortgage bonds treated under the Federal Tax Code as one bond issue for federal tax purposes ("qualified mortgage issue") are deemed to meet the loan eligibility requirements of the Federal Tax Code if (i) the issuer in good faith attempted to meet all the loan eligibility requirements before the mortgage loans were executed, (ii) any failure to comply with the loan eligibility requirements is corrected within a reasonable period after such failure is first discovered, and (iii) 95% or more of the proceeds of the issue used to make mortgage loans was used to finance residences that met all such requirements at the time the mortgage loans were executed. In determining whether 95% or more of the proceeds has been so used, the Federal Tax Code permits the Department to rely on an affidavit of the veteran and of the seller as to the purchase price of a residence and an affidavit of the veteran and an examination of copies of the veteran's Federal income tax returns for the last three years preceding the date the Contract of

Purchase is or was executed even though the relevant information in such affidavits and income tax returns should ultimately prove to be untrue, unless the Department knows or has reason to believe that such information is false.

Qualified Veterans' Mortgage Bond Proceeds

The Federal Tax Code requires that each mortgagor to whom financing is provided under a qualified veterans' mortgage bond issue have served on active duty at some time before January 1, 1977 and apply for financing before the later of January 31, 1985 or the date which is 30 years after the last date on which the veteran left active service. The Department has established and has covenanted to comply with such requirements.

Generally, only the loan eligibility requirements stated above under "Qualified Mortgage Bond Proceeds - Residence Requirement," "- New Mortgage Requirement" and "- Qualified Home Improvement Loans" (*except* the $15,000 maximum loan amount) apply to Qualified Veterans' Mortgage Bond Proceeds.

Other Requirements Imposed by the Federal Tax Code

General. The Federal Tax Code provides that gross income for federal income tax purposes does not include interest on a mortgage revenue bond if it is a qualified mortgage bond or a qualified veterans' mortgage bond. A qualified mortgage bond is a part of an issue of a state or political subdivision all the proceeds of which (net of amounts applied to any costs of issuance thereof and to fund a reasonably required reserve) are used to finance (or to refund bonds all of such net proceeds of which were used to finance) owner-occupied residences and that meets certain (i) general requirements, (ii) arbitrage restrictions on the use and investment of proceeds of the issue, and (iii) loan eligibility requirements set forth in the Federal Tax Code and as more fully described above under "Loan Eligibility Requirements Imposed by the Federal Tax Code." A qualified veterans' mortgage bond is part of an issue 95 percent or more of the net proceeds of which are used to provide residences to veterans and that meets certain (i) general requirements, (ii) arbitrage restrictions on the use and investment of proceeds of the issue, and (iii) loan eligibility requirements set forth in the Federal Tax Code and as more fully described above under "Loan Eligibility Requirements Imposed by the Federal Tax Code."

Volume Limitation, Targeted Area and Required Reports. The first general requirement of the Federal Tax Code, applicable to qualified mortgage bonds, is that the aggregate amount of private activity bonds (exclusive of qualified veterans' mortgage bonds) that may be issued by the Department in any calendar year (or previous years' carried forward amount) must not exceed the portion of the private activity bond volume limit for the State for such calendar year that is allocated by the State to the Department. With respect to qualified veterans' mortgage bonds, a separate limit is based on statutory formulae. The second general requirement of the Federal Tax Code applicable to qualified mortgage bonds is that at least 20% of the lendable proceeds of an issue of bonds which are not refunding bonds (if such set-aside was satisfied with respect to the bonds being refunded) must be made available (and applied with reasonable diligence) for owner-financing of residences in targeted areas (as defined by the Federal Tax Code) for at least one year after the date on which such funds are first available for such owner-financing (the

"targeted area requirement"). The third general requirement of the Federal Tax Code requires the issuer of qualified mortgage bonds and qualified veterans' mortgage bonds to file with the Internal Revenue Service reports on the issuance of its qualified mortgage bonds or qualified veterans mortgage bonds following such issuance, as well as an annual qualified mortgage loan information report.

Yield Limitations and Rebate. The Federal Tax Code requires that the effective interest rate on mortgage loans financed with the lendable proceeds of qualified mortgage bonds and qualified veterans' mortgage bonds may not exceed the yield on the issue by more than 1.125% (1.50% for pre-Ullman bonds), and that certain investment earnings on non-mortgage investments, calculated based upon the extent such investment earnings exceed the amount that would have been earned on such investments if the investments were invested at a yield equal to the yield on the issue, be rebated to the United States or to veterans. These requirements apply to both Revenue Bonds and Veterans G.O. Bonds, except that for Veterans G.O. Bonds, rebate, absent an election to pay to the United States, is to veterans. The Department has established procedures to determine the amount of excess earnings, if any, that must be rebated to the United States or to veterans. See APPENDIX B – "THE DEPARTMENT OF VETERANS AFFAIRS OF THE STATE OF CALIFORNIA, THE PROGRAM AND THE 1943 FUND" and "–THE PROGRAM – Contracts of Purchase" for discussions of provisions of the Veterans Code which affect the Department's ability to establish and to change interest rates on Contracts of Purchase.

Recapture Provision Applicable to Qualified Mortgage Bonds. For certain mortgage loans made after December 31, 1990 from the lendable proceeds of qualified mortgage bonds issued after August 15, 1986, and for assumptions of such mortgage loans, the Federal Tax Code requires a payment to the United States from certain borrowers upon sale or other disposition of their homes (the "Recapture Provision"). The Recapture Provision requires that an amount determined to be the subsidy provided by a qualified mortgage bond financing to a borrower be paid to the United States on disposition of the residence (but not in excess of 50% of the gain realized by the borrower). The recapture amount would (i) increase over the period of ownership, with full recapture occurring if the residence were sold between four and five full years after the closing of the mortgage loan and (ii) decline ratably to zero with respect to sales occurring between five and nine full years after the closing of the mortgage loan. An exception excludes from recapture part or all of the subsidy in the case of certain assisted individuals whose incomes are less than prescribed amounts at the time of the disposition. The Federal Tax Code requires an issuer to inform borrowers of certain information with respect to the Recapture Provision.

Required Redemptions. For qualified mortgage bonds issued after 1988, the Federal Tax Code permits repayments (including prepayments) of principal of mortgage loans financed with the proceeds of an issue of such bonds to be used to make additional mortgage loans for only 10 years from the date of issuance of the bonds (or the date of issuance of the original bonds in the case of refundings), after which date such amounts must be used to redeem bonds, except for a $250,000 *de minimis* amount (the "10-Year Rule"). As a result, the Department is required by the Federal Tax Code to redeem Revenue Bonds which are qualified mortgage bonds from repayments (including prepayments) of principal of certain Contracts of Purchase not later than

the close of the semi-annual period after the payment is received. See "TAX MATTERS – Federal Tax Matters – Proposed Federal Tax Legislation."

Compliance. The Federal Tax Code states that an issuer will be treated as meeting the targeted area requirement, the arbitrage restrictions on mortgage loans, and the recapture information requirements if it in good faith attempted to meet all such requirements and any failure to meet such requirements was due to inadvertent error after taking all reasonable steps to comply with such requirements.

APPENDIX F

LEGAL OPINION OF ATTORNEY GENERAL

Bill Lockyer
Attorney General
STATE OF CALIFORNIA
1300 I Street, Suite 1101
Sacramento, California 95814

(Closing Date)

Office of the Treasurer of the State
of California
915 Capitol Mall, Room 235
Sacramento, California 95814

Ladies and Gentlemen:

The undersigned, Attorney General of the State of California (the "State"), has examined upon request copies of proceedings taken by the State in connection with the issuance of the State's $29,725,000 aggregate principal amount Veterans General Obligation Bonds, Series BV (the "Series BV Bonds") and $56,500,000 aggregate principal amount Veterans General Obligation Bonds, Series BW (the "Series BW Bonds," and together with the Series BV Bonds, the "Series BV and BW Bonds") and the sale of the Series BV and BW Bonds to the initial purchasers thereof. The Series BV and BW Bonds are issued pursuant to (i) the Veterans Bond Acts identified in Schedule A hereto (collectively the "Law"), which is incorporated by reference, each of which was approved by the electors of the State, (ii) Part 3 of Division 4 of Title 2 of the California Government Code, and (iii) resolutions (the "Resolutions") adopted by the Veterans Finance Committee of 1943 on February 16, 2000, January 25, 2001 and February 21, 2001, identified in Schedule B hereto, which is incorporated by reference.

The Series BV and BW Bonds are dated, mature on the dates in the principal amounts, bear interest, if any, and are payable as provided in the Resolutions. The Bonds are subject to redemption prior to maturity in whole or in part as provided in the Resolutions.

In connection with the issuance of the Series BV and BW Bonds, the undersigned has examined (a) a copy of the Resolutions, and (b) such other opinions, documents, certificates and letters as we deem relevant and necessary in rendering this opinion.

From such examination, the undersigned is of the opinion that the State has lawful authority for the issuance of the Series BV and BW Bonds, and the Series BV and BW Bonds constitute the valid and legally binding general obligations of the State payable in accordance with

the Law from the General Fund of the State. The full faith and credit of the State of California are pledged for the punctual payment of the principal of and interest on the Series BV and BW Bonds.

In rendering this opinion, we advise you that the enforceability of the Series BV and BW Bonds and the Resolutions may be limited by bankruptcy, insolvency, reorganization, moratorium, arrangement, fraudulent conveyance and other laws relating to or affecting creditors' rights or remedies, to the application of equitable principles (regardless of whether such enforceability is considered in a proceeding in equity or at law), to the exercise of judicial discretion in appropriate cases and to limitations on legal remedies against the State of California and its subdivisions and departments.

The undersigned has examined an executed Series BV Bond and an executed Series BW Bond and, in our opinion, the forms of said Series BV and BW Bonds and their execution are regular and proper.

Very truly yours,

BILL LOCKYER,
ATTORNEY GENERAL

By: _____
Deputy Attorney General

Schedule A

1. $475,000 principal amount of State of California Veterans General Obligation Bonds, Series BV1, authorized under the Veterans Bond Act of 1984;

2. $29,250,000 principal amount of State of California Veterans General Obligation Bonds, Series BV2, authorized under the Veterans Bond Act of 1996;

3. $13,115,000 principal amount of State of California Veterans General Obligation Bonds, Series BW1, authorized under the Veterans Bond Act of 1988; and

4. $43,385,000 principal amount of State of California Veterans General Obligation Bonds, Series BW2, authorized under the Veterans Bond Act of 1990.

Schedule B

Bond Act	Resolution Number	Date of Adoption by Veterans Finance Committee Resolution
Veterans Bond Act of 1984	VI	January 25, 2001
Veterans Bond Act of 1988	IX	February 16, 2000
Veterans Bond Act of 1990	IX	February 16, 2000
Veterans Bond Act of 1996	IV	February 21, 2001

APPENDIX G

LEGAL OPINION OF BOND COUNSEL

Hawkins, Delafield & Wood
633 West Fifth Street
Los Angeles, California 90071

(Closing Date)

Office of the Treasurer of the State
of California
915 Capitol Mall, Room 235
Sacramento, California 95814

Ladies and Gentlemen:

We have acted as bond counsel to the State of California (the "State"), and in such capacity we have examined upon request copies of proceedings taken by the State in connection with the issuance of the State's $29,725,000 aggregate principal amount Veterans General Obligation Bonds, Series BV (the "Series BV Bonds") and $56,500,000 aggregate principal amount Veterans General Obligation Bonds, Series BW (the "Series BW Bonds," and together with the Series BV Bonds, the "Series BV and BW Bonds") and the sale of the Series BV and BW Bonds to the initial purchasers thereof. The Series BV and BW Bonds are issued pursuant to (i) the Veterans Bond Acts identified in Schedule A hereto (collectively the "Law"), which is incorporated by reference, each of which was approved by the electors of the State, (ii) Part 3 of Division 4 of Title 2 of the California Government Code, and (iii) resolutions (the "Resolutions") adopted by the Veterans Finance Committee of 1943 on February 16, 2000, January 25, 2001 and February 21, 2001 identified in Schedule B hereto, which is incorporated by reference.

The Series BV and BW Bonds are dated, mature on the dates in the principal amounts, bear interest, if any, and are payable as provided in the Resolutions. The Bonds are subject to redemption prior to maturity in whole or in part as provided in the Resolutions.

The Department of Veterans Affairs of the State of California (the "Department") intends to issue its Home Purchase Revenue Bonds, 2001 Series A (the "2001 Revenue Bonds") in May 2001. The Series BV and BW Bonds and the 2001 Revenue Bonds are treated as a single issue for certain federal tax purposes under the Internal Revenue Code of 1986, as amended (the "Code"). Applicable federal tax law establishes certain requirements that must be met subsequent to the issuance of the Series BV and BW Bonds and the 2001 Revenue Bonds in order that interest on the Series BV and BW Bonds not be included in gross income for federal income tax purposes under the Code. The Department has adopted documents with respect to its program (the "Program Documents") that establish procedures under which, if followed, such requirements can be met. The State and the Department have covenanted in the Resolutions and in tax certificates

and other documents applicable to the issuance of the Series BV and BW Bonds and the 2001 Revenue Bonds (collectively with the Program Documents, the "Documents"), to all times perform all acts and things permitted by law and necessary and desirable in order to assure that interest paid on the Series BV and BW Bonds shall not be included in gross income for federal income tax purposes under the Code. In rendering this opinion, we have relied upon such covenants and have assumed compliance by the State and the Department with the provisions of such Documents.

In connection with the issuance of the Series BV and BW Bonds, we have examined (a) a copy of the Resolutions, and (b) such other opinions, documents, certificates and letters as we deem relevant and necessary in rendering this opinion.

From such examination, we are of the opinion that:

i) The State has lawful authority for the issuance of the Series BV and BW Bonds, and the Series BV and BW Bonds constitute the valid and legally binding general obligations of the State payable in accordance with the Law from the General Fund of the State. The full faith and credit of the State of California are pledged for the punctual payment of the principal of and interest on the Series BV and BW Bonds.

ii) Under existing statutes and court decisions and assuming compliance with certain tax covenants described herein, interest on the Series BV and BW Bonds is not included in gross income for federal income tax purposes pursuant to Section 103 of the Code, interest on the Series BV Bonds is not treated as a preference item for purposes of calculating the alternative minimum tax imposed on individuals and corporations under the Code; such interest, however, is included in the adjusted current earnings of certain corporations for purposes of calculating the alternative minimum tax imposed on such corporations. Interest on the Series BW Bonds is treated as a preference item for purposes of calculating the alternative minimum tax imposed on individuals and corporations under the Code.

iii) Interest on the Series BV and BW Bonds is exempt from State personal income taxation under present State law.

In rendering this opinion, we express no opinion regarding any other Federal or state tax consequences with respect to the Series BV and BW Bonds. We render this opinion under existing statutes and court decisions as of the issue date, and assume no obligation to update this opinion after the issue date to reflect any future action, fact or circumstance, or change in law or interpretation, or otherwise. In rendering this opinion, we express no opinion on the effect of any action taken after the date of the opinion or not taken in reliance upon an opinion of other counsel on the exclusion from gross income for Federal income tax purposes of interest on the Series BV and BW Bonds, or under state and local tax law.

In rendering this opinion, we are advising you that the enforceability of the Series BV and BW Bonds may be limited by bankruptcy, moratorium, insolvency, or other laws affecting creditors' rights or remedies and is subject to general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law).

We have examined an executed Series BV Bond and an executed Series BW Bond and, in our opinion, the forms of said Series BV and BW Bonds and their execution are regular and proper.

Very truly yours,

Schedule A

1. $475,000 principal amount of State of California Veterans General Obligation Bonds, Series BV1, authorized under the Veterans Bond Act of 1984;

2. $29,250,000 principal amount of State of California Veterans General Obligation Bonds, Series BV2, authorized under the Veterans Bond Act of 1996;

3. $13,115,000 principal amount of State of California Veterans General Obligation Bonds, Series BW1, authorized under the Veterans Bond Act of 1988; and

4. $43,385,000 principal amount of State of California Veterans General Obligation Bonds, Series BW2, authorized under the Veterans Bond Act of 1990.

Schedule B

Bond Act	Resolution Number	Date of Adoption by Veterans Finance Committee Resolution
Veterans Bond Act of 1984	VI	January 25, 2001
Veterans Bond Act of 1988	IX	February 16, 2000
Veterans Bond Act of 1990	IX	February 16, 2000
Veterans Bond Act of 1996	IV	February 21, 2001

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APPENDIX H

FORM OF OFFERED VETERANS G.O. BONDS MUNICIPAL BOND INSURANCE POLICY OF FINANCIAL SECURITY ASSURANCE INC.

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FINANCIAL SECURITY ASSURANCE®

MUNICIPAL BOND INSURANCE POLICY

ISSUER:

BONDS:

Policy No.: -N

Effective Date:

Premium:

FINANCIAL SECURITY ASSURANCE INC. ("Financial Security"), for consideration received, hereby UNCONDITIONALLY AND IRREVOCABLY agrees to pay to the trustee (the "Trustee") or paying agent (the "Paying Agent") (as set forth in the documentation providing for the issuance of and securing the Bonds) for the Bonds, for the benefit of the Owners or, at the election of Financial Security, directly to each Owner, subject only to the terms of this Policy (which includes each endorsement hereto), that portion of the principal of and interest on the Bonds that shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

On the later of the day on which such principal and interest becomes Due for Payment or the Business Day next following the Business Day on which Financial Security shall have received Notice of Nonpayment, Financial Security will disburse to or for the benefit of each Owner of a Bond the face amount of principal of and interest on the Bond that is then Due for Payment but is then unpaid by reason of Nonpayment by the Issuer, but only upon receipt by Financial Security, in a form reasonably satisfactory to it, of (a) evidence of the Owner's right to receive payment of the principal or interest then Due for Payment and (b) evidence, including any appropriate instruments of assignment, that all of the Owner's rights with respect to payment of such principal or interest that is Due for Payment shall thereupon vest in Financial Security. A Notice of Nonpayment will be deemed received on a given Business Day if it is received prior to 1:00 p.m. (New York time) on such Business Day; otherwise, it will be deemed received on the next Business Day. If any Notice of Nonpayment received by Financial Security is incomplete, it shall be deemed not to have been received by Financial Security for purposes of the preceding sentence and Financial Security shall promptly so advise the Trustee, Paying Agent or Owner, as appropriate, who may submit an amended Notice of Nonpayment. Upon disbursement in respect of a Bond, Financial Security shall become the owner of the Bond, any appurtenant coupon to the Bond or right to receipt of payment of principal or of interest on the Bond and shall be fully subrogated to the rights of the Owner, including the Owner's right to receive payments under the Bond, to the extent of any payment by Financial Security hereunder. Payment by Financial Security to the Trustee or Paying Agent for the benefit of the Owners shall, to the extent thereof, discharge the obligation of Financial Security under this Policy.

Except to the extent expressly modified by an endorsement hereto, the following terms shall have the meanings specified for all purposes of this Policy. "Business Day" means any day other than (a) a Saturday or Sunday or (b) a day on which banking institutions in the State of New York or the Insurer's Fiscal Agent are authorized or required by law or executive order to remain closed. "Due for Payment" means (a) when referring to the principal of a Bond, payable on the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity unless Financial Security shall elect, in its sole discretion, to pay such principal due upon such acceleration together with any accrued interest to the date of acceleration and (b) when referring to interest on a Bond, payable on the stated date for payment of interest. "Nonpayment" means, in respect of a Bond, the failure of the Issuer to have provided sufficient funds to the Trustee or, if there is no Trustee, to the Paying Agent for payment in full of all principal and interest that is Due for Payment on such Bond. "Nonpayment" shall also include, in respect of a Bond, any payment of principal or interest that is Due for Payment made to an Owner by or on behalf of the Issuer which has been recovered from such Owner pursuant to the

SPECIMEN

United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction. "Notice" means telephonic or telecopied notice, subsequently confirmed in a signed writing, or written notice by registered or certified mail, from an Owner, the Trustee or the Paying Agent to Financial Security which notice shall specify (a) the person or entity making the claim, (b) the Policy Number, (c) the claimed amount and (d) the date such claimed amount became Due for Payment. "Owner" means, in respect of a Bond, the person or entity who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof, except that "Owner" shall not include the Issuer or any person or entity whose direct or indirect obligation constitutes the underlying security for the Bonds.

Financial Security may appoint a fiscal agent (the "Insurer's Fiscal Agent") for purposes of this Policy by giving written notice to the Trustee and the Paying Agent specifying the name and notice address of the Insurer's Fiscal Agent. From and after the date of receipt of such notice by the Trustee and the Paying Agent, (a) copies of all notices required to be delivered to Financial Security pursuant to this Policy shall be simultaneously delivered to the Insurer's Fiscal Agent and to Financial Security and shall not be deemed received until received by both and (b) all payments required to be made by Financial Security under this Policy may be made directly by Financial Security or by the Insurer's Fiscal Agent on behalf of Financial Security. The Insurer's Fiscal Agent is the agent of Financial Security only and the Insurer's Fiscal Agent shall in no event be liable to any Owner for any act of the Insurer's Fiscal Agent or any failure of Financial Security to deposit or cause to be deposited sufficient funds to make payments due under this Policy.

To the fullest extent permitted by applicable law, Financial Security agrees not to assert, and hereby waives, only for the benefit of each Owner, all rights (whether by counterclaim, setoff or otherwise) and defenses (including, without limitation, the defense of fraud), whether acquired by subrogation, assignment or otherwise, to the extent that such rights and defenses may be available to Financial Security to avoid payment of its obligations under this Policy in accordance with the express provisions of this Policy.

This Policy sets forth in full the undertaking of Financial Security, and shall not be modified, altered or affected by any other agreement or instrument, including any modification or amendment thereto. Except to the extent expressly modified by an endorsement hereto, (a) any premium paid in respect of this Policy is nonrefundable for any reason whatsoever, including payment, or provision being made for payment, of the Bonds prior to maturity and (b) this Policy may not be canceled or revoked. THIS POLICY IS NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW.

In witness whereof, FINANCIAL SECURITY ASSURANCE INC. has caused this Policy to be executed on its behalf by its Authorized Officer.

[Countersignature]

FINANCIAL SECURITY ASSURANCE INC.

By _____

By _____
Authorized Officer

A subsidiary of Financial Security Assurance Holdings Ltd.
350 Park Avenue, New York, N.Y. 10022-6022

(212) 826-0100

Form 500NY (5/90)

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