Information Supplement

Closed-End Strategy: Master Municipal Income Portfolio – California Series 2019-3
Closed-End Strategy: Master Municipal Income Portfolio – New York Series 2019-3

This Information Supplement provides additional information concerning the risks and operations of the Portfolios which is not described in the prospectus. You should read this Information Supplement in conjunction with the prospectus. This Information Supplement is not a prospectus (but is incorporated into the prospectus by reference). It does not include all of the information that you should consider before investing in the Portfolios. This Information Supplement may not be used to offer or sell Units without the prospectus. You can obtain copies of the prospectus by contacting the Sponsor's unit investment trust division at 3500 Lacey Road, Suite 700, Downers Grove, Illinois 60515-5456, or by contacting your broker. This Information Supplement is dated as of the date of the prospectus. All capitalized terms have been defined in the prospectus.

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RISK FACTORS

Closed-End Funds. Closed-end funds' portfolios are managed and their shares are generally listed on a securities exchange. The net asset value of closed-end fund shares will fluctuate with changes in the value of the underlying securities that the closed-end fund owns. In addition, for various reasons closed-end fund shares frequently trade at a discount from their net asset value in the secondary market. The amount of such discount from net asset value is subject to change from time to time in response to various factors. Closed-end funds' articles of incorporation may contain certain anti-takeover provisions that may have the effect of inhibiting a fund's possible conversion to open-end status and limiting the ability of other persons to acquire control of a fund. In certain circumstances, these provisions might also inhibit the ability of stockholders (including a Portfolio) to sell their shares at a premium over prevailing market prices. This characteristic is a risk separate and distinct from the risk that a fund's net asset value will decrease. In particular, this characteristic would increase the loss or reduce the return on the sale of those closed-end fund shares that were purchased by a Portfolio at a premium. In the unlikely event that a closed-end fund converts to open-end status at a time when its shares are trading at a premium there would be an immediate loss in value to the Portfolios since shares of open-end funds trade at net asset value. Certain closed-end funds may have in place or may put in place in the future plans pursuant to which the fund may repurchase its own shares in the marketplace. Typically, these plans are put in place in an attempt by a fund's board of directors to reduce a discount on its share price. To the extent that such a plan is implemented and shares owned by a Portfolio are repurchased by a fund, the Portfolio's position in that fund will be reduced and the cash will be distributed.

A Portfolio is prohibited from subscribing to a rights offering for shares of any of the closed-end funds in which it invests. In the event of a rights offering for additional shares of a fund, Unitholders should expect that a Portfolio will, at the completion of the offer, own a smaller proportional interest in such fund that would otherwise be the case. It is not possible to determine the extent of this dilution in share ownership without knowing what proportion of the shares in a rights offering will be subscribed. This may be particularly serious when the subscription price per share for the offer is less than the fund's net asset value per share. Assuming that all rights are exercised and there is no change in the net asset value per share, the aggregate net asset value of each shareholder's shares of common stock should decrease as a result of the offer. If a fund's subscription price per share is below that fund's net asset value per share at the expiration of the offer, shareholders would experience an immediate dilution of the aggregate net asset value of their shares of common stock as a result of the offer, which could be substantial.

Closed-end funds may use leveraging in their portfolios. Leveraging can be expected to cause increased price volatility for those fund's shares, and as a result, increased volatility for the price of the Units of a Portfolio. There can be no assurance that a leveraging strategy will be successful during any period in which it is employed.

In limited cases certain closed-end funds may employ an investment strategy which includes investments in derivatives such as forward contracts, options, futures contracts, options on futures contracts and swap agreements or intricate derivative-like features, including reverse convertibles, steepener notes, reference point investments and knockout/knock-in features. These strategies may utilize multiple features that affect investment returns differently under various scenarios. Derivatives may be purchased on established exchanges or through privately negotiated transactions. Derivatives can be volatile and involve various types and degrees of risk, depending upon the characteristics of the particular derivative. Derivatives may entail investment exposures that are greater than their cost would suggest, meaning that a small investment in derivatives could have a large potential impact on performance. The market for many derivatives is, or suddenly can become, illiquid. Changes in liquidity may result in significant, rapid and unpredictable changes in the prices for derivatives. Structured notes and other related instruments carry risks similar to those of more traditional derivatives such as futures, forward and option contracts. Structured instruments may entail a greater degree of market risk and volatility than other types of debt obligations. There can be no assurance that a derivative based strategy will be successful during any period in which it is employed.

An exclusion has been claimed for each Portfolio from the definition of the term "commodity pool operator" under the Commodity Exchange Act ("CEA") and, therefore, your Portfolio is not subject to registration as a commodity pool operator under the CEA.

Municipal Bonds. The closed-end funds in your Portfolio invest in certain types of bonds described below. Accordingly, an investment in your Portfolio should be made with an understanding of the characteristics of and risks associated with such bonds.

Certain of the bonds in a closed-end fund may be general obligations of a governmental entity that are backed by the taxing power of such entity. Other bonds are revenue bonds payable from the income of a specific project or authority and are not supported by the issuer's power to levy taxes. General obligation bonds are secured by the issuer's pledge of its faith, credit and taxing power for the payment of principal and interest. Revenue bonds, on the other hand, are payable only from the revenues derived from a particular facility or class of facilities or, in some cases, from the proceeds of a special excise tax or other specific revenue source. There are, of course, variations in the security of the different bonds in a closed-end fund, both within a particular classification and between classifications, depending on numerous factors.

Certain of the bonds in a closed-end fund may be obligations which derive their payments from mortgage loans. Certain of such housing bonds may be FHA insured or may be single family mortgage revenue bonds issued for the purpose of acquiring from originating financial institutions notes secured by mortgages on residences located within the issuer's boundaries and owned by persons of low or moderate income. Mortgage loans are generally partially or completely prepaid prior to their final maturities as a result of events such as sale of the mortgaged premises, default, condemnation or casualty loss. Because these bonds are subject to extraordinary mandatory redemption in whole or in part from such prepayments of mortgage loans, a substantial portion of such bonds will probably be redeemed prior to their scheduled maturities or even prior to their ordinary call dates. Extraordinary mandatory redemption without premium could also result from the failure of the originating financial institutions to make mortgage loans in sufficient amounts within a specified time period. Additionally, unusually high rates of default on the underlying mortgage loans may reduce revenues available for the payment of principal of or interest on such mortgage revenue bonds. In each case the issuer of the bonds has covenanted to comply with applicable requirements and bond counsel to such issuer has issued an opinion that the interest on the bonds is exempt from Federal income tax under existing laws and regulations. Certain issuers of housing bonds have considered various ways to redeem bonds they have issued prior to the stated first redemption dates for such bonds.

Certain of the bonds in a closed-end fund may be health care revenue bonds. Ratings of bonds issued for health care facilities are often based on feasibility studies that contain projections of occupancy levels, revenues and expenses. A facility's gross receipts and net income available for debt service may be affected by future events and conditions including, among other things, demand for services and the ability of the facility to provide the services required, physicians' confidence in the facility, management capabilities, competition with other health care facilities, efforts by insurers and governmental agencies to limit rates, legislation establishing state rate-setting agencies, expenses, the cost and possible unavailability of malpractice insurance, the funding of Medicare, Medicaid and other similar third party pay or programs, government regulation and the termination or restriction of governmental financial assistance, including that associated with Medicare, Medicaid and other similar third party pay or programs.

Certain of the bonds in a closed-end fund may be obligations of public utility issuers, including those selling wholesale and retail electric power and gas. General problems of such issuers would include the difficulty in financing large construction programs in an inflationary period, the limitations on operations and increased costs and delays attributable to environmental considerations, the difficulty of the capital market in absorbing utility debt, the difficulty in obtaining fuel at reasonable prices and the effect of energy conservation. In addition, Federal, state and municipal governmental authorities may from time to time review existing, and impose additional, regulations governing the licensing, construction and operation of nuclear power plants, which may adversely affect the ability of the issuers of certain of the bonds in a closed-end fund to make payments of principal and/or interest on such bonds.

Certain of the bonds in a closed-end fund may be obligations of issuers whose revenues are derived from the sale of water and/or sewerage services. Such bonds are generally payable from user fees. The problems of such issuers include the ability to obtain timely and adequate rate increases, population decline resulting in decreased user fees, the difficulty of financing large construction programs, the limitations on operations and increased costs and delays attributable to environmental considerations, the increasing difficulty of obtaining or discovering new supplies of fresh water, the effect of conservation programs and the impact of "no-growth" zoning ordinances.

Certain of the bonds in a closed-end fund may be industrial revenue bonds ("IRBs"). IRBs have generally been issued under bond resolutions pursuant to which the revenues and receipts payable under the arrangements with the operator of a particular project have been assigned and pledged to purchasers. In some cases, a mortgage on the underlying project may have been granted as security for the IRBs. Regardless of the structure, payment of IRBs is solely dependent upon the creditworthiness of the corporate operator of the project or corporate guarantor. Corporate operators or guarantors may be affected by many factors which may have an adverse impact on the credit quality of the particular company or industry. These include cyclicality of revenues and earnings, regulatory and environmental restrictions, litigation resulting from accidents or environmentally-caused illnesses, extensive competition and financial deterioration resulting from a corporate restructuring pursuant to a leveraged buy-out, takeover or otherwise. Such a restructuring may result in the operator of a project becoming highly leveraged which may impact on such operator's creditworthiness which in turn would have an adverse impact on the rating and/or market value of such bonds. Further, the possibility of such a restructuring may have an adverse impact on the market for and consequently the value of such bonds, even though no actual takeover or other action is ever contemplated or effected.

Certain of the bonds in a closed-end fund may be obligations that are secured by lease payments of a governmental entity (hereinafter called "lease obligations"). Lease obligations are often in the form of certificates of participation. Although the lease obligations do not constitute general obligations of the municipality for which the municipality's taxing power is pledged, a lease obligation is ordinarily backed by the municipality's covenant to appropriate for and make the payments due under the lease obligation. However, certain lease obligations contain "non-appropriation" clauses which provide that the municipality has no obligation to make lease payments in future years unless money is appropriated for such purpose on a yearly basis. A governmental entity that enters into such a lease agreement cannot obligate future governments to appropriate for and make lease payments but covenants to take such action as is necessary to include any lease payments due in its budgets and to make the appropriations therefor. A governmental entity's failure to appropriate for and to make payments under its lease obligation could result in insufficient funds available for payment of the obligations secured thereby. Although "non-appropriation" lease obligations are secured by the leased property, disposition of the property in the event of foreclosure might prove difficult.

Certain of the bonds in a closed-end fund may be obligations of issuers which are, or which govern the operation of, schools, colleges and universities and whose revenues are derived mainly from ad valorem taxes or for higher education systems, from tuition, dormitory revenues, grants and endowments. General problems relating to school bonds include litigation contesting the state constitutionality of financing public education in part from ad valorem taxes, thereby creating a disparity in educational funds available to schools in wealthy areas and schools in poor areas. Litigation or legislation on this issue may affect the sources of funds available for the payment of school bonds. General problems relating to college and university obligations include the prospect of a declining percentage of the population consisting of "college" age individuals, possible inability to raise tuitions and fees sufficiently to cover increased operating costs, the uncertainty of continued receipt of Federal grants and state funding, and government legislation or regulations which may adversely affect the revenues or costs of such issuers.

Certain of the bonds in a closed-end fund may be obligations which are payable from and secured by revenues derived from the ownership and operation of facilities such as airports, bridges, turnpikes, port authorities, convention centers and arenas. The major portion of an airport's gross operating income is generally derived from fees received from signatory airlines pursuant to use agreements which consist of annual payments for leases, occupancy of certain terminal space and service fees. Airport operating income may therefore be affected by the ability of the airlines to meet their obligations under the use agreements. From time to time the air transport industry has experienced significant variations in earnings and traffic, due to increased competition, excess capacity, increased costs, deregulation, traffic constraints and other factors, and several airlines have experienced severe financial difficulties. Similarly, payment on bonds related to other facilities is dependent on revenues from the projects, such as user fees from ports, tolls on turnpikes and bridges and rents from buildings. Therefore, payment may be adversely affected by reduction in revenues due to such factors as increased cost of maintenance, decreased use of a facility, lower cost of alternative modes of transportation, scarcity of fuel and reduction or loss of rents.

Certain of the bonds in a closed-end fund may be obligations which are payable from and secured by revenues derived from the operation of resource recovery facilities. Resource recovery facilities are designed to process solid waste, generate steam and convert steam to electricity. Resource recovery bonds may be subject to extraordinary optional redemption at par upon the occurrence of certain circumstances, including but not limited to: destruction or condemnation of a project; contracts relating to a project becoming void, unenforceable or impossible to perform; changes in the economic availability of raw materials, operating supplies or facilities necessary for the operation of a project or technological or other unavoidable changes adversely affecting the operation of a project; and administrative or judicial actions which render contracts relating to the projects void, unenforceable or impossible to perform or impose unreasonable burdens or excessive liabilities. The Sponsor cannot predict the causes or likelihood of the redemption of resource recovery bonds prior to the stated maturity of the bonds.

Certain of the bonds in a closed-end fund may be subject to redemption prior to their stated maturity date pursuant to sinking fund provisions, call provisions or extraordinary optional or mandatory redemption provisions or otherwise. A sinking fund is a reserve fund accumulated over a period of time for retirement of debt. A callable debt obligation is one which is subject to redemption or refunding prior to maturity at the option of the issuer. A refunding is a method by which a debt obligation is redeemed, at or before maturity, by the proceeds of a new debt obligation. In general, call provisions are more likely to be exercised when the offering side valuation is at a premium over par than when it is at a discount from par. The exercise of redemption or call provisions will result in the distribution of principal and may result in a reduction in the amount of subsequent interest distributions. Extraordinary optional redemptions and mandatory redemptions result from the happening of certain events. Generally, events that may permit the extraordinary optional redemption of bonds or may require the mandatory redemption of bonds include, among others: a final determination that the interest on the bonds is taxable; the substantial damage or destruction by fire or other casualty of the project for which the proceeds of the bonds were used; an exercise by a local, state or Federal governmental unit of its power of eminent domain to take all or substantially all of the project for which the proceeds of the bonds were used; changes in the economic availability of raw materials, operating supplies or facilities or technological or other changes which render the operation of the project for which the proceeds of the bonds were used uneconomic; changes in law or an administrative or judicial decree which renders the performance of the agreement under which the proceeds of the bonds were made available to finance the project impossible or which creates unreasonable burdens or which imposes excessive liabilities, such as taxes, not imposed on the date the bonds are issued on the issuer of the bonds or the user of the proceeds of the bonds; an administrative or judicial decree which requires the cessation of a substantial part of the operations of the project financed with the proceeds of the bonds; an overestimate of the costs of the project to be financed with the proceeds of the bonds resulting in excess proceeds of the bonds which may be applied to redeem bonds; or an underestimate of a source of funds securing the bonds resulting in excess funds which may be applied to redeem bonds. The issuer of certain bonds in a closed-end fund may have sold or reserved the right to sell, upon the satisfaction of certain conditions, to third parties all or any portion of its rights to call bonds in accordance with the stated redemption provisions of such bonds. In such a case the issuer no longer has the right to call the bonds for redemption unless it reacquires the rights from such third party. A third party pursuant to these rights may exercise the redemption provisions with respect to a bond at a time when the issuer of the bond might not have called a bond for redemption had it not sold such rights. No one can predict all of the circumstances which may result in such redemption of an issue of bonds. See also the discussion of single family mortgage and multi-family revenue bonds above for more information on the call provisions of such bonds.

California Risk Factors.

The following information constitutes only a brief summary of a number of the complex factors which may impact issuers of California municipal securities and does not purport to be a complete or exhaustive description of all adverse conditions to which issuers of California municipal securities may be subject. Such information is derived from official statements utilized in connection with the issuance of California municipal securities, as well as from other publicly available documents. Such an official statement, together with any updates or supplements thereto, generally may be obtained upon request to the State's Treasurer's office. Such information has not been independently verified by the Sponsor and the Sponsor assumes no responsibility for the completeness or accuracy of such information. The summary below does not include all of the information pertaining to the budget, receipts and disbursements of the State that would ordinarily be included in various public documents issued thereby, such as an official statement prepared in connection with the issuance of general obligation bonds of the State. Additionally, many factors, including national, economic, social and environmental policies and conditions, which are not within the control of such issuers, could have an adverse impact on the financial condition of such issuers. Neither the Sponsor nor the investment advisers to the underlying closed-end funds can predict whether or to what extent such factors or other factors may affect the issuers of California municipal securities, the market value or marketability of such securities or the ability of the respective issuers of such securities acquired by the underlying closed-end funds to pay interest on or principal of such securities. The creditworthiness of obligations issued by local California issuers may be unrelated to the creditworthiness of obligations issued by California, and there is no assurance on the part of the State to make payments on such local obligations. There may be specific factors that are applicable in connection with investment in the obligations of particular issuers located within the State, and it is possible the underlying closed-end funds will invest in obligations of particular issuers as to which such specific factors are applicable. However, the information set forth below is intended only as a general summary and not as a discussion of any specific factors that may affect any particular issuer of California municipal securities.

California is subject to large fluctuations in its tax revenue and fixed spending obligations. During recessionary periods, dramatic cuts to programs and/or tax increases may be required. To address budget gaps from the most recent recessionary period, spending was cut, State programs were realigned to local governments, and short-term budgetary solutions were implemented. Despite the significant budgetary improvements and economic growth from the most recent recessionary period, a number of risks and pressures threaten the State's financial condition. Continued risks to the State's long-term stability include significant unfunded pension liabilities, the threat of recession, changes in stock prices, changes to federal fiscal policy that are unfavorable to the State, and the uncertain impact of changes in federal tax law and trade policy.

California's fiscal situation heightens the risk of investing in bonds issued by the State and its political subdivisions, agencies, instrumentalities and authorities, including the risk of default, and also heightens the risk that the prices of California municipal securities, and the NAV of the underlying closed-end funds held by the California Series, will experience greater volatility. As of August 2019, California general obligation bonds were rated "Aa3" by Moody's, "AA-" by S&P and "AA-" by Fitch. There can be no assurance that such ratings will be maintained in the future. The State's credit rating, and any future revisions or withdrawal of a credit rating, could have a negative effect on the market price of the State's general obligation bonds, as well as notes and bonds issued by California's public authorities and local governments. Lower credit ratings make it more expensive for the State to raise revenue, and in some cases, could prevent the State from issuing general obligation bonds in the quantity otherwise desired. Further, downgrades can negatively impact the marketability and price of securities held by the underlying closed-end funds portfolio.

General Economic Conditions.

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

Real GDP of the United States grew by 3.6 percent in the first three quarters of 2018, reflecting positive contributions from strong consumption and federal spending. Growth is expected to continue in the short term but gradually slow to 1.5 percent in 2022. The labor force expanded by 1.8 million while nonfarm employment increased by 2.4 million in 2018. The national unemployment rate fell to 3.7 percent in September 2018, the lowest since December 1969, and remains at 3.6 percent as of May 2019.

California's real GDP increased by 3.5 percent in 2018, making California the fifth largest economy in the world. California's preliminary unemployment rate was 4.2 percent in May 2019.

Changes in oil prices, higher international tariffs, and increasing wages have contributed to faster than expected inflation in 2018. California's inflation averaged 3.7 percent in 2018 and is expected to remain at 3.7 percent in 2019. In comparison, U.S. inflation rose by 2.4 percent in 2018 and is expected to increase by 2.5 percent in 2019. Inflation remained concentrated in housing since 2014. Housing inflation increased by 3.3 percent in the U.S. and 4.5 percent in California in 2018.

Housing permits grew in 2018, but there is still a shortage after years of permits lagging population growth, raising housing costs and potentially limiting the number of jobs companies can add. Around 120,000 permits were issued in California in 2018 and home building permit issuance is projected to continue growing around 10 percent on average in 2019. It is estimated that approximately 200,000 permits are needed annually to accommodate population growth, demolitions from infill projects, and disaster recovery. The State's forecasts assume that increasing numbers of permits will be issued by local authorities, but if permits remain low, this will reduce the number of available workers in those areas. Furthermore, housing prices are expected to continue to increase and the State has a limited supply of affordable housing.

The risk of a recession remains, and many households still have not recovered fully from the last recession, making it more difficult for them to weather a recession. Even under continued growth, the federal deficit is about $900 billion in 2019, is expected to exceed $1 trillion per year beginning in 2022, and the debt to GDP levels are increasing. In addition, federal tax reform and other federal fiscal policies are contributing to a growing federal deficit, which will constrain the federal government's options to address an economic recession.

In the next recession, the deficit could rise much higher and force cuts to federal programs on which Californians depend.

While the State projects a balanced budget through fiscal year 2022-23, several economic and budget risks threaten the State's fiscal condition, including the threat of recession, changes to federal fiscal policies, federal tax law changes, federal trade policy, the upcoming federal census count, possible federal government shutdowns, health care costs, housing constraints, capital gains volatility, debts and liabilities, climate change, cybersecurity risks and the significant unfunded liabilities of the two main State retirement systems, the California Public Employees' Retirement System ("CalPERS") and the California State Teachers' Retirement System ("CalSTRS"). Although the State has paid down a substantial amount of these debts in the past several years and has put in place plans to pay off all major State retirement-related liabilities over the next three decades, the State faces hundreds of billions of dollars in other long-term cost pressures, and debts and liabilities, including State retiree pension and health care costs.

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

California—Government.

California's 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, California's voters may directly influence the State's government through the initiative, referendum and recall processes.

Local Governments.

The primary units of local government in California are the 58 counties, which range in population from less than 2,000 residents in Alpine County to over 10 million 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 nearly 500 incorporated cities in California and thousands of special districts formed for education, utilities, and other services. Spending and revenues collected by the State or by local governments has shifted over the past decades.

The fiscal condition of local governments has been constrained since Proposition 13, which added Article XIII A to the State Constitution, was approved by California voters in 1978. Proposition 13 reduced and limited the future growth of property taxes and limited the ability of local governments to impose "special taxes" (those devoted to a specific purpose) without two-thirds voter approval. Proposition 218, another constitutional amendment enacted by initiative in 1996, further limited the ability of local governments to raise taxes, fees, and other exactions. Counties, in particular, have had fewer options to raise revenues than many other local government entities, while they 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 assuming principal responsibility for funding K-12 schools and community colleges. During the recession of the early 1990s, the Legislature reduced the post-Proposition 13 aid to local government entities other than K-12 schools and community colleges by requiring cities and counties to transfer some of their property tax revenues to school districts. However, the Legislature also provided additional funding sources, such as sales taxes, and reduced certain mandates for local services funded by cities and counties.

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

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

As part of the state-local agreement, voters at the November 2004 election approved Proposition 1A. This Proposition amended the State Constitution to, among other things, reduce the Legislature's authority over local government revenue sources by placing restrictions on the State's access to local governments' property, sales, and vehicle license fees ("VLF") revenues as of November 3, 2004. Proposition 22, adopted on November 2, 2010, supersedes Proposition 1A and generally prohibits the Legislature from making changes in local government funding sources. Allocation of local transportation funds cannot be changed without an extensive process.

The 2011 Budget Act included a major realignment of public safety programs from the State to local governments. The realignment was designed to move program and fiscal responsibility to the level of government that can best provide the service, eliminate duplication of effort, generate savings and increase flexibility. Proposition 30, approved by voters in November 2012, placed into the State Constitution the current statutory provisions transferring 1.0625 percent of the State sales tax to local governments to fund the "realignment" program for many services including housing criminal offenders. The sales tax provisions of Proposition 30 expired December 31, 2016; however, the personal income tax rates for high-income taxpayers, which were set to expire on December 31, 2018, were extended through tax year 2030 by Proposition 55 in the November 2016 election. Under specified conditions, beginning in fiscal year 2018-19, Proposition 55 also authorizes the use of up to $2 billion in a fiscal year from these revenues for health care.

California Finances.

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

The following is a summary of California's major revenue sources:

• *Personal Income Tax.* The California personal income tax is closely modeled after the federal income tax law. It is imposed on net taxable income (gross income less exclusions and deductions), with rates ranging from 1 to 12.3 percent. In addition, a 1 percent surcharge is imposed on taxable income above $1 million and proceeds from such tax are dedicated to the Mental Health Services Fund. The personal income tax is adjusted annually for inflation. Personal, dependent, and other credits are allowed against the gross tax liability. Taxpayers may be subject to an alternative minimum tax ("AMT"), which is much like the federal AMT.

Taxes on capital gains realizations, which are largely linked to stock market and real estate performance, can add a significant dimension of volatility to personal income tax receipts. Forecasting capital gains is extremely difficult, as the forecasts can change rapidly during a year due to abrupt changes in asset markets and the overall economy. For example, capital gains tax receipts accounted for nearly 9 percent of General Fund revenues and transfers in fiscal year 2007-08, but dropped below 5 percent in fiscal year 2008-09, and below 4 percent in fiscal year 2009-10. The volatility in these percentages is primarily due to an underlying volatility in the level of capital gains tax revenues, rather than to volatility in other General Fund revenues and transfers.

• *Sales Tax.* The sales tax is imposed upon retailers for the privilege of selling tangible personal property in California. Most retail sales and leases are subject to the tax. However, exemptions have been provided for certain essentials such as food for home consumption, prescription drugs, gas delivered through mains and electricity. Other exemptions provide relief for a variety of sales ranging from custom computer software to aircraft. Effective January 1, 2019, the base State and local sales tax was 7.25 percent. Most cities and counties have increased the sales tax percentage in their jurisdiction above the base amount. On June 21, 2018, the Supreme Court in *South Dakota v. Wayfair, Inc.* overruled previous decisions which significantly limited states' legal authority to require out-of-state retailers to collect and remit use tax. The California Department of Tax and Fee Administration has announced that it will require out-of-state retailers to collect and remit use tax beginning on April 1, 2019 if their sales into California exceed $100,000 or 200 or more separate transactions. This is expected to result in additional General Fund tax revenue of $219 million in fiscal year 2018-19 and $554 million in fiscal year 2019-20.

• *Corporation Tax.* The State's corporate tax revenue is derived from franchise tax, corporate income tax, additional taxes on banks and other financial corporations, a State alternative minimum tax, a tax on the profits of Sub-Chapter S corporations, and fees and taxes paid by limited liability companies.

• *Insurance Tax.* The majority of insurance written in the State, subject to certain exceptions, is subject to a 2.35 percent gross premium tax.

• *Special Fund Revenues.* The State Constitution and statutes specify the uses of certain revenues, and such receipts are accounted for in various special funds. While these funds are not directly available to repay State general obligation bonds, the General Fund may, when needed to meet cash flow needs, temporarily borrow from certain special funds. In general, special fund revenues comprise three categories of income: receipts from tax levies allocated to specified functions; charges for certain services provided by the State government; and rental royalties.

• *Taxes on Tobacco Products.* Cigarette and tobacco taxes primarily affect special funds, though some goes to the General Fund.

• *Taxes on Cannabis Products.* Voters approved Proposition 64 in November 2016, which legalized the recreational use of cannabis within California for persons age 21 and over, effective November 9, 2016. The measure also levies new excise taxes on the cultivation and retail sale of both recreational and medical cannabis as of January 1, 2018 to be spent for specific purposes.

California Budget Process.

California's fiscal year begins on July 1st and ends on June 30th of the following year. Under the California Constitution, money may be drawn from the Treasury only through an appropriation made by law. The primary source of the annual expenditure is the annual Budget Act as approved by the Legislature and signed by the Governor. The annual budget is proposed by the Governor by January 10 of each year for the next fiscal year (the "Governor's Budget"). California law requires the annual proposed Governor's Budget to provide for projected revenues equal to or in excess of projected expenditures for the ensuing fiscal year. Following the submission of the Governor's Budget, the Legislature takes up the proposal. During late spring, usually in May, the Department of Finance submits revised revenue and expenditure estimates (known as the May Revision) for both the current and budget years to the Legislature. The Budget Act, which follows the May Revision, must be approved by a majority vote of each House of the Legislature.

Appropriations also may be included in legislation other than the Budget Act. With limited exceptions, bills containing General Fund appropriations must be approved by a two-thirds majority vote in each House of the Legislature and be signed by the Governor. Continuing appropriations, available without regard to fiscal year, may also be provided by statute or the California Constitution.

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.

The Balanced Budget Amendment (Proposition 58, approved by the voters in 2004) requires the State to enact a balanced budget, establishes a special reserve in the General Fund, restricts future borrowings to cover budget deficits, and provides for mid-year budget adjustments if the budget falls out of balance. The Legislature may not pass a budget bill in which General Fund expenditures exceed estimated General Fund revenues and fund balances at the time of passage and as set forth in the budget bill. As a result of the requirements of Proposition 58, the State must, in some cases, take more immediate actions to correct budgetary shortfalls. For example, if, after passage of the Budget Act, the Governor determines that the State is facing substantial revenue shortfalls or spending deficiencies, the Governor is authorized to declare a fiscal emergency and propose legislation to address the emergency. The Legislature is called in to special session to address this proposal. If the Legislature fails to send legislation to the Governor to address the fiscal emergency within 45 days, it is prohibited from acting on any other bills or adjourning until fiscal legislation is passed. Such fiscal emergencies were declared in 2008, 2009, 2010, and 2011, and the Legislature was called into various special sessions to address budget shortfalls. Proposition 58 also prohibits certain future borrowings to cover budget deficits. These restrictions apply to general obligation bonds, revenue bonds and certain other forms of long-term borrowings, but do not apply to certain other types of borrowing, such as (i) short-term borrowing to cover cash shortfalls in the General Fund (including revenue anticipation notes or revenue anticipation warrants currently used by the State), or (ii) inter-fund borrowings.

In addition to Proposition 58, a number of other laws and constitutional amendments have been enacted over the years, often through voter initiatives, which have made it more difficult to raise the State's taxes, have restricted the use of the General Fund or special fund revenues, or have otherwise limited the Legislature and Governor's discretion in enacting budgets. Examples of constraints on the budget process include Proposition 13 (requiring a two-thirds vote in each House of the Legislature to change California taxes enacted for the purpose of increasing revenues collected), Proposition 98 (requiring a minimum percentage of General Fund revenues be spent on local education), Proposition 49 (requiring expanded State funding for before and after school programs), Proposition 10 (raising taxes on tobacco products but mandating the expenditure of such revenues), Proposition 56 (further raising taxes on tobacco products and again mandating the expenditures of such revenues), Proposition 63 (imposing a 1 percent tax surcharge on taxpayers with annual taxable income of more than $1 million in order to fund mental health services and limiting the Legislature or Governor from redirecting funds now used for mental health services), Proposition 22 (restricting the ability of the State to use or borrow money from local governments and moneys dedicated to transportation financing, and prohibiting the use of excise taxes on motor vehicle fuels to offset General Fund costs of debt service on certain transportation bonds), Proposition 30 (transferring 1.0625 percent of State sales tax to local governments to fund realignment), and Proposition 39 (requiring corporations to base their State tax liability on sales in California). Proposition 25 was intended to end delays in the adoption of the annual budget by changing the legislative vote necessary to pass the budget bill from two-thirds to majority vote and requiring the legislators to forgo their pay if the Legislature fails to pass the budget bill on time. Proposition 2, passed in November 2014, changes the way the State pays down debt and saves money in reserves.

California Budget.

Budget deficits in California have recurred from year-to-year for over a decade prior to the 2013-14 fiscal year. Weakness in the State economy caused State tax revenues to decline precipitously, resulting in large budget gaps and cash shortfalls. In addition to the economic downturn in 2008, California's budget crises were also a result of State spending commitments funded by temporary spikes in revenues. Once revenues return to their normal trend or drop precipitously, these commitments cannot be sustained, and dramatic cuts to programs and/or tax increases sometimes have been required. Budgets were balanced using, at least in part, unrealized assumptions and one-time or temporary measures.

California's budget challenges were exacerbated by a "wall of debt," which was an unprecedented level of debt, deferrals and budgetary obligations that accumulated for over a decade. The 2019 Budget allocates $4.5 billion to eliminate the remaining portion of the State's "wall of debt."

As the State's economy has recovered since the last recession, the State's budgets have significantly expanded government spending. The State has paid down some of its debt and has addressed some long-standing problems—such as implementing plans to restore fiscal health to State pension plans and making improvements to the State's water system.

The passage of Proposition 2 in November 2014 gives the State a means to seek to avoid repeating the prior boom-and-bust cycles. Under Proposition 2, spikes in capital gains are used, in part, to save money for the next recession through the establishment of a rainy day fund (otherwise known as the "Budget Stabilization Account" or the "BSA"), and to pay down the State's debts and liabilities. The Proposition also sets requirements as to how money in the rainy day fund is used and requires that the State provide multi-year budget forecasts to help better manage the State's longer term finances. It is estimated that the State will end the 2018-19 fiscal year with a BSA balance of $16.5 billion.

Nonetheless, despite the significant budget improvements during the least several years, a number of risks threaten the State' financial condition. These risks include, but are not limited to, the threat of recession, potentially unfavorable changes to federal fiscal policies, federal tax law changes, federal trade policy, the upcoming federal census count, possible federal government shutdowns, health care costs, housing constraints, capital gains volatility, debts and liabilities, climate change and cybersecurity risks. There is also growing uncertainty related to the global and economic climate. The economy is in the longest period of expansion since the recovery after World War II, and another recession is ultimately inevitable. The stock market has been at an all-time high and has been volatile. A sudden fall would likely adversely affect investment and hiring decisions at California companies, even in the absence of a recession. The federal tax bill enacted in December 2017 made significant and complex changes to the federal tax laws beginning in 2018 that are expected to induce changes in taxpayer behavior that are not yet fully understood. Ongoing trade disputes with China and Mexico could have negative effects on the California economy as China and Mexico are among the State's top three trading partners. An undercount in the 2020 federal census could particularly disadvantage the State as federal funds are allocated based on population size and the State has the largest share of the population designated as "hard to count" compared to the rest of the U.S. The State's Medicaid program is one of the State's largest expenditures, and as the State continues to implement federal health care reform or as the federal government continues to make significant policy changes, the State's spending on health care costs could increase significantly and State budgetary spending could become more dependent on the inflation rate of health costs.

The State also faces significant unfunded liability of the State's two main retirement systems, CalPERS and CalSTRS, in the tens of billions of dollars. The State has committed to significant increases in the annual payments of these two systems to reduce their unfunded liabilities. The State also has significant unfunded liability with respect to other postemployment benefits ("OPEB"). Strategies to prefund these costs were established in 2015 and today, nearly all state employees contribute toward prefunding OPEB costs.

The discussion below of the fiscal year 2019-20 and 2018-19 budgets is based on estimates and projections of revenues and expenditures by the Governor's administration, and must not be construed as statements of fact. These estimates and projections are based upon various assumptions, which may be affected by numerous factors, including future economic conditions in California and the United States, and there can be no assurance that the estimates will be achieved. There can be no assurances that the State will not face fiscal stress and cash pressures again, or that other changes in the State or national economics or in State of federal policies will not materially adversely affect the State's financial condition.

Fiscal Year 2019-20 Budget.

Governor Newsom signed the fiscal year 2019-20 budget on June 27, 2019 (the "2019 Budget"). The 2019 Budget proposes a multi-year plan for the State to pay down debts and liabilities, increase the balance of the rainy day fund, invest in education, health care, housing and homelessness prevention and maintain a balanced budget through fiscal year 2022-23. The 2019 Budget prioritizes one-time investments, with 88 percent of new expenditures being temporary rather than ongoing.

The 2019 Budget estimates total General Fund revenues and transfers to be $152.2 billion for fiscal year 2019-20. As in most years, the vast majority of the State's General Fund revenues and transfers are primarily from personal income tax, and to a lesser extent, sales and use and corporation taxes. The 2019 Budget estimates total General Fund expenditures to be $147.8 billion for fiscal year 2019-20. The 2019 Budget allocates $5.5 billion to the State's reserves in fiscal year 2019-20 and projects that the fiscal year will end with nearly $19.2 billion in reserves.

The State continued to have hundreds of billions of dollars in liabilities for deferred maintenance on its aging infrastructure and for retiree health care benefits for State employees and various pension benefits. These retirement liabilities have continued to grow due to poor investment returns and changes in investment returns. Without additional action, paying off retirement liabilities would require an increasing portion of the State budget. The 2019 Budget proposes an extra payment of $9 billion over the next four years to pay down unfunded pension liabilities. The 2019 Budget also includes $4.5 billion to eliminate the "wall of debt."

Despite the recent budgetary improvements, a number of risks threaten the State's fiscal condition. The State continues to need to address unfunded retiree benefits. In addition, California's revenues (particularly the personal income tax) can be volatile and correlate to overall economic conditions. Sudden tax revenue declines could return with little warning.

Fiscal Year 2018-19 Budget.

Governor Brown signed the fiscal year 2018-19 budget on June 27, 2018 (the "2018 Budget"). The 2018 Budget included a multi-year plan that is balanced through fiscal year 2021-22, provided for the rainy day fund to reach its maximum constitutional goal for fiscal year 2018-19, and continued to pay down budgetary debt from past years.

Under revised estimates, the State estimates that total General Fund revenues and transfers were $138 billion for fiscal year 2018-19, an increase of approximately $3.7 billion compared to the prior fiscal year. As the Legislative Analyst Office ("LAO") noted, a large portion of the revenue increase would be offset by formula-driven constitutional spending requirements and other increases resulting from caseload changes and federal requirements.

Under revised estimates, the State estimated that General Fund expenditures were $142.7 billion for fiscal year 2018-19. The biggest expenditures from the General Fund were in K-12 education programs ($57.8 billion), health and human services ($36.2 billion) and higher education ($16.4 billion). The 2018 Budget included almost $4 billion in one-time General Fund spending, focused on infrastructure, homelessness and mental health.

The 2019 Budget estimates that fiscal year 2018-19 ended with $20.6 billion in total reserves. While the State's reserves have increased, as the LAO noted, the current level of reserves is not sufficient to fully cover the costs of a moderate or severe recession. If the State faces a recession in the coming years, the State would need to take many billions of dollars in actions over a multiyear period to bring the budget back into balance.

The State continues to have hundreds of billions of dollars in liabilities for deferred maintenance on its aging infrastructure and for retiree health care benefits for State employees and various pension benefits. These retirement liabilities have continued to grow due to poor investment returns and changes in investment returns. Without additional action, paying off retirement liabilities would require an increasing portion of the State budget.

Municipal Bankruptcies.

Municipalities in California may declare bankruptcy, which increases the risk of default on municipal bonds. According to the LAO, except for K-12 education, the State does not have a significant role in monitoring the fiscal health of localities. Instead, the responsibility for reviewing local government fiscal conditions rests with local communities.

California provides its local governments with broad authority to file for Chapter 9 bankruptcy, but generally requires cities, counties and special districts to engage in a "neutral evaluation" process prior to filing for Chapter 9 relief. When a local government files for Chapter 9, the locality receives an "automatic stay" that stops the collection activity by creditors and protects the locality from litigation. A court must determine if the locality is eligible for Chapter 9 protection, and, if so, the locality must develop a plan of adjustment. Creditors and the court must approve the plan adjustment. Once the court approves the plan of adjustment, it creates a new contractual agreement between the locality and its creditors. The Chapter 9 process can take several years to be resolved.

California municipalities have previously filed for bankruptcy and continue to be at risk for Chapter 9 bankruptcy as retirement liabilities increase at the local level. The use of Chapter 9 bankruptcy filings by local governments could have an impact on creditors and parties with whom they contract, including bondholders. In addition, bankruptcies at the local level could impact the State's overall fiscal outlook.

Ratings.

The State's fiscal situation increases the risk of investing in California municipal securities, including the risk of potential issuer default, and also heightens the risk that the prices of California municipal securities, and the NAV of the underlying closed-end funds, will experience greater volatility.

Fitch, S&P, and Moody's assign ratings to California's long-term general obligation bonds, which represent their opinions as to the quality of the municipal bonds they rate. The ratings are general and not absolute standards of quality. Consequently, municipal bonds with the same maturity, coupon and rating may have different yields while obligations with the same maturity and coupon with different ratings may have the same yields. In 2009 and 2010, California's general obligation bond ratings were significantly downgraded by Moody's (to Baa1), S&P (to A-), and Fitch (to BBB). The State's credit ratings had not been that low since 2003 and 2004. Since 2010, the credit ratings have been increasing, though the State has one of the lowest bond ratings of any state. In June 2014, Moody's raised the State's general obligation rating to "Aa3"; in July 2015, S&P raised the State's general obligation credit rating to "AA-", the State's highest rating from S&P since 2000; and Fitch raised the rating to "AA-" in August 2016. However, these upward revisions reflected a recalibration of certain public finance ratings and did not reflect a change in credit quality of the issuer or issuers.

There can be no assurance that such ratings will be maintained in the future. The State's credit rating, and any future revisions or withdrawal of a credit rating, could have a negative effect on the market price of the State's general obligation bonds, as well as notes and bonds issued by California's public authorities and local governments. Lower credit ratings make it more expensive for the State to raise revenue, and in some cases, could prevent the State from issuing general obligation bonds in the quantity otherwise desired. Further, downgrades can negatively impact the marketability and price of securities held by the underlying closed-end funds.

California Indebtedness and Other Obligations.

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

As of January 1, 2019, the State had approximately $82 billion of outstanding general obligation bonds and lease revenue bonds payable principally from the General Fund or from lease payments paid from the operating budget of the respective lessees, which operating budgets are primarily, but not exclusively, derived from the General Fund. As of January 1, 2019, there were approximately $37.1 billion of authorized and unissued long-term voter-approved general obligation bonds, which when issued will be payable principally from the General Fund and approximately $6.4 billion for authorized but unissued lease-revenue bonds.

Current State debt obligations include:

• *General Obligation Bonds.* California's Constitution prohibits the creation of general obligation indebtedness of California unless a bond measure is approved by a majority of the electorate voting at a general election or direct primary. Each general obligation bond act provides a continuing appropriation from the General Fund of amounts for the payment of debt service on the related general obligation bonds, subject under State law only to the prior application of moneys in the General Fund to the support of the public school system and public institutions of higher education. Under California's Constitution, the appropriation to pay debt service on the general obligation bonds cannot be repealed until the principal and interest on the bonds have been paid. Certain general obligation bond programs, called "self-liquidating bonds," receive revenues from specified sources so that moneys from the General Fund are not expected to pay debt service, but the General Fund will pay the debt service if the specified revenue source is not sufficient. The principal self-liquidating general obligation bond program is the veteran general obligation bonds, supported by mortgage repayments from housing loans made to military veterans. General obligation bonds are typically authorized for infrastructure and other capital improvements at the State and local level. Pursuant to the State Constitution, general obligation bonds cannot be used to finance State budget deficits.

As of January 1, 2019, the State had authorized and outstanding approximately $73.9 billion aggregate principal amount of long-term general obligation bonds, of which approximately $73.1 billion were payable primarily from the State's General Fund, and approximately $764.1 million were "self-liquidating" bonds payable first from other special revenue funds. As of January 1, 2019, there were unused voter authorizations for the future issuance of approximately $38.3 billion long-term general obligation bonds, some of which may first be issued as commercial paper notes. Of this unissued amount, approximately $37.1 billion were payable primarily from the General Fund, and approximately $1.2 billion were "self-liquidating" bonds payable first from other special revenue funds.

• *Variable Rate General Obligations Bonds.* The general obligation bond law permits the State to issue as variable rate indebtedness up to 20 percent of the aggregate amount of long-term general obligation bonds outstanding.

As of January 1, 2019, the State had outstanding approximately $3.9 billion principal amount of variable rate general obligation bonds, representing about 5.3 percent of the State's total outstanding general obligation bonds. If the approximately $1.7 billion of variable rate general obligation bonds having mandatory tender dates cannot be remarketed or refunded on or prior to their respective scheduled mandatory tender dates, there is no default but the interest rate on the bonds not remarketed or refunded on or prior to such date would be increased, in most cases in installments, on or after the applicable scheduled mandatory tender date subject to a maximum interest rate for such bonds that may be less than the statutory maximum interest rate for the bonds, until such bonds can be remarketed or refunded or are paid at maturity. The State is obligated to redeem, on the applicable purchase date, any weekly and daily variable rate demand obligations ("VRDOs") tendered for purchase if there is a failure to pay the related purchase price of such VRDOs on such purchase date from proceeds of the remarketing thereof, or from liquidity support related to such VRDOs. The State has not entered into any interest rate hedging contracts in relation to any of its variable rate general obligation bonds.

• *General Obligation Commercial Paper Program.* Pursuant to legislation enacted in 1995, voter-approved general obligation indebtedness may be issued either as long-term bonds or, for some but not all bond acts, as commercial paper notes. Commercial paper notes may be renewed or refunded by the issuance of long-term bonds. The State uses commercial paper notes to provide flexibility for bond programs, such as to provide interim funding of voter-approved projects and to facilitate refunding of variable rate bonds into fixed rate bonds. Commercial paper notes are not included in the calculation of permitted variable rate indebtedness described above under "Variable Rate General Obligation Bonds" and are not included in the figures provided above under "General Obligation Bonds." As of January 1, 2019, a total of $2.2 billion in principal amount of commercial paper notes is authorized under agreements with various banks.

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

• *Lease-Revenue Obligations.* The State builds and acquires facilities through the issuance of lease-revenue obligations, in addition to general obligation bonds. Such borrowing must be authorized by the Legislature in a separate act or appropriation. Under these arrangements, the State Public Works Board ("SPWB"), another State or local agency or a joint powers authority uses proceeds of bonds to pay for the acquisition or construction of facilities, such as office buildings, university buildings, courthouses or correctional institutions. These facilities are leased to State agencies, the California State University or the Judicial Council under a long-term lease that provides the source of revenues that are pledged to the payment of the debt service on the lease-revenue bonds. Under applicable court decisions, such lease arrangements do not constitute the creation of "indebtedness" within the meaning of State Constitutional provisions that require voter approval. As of January 1, 2019, the State had lease revenue obligations of approximately $8.9 billion for supported issues outstanding from the General Fund and approximately $6.4 billion for authorized but unissued bonds.

• *Non-Recourse Debt.* Certain State agencies and authorities issue revenue obligations for which the General Fund has no liability. These revenue bonds represent obligations payable from the State's revenue-producing enterprises and projects (e.g., among other revenue sources, taxes, fees and/or tolls) and conduit obligations payable from revenues paid by private users or local governments of facilities financed by the revenue bonds. In each case, such revenue bonds are not payable from the General Fund. The enterprises and projects include transportation projects, various public works projects, public and private educational facilities, housing, health facilities and pollution control facilities. State agencies and authorities had approximately $66.9 billion aggregate principal amount of revenue bonds and notes which are non-recourse to the General Fund outstanding as of December 31, 2018.

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

Between April 2009 and December 2010, the State issued approximately $13.5 billion of BAB general obligation bonds and the SPWB issued $551 million of BAB lease-revenue bonds (of which $150 million have been redeemed). The aggregate amount of the subsidy payments expected to be received from fiscal year 2018-19 through the maturity of these bonds (mostly 20 to 30 years from issuance) based on the 35 percent subsidy rate is approximately $6.4 billion for the general obligation BABs and $157.8 million for the SPWB lease-revenue BABs.

Pursuant to federal budget legislation, beginning on March 1, 2013, the federal government's BAB subsidy payments were reduced as part of a "sequestration" of many program expenditures. The amount of the reduction of the BAB subsidy payment has been less than $30 million annually and is presently scheduled to continue until 2025, although U.S. Congress can terminate or modify it sooner, or extend it. None of the BAB subsidy payments are pledged to pay debt service for the general obligation and SPWB BABs, so this reduction will not affect the State's ability to pay its debt service on time, nor have any material impact on the General Fund.

• *Future Issuance Plans.* Based on estimates from the Department of Finance, as well as updates from the State Treasurer's Office, approximately $4.2 billion of new money general obligation bonds (some of which may initially be in the form of commercial paper notes) and approximately $1.2 billion of lease-revenue bonds are expected to be issued in fiscal year 2019-20. These estimates will be updated by the State's Treasurer's Office based on information provided by the Department of Finance with respect to the updated funding needs of, and actual spending by, departments. In addition, the actual amount of bonds sold will depend on other factors such as overall budget constraints, market conditions and other considerations. The State also expects to issue refunding bonds as market conditions warrant.

The ratio of debt service on general obligation and lease-revenue bonds supported by the General Fund, to annual General Fund revenues and transfers (the "General Fund Debt Ratio"), can fluctuate as assumptions for future debt issuance and revenue projections are updated from time to time. Any changes to these assumptions will impact the projected General Fund Debt Ratio. Based on the revenue estimates contained in the Governor's 2019-20 proposed budget (the "2019 Proposed Budget") and bond issuance estimates referred to in the preceding paragraph, the General Fund Debt Ratio is estimated to equal approximately 5.9 percent in fiscal year 2018-19 and 5.7 percent in fiscal year 2019-20.

The General Fund Debt Ratio is calculated based on the amount of debt service expected to be paid, without adjusting for receipts from the U.S. Treasury for the State's current outstanding general obligation and lease-revenue BABs or the availability of any special funds that may be used to pay a portion of the debt service to help reduce General Fund costs. The total of these offsets is estimated at approximately $1.9 billion for fiscal year 2018-19 and $2.5 billion for fiscal year 2019-20. Including the estimated offsets reduces the General Fund Debt Ratio to 4.5 percent in fiscal year 2018-19 and 4 percent in fiscal year 2019-20. The actual General Fund Debt Ratio in future fiscal years will depend on a variety of factors, including actual debt issuance (which may include additional issuance approved in the future by the Legislature and, for general obligation bonds, the voters), actual interest rates, debt service structure, and actual General Fund revenues and transfers.

• *Tobacco Settlement Revenue Bonds.* In 1998, the State signed a settlement agreement (the "MSA") with four major cigarette manufacturers (the "participating manufacturers"). Under the MSA, the participating manufacturers agreed to make payments to the State in perpetuity. Under a separate Memorandum of Understanding, half of the payments made by the cigarette manufacturers will be paid to the State and half to local governments, subject to certain adjustments.

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

The credit enhancement mechanism only applies to certain tobacco settlement bonds that were issued in 2005, 2013, 2015 and 2018 with an outstanding principal amount of approximately $2.1 billion (the "Enhanced Bonds"). The Enhanced Bonds are neither general nor legal obligations of the State or any of its political subdivisions and neither the faith and credit nor the taxing power nor any other assets or revenues of the State or any of its political subdivisions shall be pledged to the payment of the Enhanced Bonds. However, as described above, the State committed to request the Legislature for a General Fund appropriation in the event there are insufficient tobacco settlement revenues to pay debt service with respect to the Enhanced Bonds, and certain other available amounts, including the reserve fund for the Enhanced Bonds, are depleted. Every enacted budget since 2003 has included this appropriation, but use of the appropriated moneys has never been required.

Draws on the reserve funds for the Enhanced Bonds in the amount of approximately $7.9 million were used to make required debt service payments on the 2005 bonds in 2011 and 2012. In April 2013, the reserve fund was replenished in full from tobacco revenues. As of December 31, 2018, the balance of the reserve fund for the Enhanced Bonds was $154.6 million. If, in any future year, the tobacco settlement revenues are less than the required debt service payments on the Enhanced Bonds in such year, additional draws on the reserve funds will be required and at some point in the future the reserve funds may become fully depleted. The State is not obligated to replenish the reserve funds from the General Fund, or to request an appropriation to replenish the reserve funds.

• *Office of Statewide Health Planning and Development Guarantees.* The Office of Statewide Health Planning and Development of the State of California ("OSHPD") insures loans and bond issues for the financing and refinancing of construction and renovation projects for nonprofit and publically-owned healthcare facilities. This program is currently authorized by statute to insure up to $3 billion for health facility projects.

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

As of November 30, 2018, OSHPD insured 82 loans to nonprofit or publicly owned health facilities throughout California for approximately $1.7 billion, and a cash balance of approximately $161 million. The actuarial study of the Construction Fund as of June 30 2016, was completed in August 2018 (the "2016 actuarial study"). Based upon a number of assumptions, the 2016 actuarial study concluded, among other things, that the Construction Fund appeared to be sufficient under the "expected scenario" to maintain a positive balance until at least fiscal year 2045-46. Even under the "most pessimistic scenario," the 2016 actuarial study found that there was a 70 percent likelihood that the Construction Fund's reserves as of June 30, 2016 would protect against any General Fund losses until at least fiscal year 2026-27, and a 90 percent likelihood that the Construction Fund's reserves as of June 30, 2016 would protect against any General Fund losses until at least fiscal year 2021-22. There can be no assurances that the financial condition of the Construction Fund has not materially declined since the 2016 actuarial study.

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

• *Cash Flow Borrowings.* The majority of General Fund receipts are received in the latter part of the fiscal year. Disbursements from the General Fund occur more evenly throughout the fiscal year. The State's cash management program customarily addresses this timing difference by making use of internal borrowing and by issuing short-term notes in the capital markets when necessary.

Internal Borrowing. The General Fund is currently authorized by law to borrow for cash management purposes from more than 700 of the State's approximately 1,300 other funds in the State Treasury (the "Special Funds"). Total borrowing from Special Funds must be approved quarterly by the Pooled Money Investment Board ("PMIB"). The State Controller submits an authorization request to the PMIB quarterly, based on forecasted available funds and borrowing needs. The Legislature may from time to time adopt legislation establishing additional authority to borrow from Special Funds. As of the 2019 Proposed Budget, the General Fund is projected to have up to approximately $30 billion of internal funds (excluding the BSA, the Special Fund for Economic Uncertainties ("SFEU") and the Budget Deficit Savings Account) available during the remainder of fiscal years 2018-19 and 2019-20. One fund from which moneys may be borrowed to provide additional cash resources to the General Fund is the BSA, which increased to $11.2 billion in September 2018 and is expected to increase to $13.5 billion at the end of fiscal year 2018-19. The State also may transfer funds into the General Fund from the SFEU, which is not a special fund.

External Borrowing. External borrowing is typically done with revenue anticipation notes ("RANs") that are payable not later than the last day of the fiscal year in which they are issued. Prior to fiscal year 2015-16, RANs had been issued in all but one fiscal year since the mid-1980s and have always been paid at maturity. No RANs were issued in fiscal years 2015-16 through 2018-19 or are planned to be issued in fiscal year 2019-20. The State also is authorized under certain circumstances to issue revenue anticipation warrants ("RAWs") that are payable in the succeeding fiscal year. The State issued RAWs to bridge short-term cash management shortages in the early 1990s and early 2000s.

RANs and RAWs are both payable from any "Unapplied Money" in the General Fund on their maturity date, subject to the prior application of such money in the General Fund to pay Priority Payments. "Priority Payments" consists of: (i) the setting apart of

State revenues in support of the public school system and public institutions of higher education (as provided in Section 8 of Article XVI of the State Constitution); (ii) payment of the principal of and interest on general obligation bonds and general obligation commercial paper notes of the State as and when due; (iii) a contingent obligation for General Fund payments to local governments for certain costs for realigned public safety programs if not provided from a share of State sales and use taxes, as provided in Article XIII, Section 36 of the State Constitution, enacted by Proposition 30; (iv) reimbursement from the General Fund to any special fund or account to the extent such reimbursement is legally required to be made to repay borrowings therefrom pursuant to California Government Code Sections 16310 or 16418; and (v) payment of State employees' wages and benefits, required State payments to pension and other State employee benefit trust funds, State Medi-Cal claims, lease payments to support lease-revenue bonds, and any amounts determined by a court of competent jurisdiction to be required by federal law or the State Constitution to be paid with State warrants that can be cashed immediately.

The State entered fiscal year 2017-18 with General Fund internal loans of $4.8 billion as of June 30, 2017. The State's cash flow projections for fiscal year 2017-18 indicated that internal resources would be sufficient and available to meet the normal peaks and valleys of the State's cash needs, while maintaining a cushion at all times of at least $2.5 billion. Accordingly, the State did not issue any RANs in fiscal year 2017-18, the third consecutive year in which external borrowing was not required.

The State's cash position was strong entering fiscal year 2018-19, as the General Fund ended the previous year with a positive cash balance of $5.5 billion. Cash flow projections for the balance of the fiscal year show no plan for a RAN borrowing to manage cash requirements, with an estimated cash cushion of unused internal borrowable resources of at least $26 billion at the end of each month.

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

• *Retirement Liabilities.* The two main State pension funds, CalPERS and CalSTRS, each face unfunded future liabilities in the tens of billions of dollars. The 2019 Budget estimates the State's unfunded pension liability for CalPERS and CalSTRS to be $59.7 billion and $33.4 billion, respectively). As of June 30, 2018, the funded status for CalPERS and CalSTRS was 70 percent and 66 percent, respectively. The State also has significant unfunded liability with respect to other post-employment benefits ("OPEB").

If the State does not take action concerning these liabilities soon, the extra costs needed to retire these unfunded liabilities over the next few decades will likely increase dramatically. Lower than expected investment returns have been a primary reason for the growth of unfunded pension liabilities in the last decade. There has also been benefit increases that are implemented retroactively, and demographic and pay changes among employees and retirees. In addition, the State has very little flexibility under case law to alter benefit and funding arrangements for current employees. Generally, pension benefit packages, once promised to an employee, cannot be reduced, either retrospectively or prospectively. There can be no assurance that the State's annual required contributions to CalPERS and CalSTRS will not significantly increase in the future. Recent legislation with respect to both CalPERS and CalSTRS and changes in actuarial assumptions and funding methodologies are expected to result in significant annual increases in the amount the State is required to pay from the General Fund for the foreseeable future. The actual amount of any increase will depend on a variety of factors, including, but not limited to, investment returns, actuarial assumptions, experience and retirement benefit adjustments. In addition, governments typically do not "pre-fund" their retiree health liabilities. This means that future taxpayers may bear a larger cost burden for these benefits. Unlike pensions, there are no investment returns under this type of funding structure to cover a large portion of benefit costs.

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

The 2019 Proposed Budget estimates that in fiscal year 2019-20, approximately 3.8 million Californians will have health insurance through the optional expansion of Medi-Cal, and 1.4 million through the State's insurance exchange. The 2019 Proposed Budget includes costs of $20 billion ($2.2 billion from the General Fund) in fiscal year 2019-20 for the optional expansion. The federal government paid nearly 100 percent of the costs of this expansion for fiscal years 2013-14 through 2015-16. As of January 1, 2019, California is responsible for 6 percent of these costs, with California's contribution gradually increasing each fiscal year until fiscal year 2020-21, when the State will pay 10 percent of the total costs. By fiscal year 2020-21, the General Fund share for the optional expansion is projected to be $2.6 billion.

The 2019 Proposed Budget does not include the extension of the Managed Care Organization ("MCO") tax in fiscal year 2019-20. Federal Medicaid regulations allow states to impose certain health care-related taxes on plans or providers as long as certain conditions are met. The revenue from these taxes serve as the non-federal share of spending for health care services in a state's Medicaid program, which allows the state to draw down additional federal funding and reduce General Fund expenditures. Effective July 1, 2016, a tax on the enrollment of Medi-Cal managed care plans and commercial health plans is authorized until June 30, 2019. The 2019 Proposed Budget assumes net savings of $1.4 billion in fiscal year 2018-19 and $583 million in fiscal year 2019-20 from the MCO tax. (The fiscal year 2019-20 savings are due to a one-quarter lag resulting from Medi-Cal's cash basis budgeting).

The 2019 Proposed Budget includes a statewide requirement for California residents to obtain comprehensive health care coverage or pay a penalty consistent with the federal penalties originally outlined under the Affordable Care Act. Funds raised by the state penalties will be dedicated to expanding subsidies for coverage on the state health insurance market place for households with incomes between 250 and 600 percent of the federal poverty line. The state mandate and subsidies are expected to prevent increases to the State's uninsured rate, reduce growth in health care premiums, and promote utilization of preventative care by strengthening the incentives in the Affordable Care Act and stabilizing the individual market. A state mandate may also have positive impacts on the budgets of counties and other safety-net providers who treat the indigent and uninsured. Penalty revenues and specific subsidy design are currently unknown and the 2019 Proposed Budget does not assume any fiscal impacts in fiscal year 2019-20.

Litigation

The State is a party to numerous legal proceedings, many of which normally occur in governmental operations. In addition, the State is involved in certain other legal proceedings (described in California's recent financial statements) that, if decided against the State might require the State to make significant future expenditures or substantially impair future revenue sources. Because of the prospective nature of these proceedings, it is not presently possible to predict the outcome of such litigation, estimate the potential impact on the ability of the State to pay debt service costs on its obligations, or determine what impact, if any, such proceedings may have on the California Series.

New York Risk Factors.

The New York Series invests in funds that invest primarily in New York municipal securities. Accordingly, the Fund is susceptible to certain factors that could adversely affect issuers of New York municipal obligations. The ability of issuers to pay interest on, and repay principal of, New York municipal obligations may be affected by: (1) amendments to the Constitution of the State of New York ("State") and other statutes that limit the taxing and spending authority of New York government entities; (2) the general financial and economic profile as well as the political climate of the State, its public authorities and political subdivisions; and (3) a change in New York laws and regulations or subsequent court decisions that may affect, directly or indirectly, New York municipal obligations. The New York Series' yield and share price is sensitive to these factors as one or more of such factors could undermine New York issuers' efforts to borrow, inhibit secondary market liquidity, erode credit ratings and affect New York issuers' ability to pay interest on, and repay principal of, New York municipal obligations. Furthermore, it should be noted that the creditworthiness of obligations issued by local New York issuers may be unrelated to the creditworthiness of obligations issued by the State and the City of New York ("City"), and that there is no obligation on the part of the State to make payment on such local obligations in the event of default.

Summarized below are important financial concerns relating to the New York Series' investments in funds investing in New York municipal obligations. This section is not intended to be an entirely comprehensive description of all risks involved in investing in New York municipal obligations. The information in this section is intended to give a recent historical description and is not intended to indicate future or continuing trends in the financial or other positions of the State and the City. It should be noted that the information recorded here primarily is based on the economic and budget forecasts and economic risks found in certain reports issued by the State, the City and the Metropolitan Transportation Authority ("MTA"). The accuracy and completeness of the information in those reports have not been independently verified. The resources used to prepare the disclosure related to the MTA, the City, the State and the U.S. economy were published between July 2018 and May 2019. Since the time that such resources were published, there may have been, and may yet be, significant changes in circumstances altering the economic and budget predictions found in those resources and presented here. In addition, it is important to note that many of the dollar amounts referenced in this section have been truncated to one digit after the decimal and rounded up or down to the appropriate dollar denomination. Because such dollar amounts generally reference large sums of money (e.g., millions or billions of dollars), the truncation and/or rounding of such dollar amounts may significantly differ from the untruncated and unrounded dollar amounts.

State Economy

The State has a diverse economy with a relatively large share of the nation's financial activities, employment in the information, health services and education sectors, but a rather small share of the nation's farming and mining activity. The State has the fourth highest population in the nation, and its residents have a comparatively high level of personal wealth. The most significant sectors of the State's economy differ from those of the national economy. Travel and tourism comprise a significant part of the economy. The State's location, airport facilities and natural harbors have made it an essential link in international commerce. Manufacturing and construction account for smaller shares of employment for the State than for the nation, while service industries account for a larger share. Like the rest of the nation, New York has a declining proportion of its workforce engaged in manufacturing and an increasing proportion engaged in service industries. The financial activities sector share of total State wages is particularly large relative to the nation. During an economic recession that is concentrated in construction and manufacturing, the State is likely to be less affected than the nation as a whole; however, the State is more likely to be affected during a recession that is concentrated in the services sector. The City has the highest population of any city in the nation and is the center of the nation's largest metropolitan area. The City accounts for a large percentage of the State's residents and personal income.

The discussion that follows regarding the status of the U.S. and State economies is primarily based on information published by the State Division of the Budget ("DOB") no later than March 2019. All predictions and past performance information regarding the U.S. and State economies contained in this subsection were made on or before that date even though they may be stated in the present tense and may no longer be accurate.

DOB projects real growth in U.S. Gross Domestic Product ("GDP") of 2.4 percent for calendar year 2019, following estimated growth of 2.9 percent for calendar year 2018. Global economic data indicate further weakening to come, putting downward pressure on inflation. This could keep the Federal Reserve cautious with respect to further increases in the Federal funds rate. The projected quarterly growth path for U.S. real GDP has been altered by the impact of the 2018-2019 partial Federal government shutdown. The partial Federal government shutdown lasted five weeks, from December 22, 2018, through January 25, 2019, making it the longest in U.S. history. Almost 800,000 Federal government workers were either furloughed or worked without pay; based on Congressional Budget Office estimates, a total of approximately $18 billion in Federal discretionary spending was delayed.

The State's private sector job growth appears to be stabilizing at a historically healthy rate. Following 1.5 percent growth for calendar year 2017, the first half of calendar year 2018 had slightly stronger growth of 1.6 percent. However, the State economy will not be immune to slowing global growth and a weakening national economy going forward. Indeed, preliminary data for the second half of calendar year 2018 indicate a slight decrease from the first half of 2018, resulting in estimated growth of 1.4 percent for all of 2018, representing an upward revision of 0.1 percent from the Enacted Budget Financial Plan for Fiscal Year 2019 ("2019 Budget") forecast. Slower growth of 1.3 percent is projected for 2019 as national and global economic growth moderates, which represents an upward revision of 0.1 percent above the 2019 Budget forecast.

Finance and insurance sector bonuses, which at the time of the 2019 Budget forecast were expected to decline by 1.9 percent in fiscal year 2019, have been revised downward and are now expected to decline by 14.7 percent for fiscal year 2019. The estimated decline in finance and insurance sector bonuses in fiscal year 2019 is attributable to weaker estimates of Wall Street's calendar year 2018 revenue performance, and evidence that one-time bonus payments in fiscal year 2018 were likely stronger than originally estimated. Finance and insurance sector bonus growth of 0.2 percent is projected for fiscal year 2020.

Revised quarterly census data indicated weaker bonus growth, but stronger non-bonus wage growth for the second half of 2018. Underlying non-bonus wage growth is projected at 4.8 percent for fiscal year 2019, with 4.2 percent growth now projected for fiscal year 2020. On balance, total State wage growth of 3.2 percent is projected for fiscal year 2019, representing a 0.4 percentage point downward revision from the 2019 Budget forecast, while wage growth of 3.8 percent is projected for fiscal year 2020.

There can be no assurance that the State economy will not experience results worse than those predicted in the 2019 fiscal year or subsequent fiscal years, with related material and adverse effects on the State's estimates of receipts and disbursements.

State Budget

Each year, the Governor is required to provide the State Legislature with a balanced executive budget which constitutes the proposed State financial plan for the ensuing fiscal year. The State's fiscal year for 2019 ended on March 31, 2019 (the "2019 fiscal year"). The State's fiscal year for 2020 runs from April 1, 2019 to March 31, 2020 (the "2020 fiscal year"). The Governor's executive budget is required to be balanced on a cash basis and that is the primary focus of DOB in preparing the financial plan for the State. State finance law also requires the State financial plan to be reported using generally accepted accounting principles ("GAAP"), in accordance with standards and regulations set forth by the Governmental Accounting Standards Board ("GASB"). As such, the State reports its financial results on both the cash accounting basis, showing receipts and disbursements, and the GAAP modified accrual basis, showing revenues and expenditures. In February 2019, DOB published the Enacted Budget Financial Plan for Fiscal Year 2020 ("2020 Budget"), which updates the State's official financial plans for fiscal years 2019 through 2023 (the "Fiscal Plan"). The DOB also issued the Annual Information Statement, dated July 2, 2018, and supplemented March 5, 2019 (together, the

"2020 AIS"). The State financial results, as described below, are calculated on a cash accounting basis, unless specified otherwise. The GAAP projections for the State's budget can be obtained from DOB.

In the 2020 AIS, the DOB projects a General Fund closing cash balance of $6.5 billion for the end of the 2019 fiscal year, a decrease of $2.9 billion from fiscal year 2018. The General Fund closing balance, excluding extraordinary monetary settlements, is estimated at $2.6 billion, or $1.8 billion lower than the closing balance at the end of fiscal year 2018. The change is due mostly to the expected use of the $1.9 billion in cash received in fiscal year 2018. These funds are attributed to the acceleration of Personal Income Tax ("PIT") payments in response to the federal limit on state and local tax ("SALT") deductibility, which became effective January 1, 2018.

According to the 2020 AIS, total General Fund receipts, including transfers from other funds, are projected to total $68.5 billion in fiscal year 2019, a decrease of $2.1 billion (3.0 percent) from fiscal year 2018 results. The annual change is affected by taxpayer behavior in response to the Tax Cuts and Jobs Act of 2017 ("TCJA") by increasing current estimated payments in the final year of uncapped SALT deductions.

Fiscal Year 2020

The budget forecasts are based on assumptions of economic performance, revenue collections, spending patterns and projections of the costs of program activities. There can be no guarantee that the State's financial position will not change materially and adversely from current projections. If this were to happen, the State would be required to take additional gap-closing actions, such as decreases in State agency operations; delays or decreases in payments to local governments or other recipients of State aid; delays in or suspension of capital maintenance and construction; extraordinary financing of operating expenses; use of non-recurring resources; or other actions. In some cases, the ability of the State to implement these actions requires the approval of the Legislature and cannot be implemented unilaterally by the Governor.

Special Considerations

Many complex political, social, economic, financial and environmental forces influence the State's economy and finances, which may in turn affect the 2020 Budget. These factors may affect the State unpredictably from fiscal year to fiscal year and are influenced by governments, institutions and events that are not subject to the State's control. The 2020 Budget is also based on numerous assumptions, including forecasts of national and State economic activity and the ability of the State to collect related tax receipts as projected. Economic forecasts have frequently failed to predict accurately the timing and magnitude of changes in the national and State economies. In certain fiscal years, actual collections were substantially below the levels predicted for the year. In addition, surplus projections in future years are based on the assumption that annual growth in State Operating Funds spending is limited to 2 percent, and that all savings that result from the 2 percent limit will be made available to the General Fund. There can be no assurance that the State's actual results will not differ materially and adversely from the current forecast.

There are numerous uncertainties and risks that could affect the 2020 Budget, including the impact of: national and international events; ongoing financial instability in the Euro-zone; changes in consumer confidence, oil supplies and oil prices; cybersecurity attacks, major terrorist events, hostilities or war; climate change and extreme weather events; Federal statutory and regulatory changes concerning financial sector activities, Federal tax law and other programmatic purposes; changes concerning financial sector bonus payouts, as well as any future legislation governing the structure of compensation; shifts in monetary policy affecting interest rates and the financial markets; credit rating agency actions; financial and real estate market developments which may adversely affect bonus income and capital gains realizations; tech industry developments and employment; the effect of household debt on consumer spending and State tax collections; and the outcome of litigation and other claims affecting the State. Other uncertainties and risks that could affect the 2020 Budget include, but are not limited to, wage and benefit increases for State employees that exceed projected annual costs; changes in the size of the State's workforce; the realization of the projected rate of return for pension fund assets, and current assumptions with respect to wages for State employees affecting the State's required pension fund contributions; the willingness and ability of the Federal government to provide the aid expected in the 2020 Budget; the ability of the State to implement cost reduction initiatives, including reductions in State agency operations, and the success with which the State controls expenditures; and the ability of the State and its public authorities to market securities successfully in the public credit markets.

The 2020 Budget forecast also contains specific transaction risks and other uncertainties that, if they were to materialize, could have a negative affect on the 2020 fiscal year or in future years, including, but not limited to, receipt of certain payments from public authorities; receipt of certain casino revenue sharing payments under the Tribal-State compact, including payments from the Seneca Nation; receipt of miscellaneous revenues at the levels expected in the 2020 Budget, and achievement of cost-saving measures including, but not limited to, transfer of available fund balances to the General Fund at levels currently projected.

The 2020 Budget projections generally assume that School Aid and Medicaid disbursements will be limited to the annual growth in State personal income and the ten-year average growth in the medical component of the Consumer Price Index, respectively. The 2020 Budget, however, includes a 3.6 percent School Aid increase, which reflects a proposal to amend and align the School Aid growth cap to the 10-year average of State personal income growth. State law grants the Commissioner of Health certain powers and authority to maintain Medicaid spending levels assumed in the 2020 Budget. Over the past six years, State Medicaid spending levels have been maintained at or below indexed levels. However, Medicaid program spending is sensitive to a number of factors, including fluctuations in economic conditions, which may increase caseload, and changes in Federal aid, which could affect State health care spending. The Commissioner's powers are intended to limit the rate of annual growth in State Medicaid spending to the levels estimated for the current fiscal year, through actions which may include reducing rates to providers. However, these actions may be dependent upon timely Federal approvals and other elements of the program that govern implementation. It should further be noted that General Fund spending remains sensitive to revenue performance in the State's Health Care Reform Act ("HCRA") fund. The HCRA fund finances approximately one-quarter of the State-share costs of Medicaid.

Climate change poses significant long-term threats to physical and biological systems in New York and around the world. Potential hazards and risks related to climate change for the State include, among other items, rising sea levels, more severe coastal flooding and erosion hazards and more intense storms. Storms in recent years, including Superstorm Sandy, Hurricane Irene, and Tropical Storm Lee, have demonstrated vulnerabilities in the State's infrastructure (including mass transit systems, power transmission and distribution systems, and other critical lifelines) to extreme weather events, including coastal flooding caused by storm surges. The potential effects of climate change could adversely impact the State's budgets in current or future years. The DOB expects that significant long-term planning and investment by the Federal government, State, municipalities and public utilities will be needed to adapt existing infrastructure to climate change risks.

The State continues to recover from the damage sustained during three powerful storms that crippled entire regions. Little more than a year after Hurricane Irene and Tropical Storm Lee disrupted power and caused extensive flooding to numerous State counties, Superstorm Sandy hammered the East Coast on October 29, 2012, causing massive infrastructure damage and economic losses to the State and surrounding region. The frequency and strength of these storms present financial and economic risks to the State. The State's reimbursement claims for costs of the immediate response, recovery, and future mitigation efforts continue, largely supported by Federal funds. In January 2013, the Federal government approved approximately $60 billion in Federal disaster aid for general recovery, rebuilding, and mitigation activity nationwide. It is anticipated that the State, MTA, and State localities may receive approximately one-half of this amount for response, recovery, and mitigation costs. To date, a total of $17 billion has been committed to repairing impacted homes and businesses, restoring community services, and mitigating future storm risks across the State. There can be no assurance that all anticipated Federal disaster aid described above will be provided to the State and its affected entities over the coming years.

The State authorizes the General Fund to temporarily borrow resources from other funds in the State's short-term investment pool ("STIP") for a period not to exceed four months or to the end of the fiscal year, whichever is shorter. DOB expects that the State will have adequate liquidity in fiscal year 2020 to make all planned payments as they become due without having to temporarily borrow from STIP. The State continues to set aside money quarterly for debt service payments that are financed with General Fund resources, and reserve money to pay debt service on bonds secured by dedicated receipts, including PIT bonds and Sales Tax bonds, as required by law and bond covenants.

Legislation enacted in 2010 authorized the State and participating employers to amortize a portion of their annual pension costs during periods when actuarial contribution rates exceed thresholds established by the statute. The legislation provided employers with an optional mechanism intended to reduce the budgetary volatility of employer contributions. Amortized amounts must be paid by the State and participating employers in equal annual installments over a ten-year period, and employers may prepay these amounts at any time without penalty. Employers are required to pay interest on the amortized amounts at a rate determined annually by the State Comptroller that is comparable to taxable fixed income investments of a comparable duration. The interest rate on the amount an employer chooses to amortize in a particular rate year is fixed for the duration of the ten-year repayment period. Should the employer choose to amortize in the next rate year, the interest rate on that amortization will be the rate set for that year. For amounts amortized in fiscal year 2011 through fiscal year 2019, the State Comptroller set interest rates of 5 percent, 3.75 percent, 3 percent, 3.67 percent, 3.15 percent, 3.21 percent, 2.3 percent, 2.8 percent and 3.6 percent, respectively. The first payment is due in the fiscal year following the decision to amortize pension costs. When contribution rates fall below legally specified levels and all outstanding amortizations have been paid, employers that elected to amortize will be required to pay additional monies into reserve funds, specific to each employer, which will be used to offset their contributions in the future. These reserve funds will be invested separately from pension assets.

The State receives a significant amount of Federal funding for health care, education, transportation and other government needs, as well as Federal aid to address response and recovery to extreme weather events and other disasters. Many policies that drive this Federal aid may be subject to change under the Trump Administration and the new Congress. Current Federal aid projections, and the assumptions on which they rely, are subject to revision because of changes in Federal policy. In addition, the 2020 Budget may be negatively affected by other actions taken by the Federal government, including audits, disallowances and adjustments to Federal participation rates or other Medicaid rules.

Furthermore, the State and the Federal Centers for Medicare and Medicaid Services ("CMS") have reached an agreement authorizing up to $8 billion in Federal funding over numerous years for use in transforming the State's health care system and ensuring access to quality care for all Medicaid beneficiaries. This funding is provided through an amendment to the State's Partnership Plan 1115 Medicaid waiver.

In May 2011, the State Supreme Court issued an order that approved the transfer of real property and other assets of Long Island College Hospital ("LICH") to a State not-for-profit corporation ("Holdings"), the sole member of which is the State University of New York ("SUNY"). Subsequent to such transfer, Holdings leased the LICH hospital facility to SUNY University Hospital at Brooklyn ("Downstate Hospital"). To address the deteriorating financial condition of Downstate Hospital, which has been caused in part by the deteriorating financial position of LICH, legislation adopted with the fiscal year 2014 budget required a multi-year sustainability plan for the Downstate Hospital. After a series of court orders, in 2014, SUNY and Holdings issued a request for proposals for a qualified party to provide or arrange to provide health care services at LICH and to purchase the LICH property. An agreement to purchase the property and provide health care services by a third party has been approved by the Office of Attorney General and the State Comptroller. The sale of all or substantially all of the assets of Holdings is subject to additional approvals. There can be no assurance that the resolution of legal, financial and regulatory issues surrounding LICH, including the payment of outstanding liabilities will not have a materially adverse impact on SUNY.

Debt outstanding and debt service costs over the course of the fiscal year are projected to remain below the limits prescribed by the Debt Reform Act of 2000 ("Debt Reform Act") based on the updated forecasts in the 2020 Budget. Based on the most recent personal income and debt outstanding forecasts, the available debt capacity under the debt outstanding cap is expected to decline from $5.8 billion in fiscal year 2019 to about $24 million in fiscal year 2023. This includes the estimated impact of the bond-financed portion of increased capital commitment levels. The State may implement measures to further adjust capital spending priorities and debt financing practices to stay in compliance with the statutory outstanding debt limit.

On March 1, 2019, a temporary suspension of the Federal debt limit expired. The U.S. Treasury is currently operating under "extraordinary measures" to make payments for as long as possible and forestall a potential default. The Congressional Budget Office estimates that these measures will suffice through late summer or early fall of 2019. A Federal government default on payments, particularly for a prolonged period, could have a materially adverse effect on the national and the State economies, financial markets, and intergovernmental aid payments. The specific effects on the 2020 Budget of a future Federal government default are unknown and impossible to predict. However, data from past economic downturns suggest that the State's revenue loss could be substantial if the economy goes into a recession due to a Federal default.

A payment default by the United States may adversely affect the municipal bond market. Municipal issuers, including the State, could face higher borrowing costs and impaired access to capital markets. This would jeopardize planned capital investments in transportation infrastructure, higher education facilities, hazardous waste remediation, environmental projects, and economic development projects. Additionally, the market for and market value of outstanding municipal obligations, including municipal obligations of the State, could be adversely affected.

State employees become eligible for post-employment benefits (e.g., health insurance) if they reach retirement while working for the State, are enrolled in either New York State Health Insurance Program ("NYSHIP") or the NYSHIP opt-out program at the time they reach retirement, and have at least ten years of eligible service. In accordance with the GASB Statement 45, the State must perform an actuarial valuation every two years for purposes of calculating Other Post-Employment Benefits ("OPEB") liabilities. The Annual Required Contribution ("ARC") represents the annual level of funding that, if set aside on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded liabilities of the plan over a maximum period of 30 years. Any amounts required but not actually set aside to pay for these benefits are accumulated with interest as part of the net OPEB obligation, after adjusting for amounts previously required.

The unfunded actuarial accrued liability for fiscal year 2018 is $90.5 billion ($72.8 billion for the State and $17.7 billion for SUNY), an increase of $3.3 billion from fiscal year 2017 (attributable wholly to SUNY). The provisions of GASB Statement 75 (Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions), which amends GASB Statement 45 and GASB Statement 57, is expected to be incorporated into the State's fiscal year 2019 financial statements. GASB Statement 75 will alter the actuarial methods used to calculate OPEB liabilities, standardize asset smoothing and discount rates, and require the funded status of the OPEB liabilities to be reported by the State.

The State has reached multi-year collective bargaining agreements beyond fiscal year 2020 with several unions. The State is in active negotiations with all other employee unions whose contracts concluded in previous fiscal years. Due to the nature of the timing of labor agreements, DOB will informally reserve balances for possible prior-year costs for unions without current contracts.

The State's Secured Hospital Program enables certain financially distressed not-for-profit hospitals to have tax-exempt debt issued on their behalf, to pay for upgrading their primary health care facilities. Under the Secured Hospital Program, the State is obligated to pay debt service, subject to annual appropriations by the Legislature, on certain bonds in the event there are shortfalls in revenues from other sources, including hospital payments and certain reserve funds held by the applicable trustees for the bonds. As of March 31, 2018, there were approximately $193 million of outstanding bonds under the program. Three of the four remaining hospitals in the State's Secured Hospital Program are in poor financial condition. The State's contingent contractual obligation regarding the Secured Hospital Program was invoked for the first time in fiscal year 2014. Since then, the State has paid $125 million for debt service costs. It is estimated that the State will pay debt service costs of approximately $31 million in fiscal year 2020 and fiscal year 2021, $25 million in fiscal year 2022, and $20 million in fiscal year 2023 and fiscal year 2024. These amounts are based on the actual experience to date of the participants in the program and would cover the debt service costs for one hospital whose debt service obligation was discharged in bankruptcy, a second hospital which closed in 2010, and a third hospital that is currently delinquent in its payments. In addition, the State has an estimated additional exposure of up to $7 million annually if all remaining hospitals in the Secured Hospitals Program fail to meet the terms of their loan agreements and if available reserve funds were depleted.

The fiscal demands on State aid may be affected by the fiscal conditions of the City and potentially other localities, which rely in part on State aid to balance their budgets and meet their cash requirements. Certain localities outside of the City, including cities and counties, have experienced financial problems and have requested and received additional State assistance during the last several fiscal years. In 2013, the Financial Restructuring Board of Local Governments was created to provide assistance to distressed local governments by performing comprehensive reviews, and providing grants and loans as a condition of implementing recommended efficiency initiatives.

Implementation of the 2020 Budget relies on the State's ability to successfully market its bonds. The State primarily finances much of its capital spending from the General Fund or STIP, which it subsequently reimburses with proceeds from the sale of bonds. If the State cannot sell bonds at the levels (or on the timetable) anticipated in the State's capital plan, the State's overall cash position and capital funding plan may be adversely affected. The success of expected public sales will depend on prevailing market conditions and related ratings issued by national credit rating agencies, among other factors. Future developments in the financial markets generally, including possible changes in Federal tax law relating to the taxation of interest on municipal bonds, and future developments regarding the State and public discussion of those developments, may affect the market for outstanding State-supported and State-related debt. The TCJA adversely impacts the State and its public authorities by removing certain refunding opportunities for Federal tax exempt financing, including advance refundings for debt service savings when interest rates are favorable.

The General Fund periodically is the beneficiary of State financial settlements. Resources from new financial settlements that have not been appropriated total approximately $411 million as of July 2, 2018. Following the approach used in fiscal years 2017 and 2018, the 2019 Budget proposed using the new settlements for capital purposes and other time-limited investments. In addition, the 2019 Budget proposed setting aside $194 million for a MTA subsidy, and providing $125 million for Health Care Capital Grants. The proposed set-aside of $125 million to fund Health Care Capital Grants is in addition to the $400 million in available General Fund balances identified for the Health Care Facility Transformation Program.

Recent State Fiscal Years

The 2020 Budget includes a General Fund closing balance for 2019 of $6.5 billion, $1 billion higher than initial estimates. This increase results largely from unanticipated monetary settlements, as well as lower spending and transfers to capital projects funds. The estimated closing balance for 2019 is $2.9 billion below the fiscal year 2018 closing balance, reflecting factors including lower-than-anticipated PIT collections, the timing of such collections, and planned spending of some of the fund balance. DOB anticipates depositing $250 million from monetary settlements to the Rainy Day Reserve Fund (which is included within the General Fund balance) before the close of 2019, fiscal conditions permitting, increasing the balance in that reserve to $790 million.

Debt Limits, Ratings and Outstanding Debt

The debt of the State and of certain public authorities ("Authorities") consists of "State-supported debt" and "State-related debt." State-supported debt includes: (1) general obligation debt of the State to which the full faith and credit of the State has been pledged; (2) lease-purchase and contractual-obligations of public Authorities and municipalities where the State's obligations to make payments to those public Authorities and municipalities to cover debt service on those instruments is dependent on annual appropriations made by the Legislature and not based upon general obligations of the State; (3) long-term obligations issued by the Local Government Assistance Corporation ("LGAC") Program, a public benefit corporation empowered to issue long-term obligations to fund certain payments to local governments traditionally funded through the State's annual seasonal borrowing; and (4) State PIT Revenue Bond Financing ("State PIT Revenue Bonds"), which is issued by certain Authorities. The legislation enacting the issuance of State Pit Revenue Bonds provides that 25 percent of PIT receipts, excluding refunds owed to taxpayers, must be deposited into the Revenue Bond Tax Fund to be used to make debt service payments on these bonds. Legislation enacted in 2007 increased, under certain circumstances, the amount of PIT receipts to be deposited into the Revenue Bond Tax Fund by removing an exclusion for PIT amounts deposited to the School Tax Relief ("STAR") Fund.

State-related debt is a broader category of state debt that includes State-related debt but also includes State-guaranteed debt, moral obligation financings, certain contingent-contractual obligation financings, and certain other State financings ("Other State Financings"). Debt service on State-guaranteed debt, moral obligation financings, and the contingent-contractual obligation financings is expected to be paid from sources other than the State, and State appropriations are contingent in that they may be made and used only under certain circumstances. Other State Financings relate to debt issued by an Authority on behalf of a municipality. These include capital leases, mortgage loan commitments and debt of the municipal bond bank agency to finance prior year school claims. The municipality pays debt service on such financings by assigning specified State and local assistance payments it receives. The State does not have any obligation to continue to appropriate the local assistance payments that are the subject of the municipality assignments or make any debt service payments on such financings.

As of March 31, 2018, State-related debt outstanding totaled $51.6 billion excluding capital leases and mortgage loan commitments. New debt issuances are expected to total $6.8 billion in fiscal year 2019, an increase of $1.1 billion (18 percent) from fiscal year 2018. The annual increase in debt outstanding includes bond issuances to finance capital commitments for education ($1.3 billion), transportation infrastructure ($1.8 billion), economic development and housing ($2 billion), mental hygiene and health care facilities ($703 million), State facilities and equipment ($336 million), and the environment ($572 million). Over the next four years, new debt issuances are projected to total $25.5 billion. New issuances are primarily for transportation infrastructure ($6.8 billion), education facilities ($4.9 billion), economic development ($7.6 billion), the environment ($2.1 billion), mental hygiene and health care facilities ($2.7 billion), and State facilities and equipment ($1.3 billion).

State supported debt service, which is a measure of State resources needed to pay annual debt service, is projected at $5.7 billion in fiscal year 2020, of which $537 million is paid from the General Fund via transfers, and $5.2 billion is from other State funds supported by dedicated tax receipts.

New State-supported debt issued on or after April 1, 2000 is subject to the Debt Reform Act. This Act imposes caps on new debt outstanding and new debt service costs, restricts the use of debt to capital works and purposes only and restricts the maximum term of debt issuances to no more than 30 years. Current projections anticipate that debt outstanding and debt service will continue to remain below the limits imposed by the Debt Reform Act. Based on the most recent personal income and debt outstanding forecasts, the available room under the debt outstanding cap is expected to decline from $5.8 billion in fiscal year 2019 to about $24 million in fiscal year 2023. This includes the estimated impact of the bond-financed portion of increased capital commitment levels. The debt service costs on debt issued after April 1, 2000 and estimated new issuances is projected at $5.1 billion in fiscal year 2020, or roughly $3.5 billion below the statutory debt service limitation.

The State finances a portion of its capital projects with General Obligation bonds. In fiscal year 2020 the State expects that $441 million of General Obligation bonds would be issued to fund projects. General Obligation bond financing of capital projects is accomplished through the issuance of full faith and credit bonds that have been authorized directly by the voters under a State constitutional requirement. General Obligation bond-financed spending ($2.1 billion) accounted for approximately 3 percent of total spending over the period of the 2020 fiscal year. The State's 2020 fiscal year plan assumed the continued implementation of prior authorized bond acts.

As of August 2019, the State's outstanding General Obligation bonds were rated AA+ with a stable outlook by S&P, AA+ with a stable outlook by Fitch and Aa1 with a stable outlook by Moody's. Ratings reflect only the respective views of such organizations, and an explanation of the significance of such ratings may be obtained from the rating agency that furnished the rating. There is no assurance that a particular rating will continue for any given period of time or that any such rating will not be revised downward or withdrawn entirely, if in the judgment of the agency originally establishing the rating, circumstances so warrant. Any such downward revision or withdrawal could have an adverse effect on the market prices of the State General Obligation bonds.

State Retirement Systems

The State and Local Retirement Systems ("Systems") provide coverage for public employees of the State and its localities (except employees of the City and teachers, who are covered by separate plans). The State Constitution considers membership in any State pension or retirement system to be a contractual relationship, the benefits of which shall not be diminished or impaired. The present value of anticipated benefits for current members, retirees and beneficiaries increased to $251.4 billion (including $127.8 billion for retirees and beneficiaries) as of April 1, 2018, up from $240.7 billion as of April 1, 2017. The funding method used by the Systems anticipates that the plan net position, plus future actuarially determined contributions, will be sufficient to pay for the anticipated benefits of current members, retirees and beneficiaries. The valuation used was based on audited net position restricted for pension benefits as of March 31, 2018. Actuarially determined contributions are calculated using actuarial assets and the present value of anticipated benefits. Actuarial assets differed from plan net position on April 1, 2018 in that the determination of actuarial assets utilized a smoothing method that recognized 20 percent of the unexpected gain for fiscal year 2018, 40 percent of the unexpected gain for fiscal year 2017, 60 percent of the unexpected loss for fiscal year 2016, and 80 percent of the unexpected loss for fiscal year 2015. The asset valuation method smooths gains and losses based on the market value of all investments. Actuarial assets increased from $198.1 billion on April 1, 2017 to $206.7 billion on April 1, 2018. The ratio of the fiduciary net position to the total pension liability for the Employee Retirement System, as of March 31, 2018, was 98.2 percent. The ratio of the fiduciary net position to the total pension liability for the Police and Fire Retirement System, as of March 31, 2018, was 96.9 percent.

For the 2018 fiscal year, the total State payment (including Judiciary) due to the Systems was approximately $2.36 billion. The estimated total State payment (including Judiciary) due to the Systems for the 2019 fiscal year is approximately $2.33 billion. The estimated total State payment (including Judiciary) due to the Systems for fiscal year 2020 is approximately $2.34 billion.

Litigation

The State is a defendant in certain court cases that could ultimately affect the ability of the State to maintain a balanced financial plan. The State believes that the 2020 Budget includes sufficient reserves to offset the costs associated with any potential adverse rulings. There can be no assurance that adverse decisions in legal proceedings against the State would not exceed the amount of all potential 2020 Budget resources available for the payment of judgments, and could therefore adversely affect the ability of the State to maintain a balanced 2020 Budget. In addition, any potential amounts may be structured over a multi-year period. It is possible that adverse decisions in legal proceedings against the State could exceed the amount of all potential 2020 Budget resources set aside for judgments, and consequently could negatively affect the State's ability to maintain a balanced 2020 Budget. The disclosure below only includes litigation where the State deems the monetary claims against the State to be material or that involves significant challenges to or impacts on the State's financial policies or practices. The State generally only deems a monetary claim to be material if it exceeds $100 million. Furthermore, the litigation discussed below does not include all pending material matters and it does not include any pending material matter where the State's legal counsel has advised that it is not probable that the State will suffer adverse decisions.

Over the years, there have been a number of cases in which Native American tribes have asserted possessory interests in real property or sought monetary damages as a result of claims that certain transfers of property from the tribes or their predecessors-in-interest in the 18th and 19th centuries were illegal. Of these cases, only one remains active. In *Canadian St. Regis Band of Mohawk Indians, et al. v. State of New York, et al. (NDNY)*, plaintiffs seek ejectment and monetary damages for their claim that approximately 15,000 acres in Franklin and St. Lawrence Counties were illegally transferred from their predecessors-in-interest. The defendants' motion for judgment on the pleadings, relying on prior decisions in other cases rejecting such land claims, was granted in great part through decisions on July 8, 2013 and July 23, 2013, holding that all claims are dismissed except for claims over the area known as the Hogansburg Triangle and a right of way claim against Niagara Mohawk Power Corporation. On May 21, 2013, the State, Franklin and St. Lawrence Counties, and the tribe signed an agreement resolving a gaming exclusivity dispute, which agreement provides that the parties will work towards a mutually agreeable resolution of the tribe's land claim. The land claim has been stayed through at least April 20, 2018 to allow for settlement negotiations. On May 28, 2014, the State, the New York Power Authority and St. Lawrence County signed a memorandum of understanding with the St. Regis Mohawk Tribe endorsing a general framework for a settlement, subject to further negotiation. The memorandum of understanding does not address all claims by all parties and will require a formal written settlement agreement. Any formal settlement agreement will also require additional local, State and Congressional approval.

In *Maisto v. State of New York (formerly identified as Hussein v. State of New York*), plaintiffs seek a judgment declaring that the State's system of financing public education violates section 1 of article 11 of the State Constitution, on the ground that it fails to provide a sound basic education. In a decision and order dated

July 21, 2009, Supreme Court, Albany County, denied the State's motion to dismiss the action. The State appealed this denial to the Appellate Division, Third Department. On January 13, 2011, the Appellate Division, Third Department, affirmed the denial of the motion to dismiss. On May 6, 2011, the Third Department granted defendants leave to appeal to the Court of Appeals. On September 15, 2011, the Court of Appeals placed the appeal on track for full briefing and oral argument. The appeal was argued April 26, 2012. On June 26, 2012, the Court of Appeals affirmed the denial of the State's motion to dismiss. Trial commenced on January 21, 2015 and was completed on March 12, 2015. The parties submitted their proposed findings of fact on October 28, 2015. Plaintiffs' memorandum of law was due on November 27, 2015 and defendants' memorandum of law was filed on January 25, 2016. Plaintiffs' reply memorandum was submitted on February 9, 2016. On September 19, 2016, the trial court ruled in favor of the State and dismissed the action. Plaintiffs filed a notice of appeal dated October 5, 2016 with the Appellate Division, Third Department. Plaintiffs have filed their appellate brief and the State's brief was filed May 30, 2017. The appeal was argued on September 5, 2017. By decision and order dated October 26, 2017, the Appellate Division reversed the judgment of the trial court and remanded the case in order for the trial court to make specific findings as to the adequacy of inputs and causation. On January 10, 2019, the trial court issued a decision in favor of the State dismissing the action. Plaintiffs have appealed the January 10, 2019 decision to the Appellate Division, Third Department.

In *Aristy-Farer, et al. v. The State of New York, et al.* (Sup. Ct., N.Y. Co.), commenced February 6, 2013, plaintiffs seek a judgment declaring that the provisions of L. 2012, Chapter 53 and L. 2012, Chapter 57, Part A Section 1, which links payment of State school aid increases for 2012-13 to submission of approvable teacher evaluation plans by local school districts violates, among other provisions of the State Constitution, Article XI, Section 1, because implementation of the statutes would prevent students from receiving a sound basic education. Plaintiffs moved to enjoin the defendants from taking any actions that would reduce payment of State aid disbursements referred to as General Support for Public Schools ("GSPS") to the City pending a final determination, and the State opposed this motion. By order dated February 19, 2013, the Court granted the motion for preliminary injunction. The State appealed, and on May 21, 2013, the Appellate Division, First Department, denied plaintiffs' motion for a stay pending appeal. As a result, plaintiffs have agreed to vacate their preliminary injunction and the State will withdraw its appeal. On April 7, 2014, the Supreme Court denied the State's motion to dismiss. The State's appeal is pending. The Answer to the Second Amended Complaint was filed on February 2, 2015.

By a decision dated August 12, 2014, the Supreme Court, New York County, granted a motion to consolidate *Aristy-Farer with New Yorkers for Student Educational Rights v. New York*, summarized below. On June 27, 2017, the Court of Appeals dismissed the Aristy-Farer action but held that the New Yorkers for Student Educational Rights v. New York action could proceed on a limited basis as to the New York City and Syracuse school districts, as discussed below.

In *New Yorkers for Students Educational Rights v. New York*, the organizational plaintiff and a number of individual plaintiffs initiated a new lawsuit on February 11, 2014, in Supreme Court, New York County, alleging that the State is not meeting its constitutional obligation to fund schools in the City and throughout the State to provide students with an opportunity for a sound basic education. In particular, plaintiffs claim that the State is not meeting its funding obligations for City schools under the Court of Appeals decision in *Campaign for Fiscal Equity ("CFE") v. New York*, 8 N.Y.3d 14 (2006), and -- reiterating the claims of *Aristy-Farer* -- challenge legislation conditioning greater funding for City schools on the timely adoption of a teacher evaluation plan. Among other things, plaintiffs allege similar claims concerning other school districts throughout the State, and that the State has failed to provide assistance, services, accountability mechanisms and a rational cost formula to ensure that students throughout the State have an opportunity for a sound basic education.

Plaintiffs seek a judgment declaring that the State has failed to comply with CFE and the command of State Constitution Article XI to supply funding for public schools within the State, and that the gap elimination adjustment and caps on State aid and local property tax increases are unconstitutional. In addition, plaintiffs seek an injunction requiring the State to terminate the gap elimination adjustments and caps on State aid and local property tax increases, to reimburse the City for the funding that was withheld for failure to timely adopt a teacher evaluation plan, to supply increased assistance, services and accountability, to appoint an independent commission to determine the cost of giving students an opportunity for a sound basic education, and to revise State aid formulas.

The State filed a motion on May 30, 2014 to dismiss all claims, and on June 24, 2014, plaintiffs moved for a preliminary injunction seeking to restrain defendants from enforcing three of the four statutory provisions challenged in the underlying action. Subsequently, defendants moved by Order to Show Cause on July 8, 2014 to change the venue of the preliminary injunction application, as well as the entire action, to Albany County. The Court, via a Decision and Order dated August 8, 2014, granted defendants' motion to transfer the preliminary injunction application to Albany County, but denied that part of the motion which sought to transfer the entire action. Plaintiffs withdrew their motion for a preliminary injunction by letter dated October 27, 2014. The Court denied defendants' motion to dismiss by order dated November 17, 2014, and granted the motion of the City of Yonkers to intervene as a plaintiff in the proceeding by separate order dated November 17, 2014. Defendants filed Notices of Appeal of both November 17, 2014 decisions on December 15, 2014. Defendants filed Answers to the Amended Complaint and to Yonkers' Intervenor Compliant on February 2, 2015. The appeals of both November 17, 2014 decisions, along with the appeal in *Aristy-Farer*, are scheduled to be heard by the First Department February 24, 2016. Plaintiffs moved for partial summary judgment, pre-discovery, on May 29, 2015. Defendants filed opposition papers and cross-moved for partial summary judgment on July 31, 2015. Defendants also moved for a stay of the litigation pending the outcomes of the pending appeals. Oral argument was held on the cross-motions for partial summary judgment and the motion for a stay on November 4, 2015. The court denied both parties' motions for partial summary judgment on November 20, 2015. The court also denied defendants' motion for a stay on November 20, 2015. The court held a preliminary conference on February 3, 2016. On April 5, 2016, following the submission of a stipulation by the parties, the court stayed the case pending the outcome of the appeal before the First Department.

On September 8, 2016, the First Department ruled largely in favor of plaintiffs and held that the bulk of their school-financing claims in *Aristy-Farer* and *NYSER* could proceed. Defendants moved for leave to appeal to the Court of Appeals, and that motion was granted by the First Department on December 15, 2016. The matter was fully briefed in the Court of Appeals which heard argument on May 30, 2017.

On June 27, 2017, the Court of Appeals held that the *Aristy-Farer* complaint failed to state a claim and that the *NYSER* complaint failed to state a claim on its causes of action alleging that the State violated the Constitution by departing from funding levels endorsed in CFE and envisioned by the Legislature's 2007 reforms to the State aid system. The Court held that plaintiffs could proceed on their claims that the State was failing in its constitutional obligation to ensure the provision of minimally adequate educational services in the New York City and Syracuse school districts and remanded for further proceedings as to those two districts only.

Plaintiffs filed their second amended complaint on December 11, 2017. The first cause of action alleges that the State has failed to provide a sound basic education in five school districts: New York City, Syracuse, Schenectady, Central Islip and Gouverneur. The second cause of action alleges that the State has failed to maintain a system of accountability to ensure that a sound basic education is being provided in those five districts. The third cause of action appears to still assert a statewide cause of action, alleging that since 2009 the State has failed to "adopt appropriate policies, systems and mechanisms to properly implement the requirements of N.Y. Const. art. XI. § 1 and of the CFE decisions." This cause of action is not limited to the five districts. Defendants filed a partial motion to dismiss the third cause of action in the second amended complaint on April 9, 2018. On May 4, 2018, plaintiffs filed a third amended complaint, which is identical to the second amended complaint, except for the deletion of the third cause of action and correction of certain typographical errors. Also on May 4, 2018, the case was reassigned from Hon. Manuel J. Mendez to Hon. Lucy Billings. Defendants' Answer to the Third Amended Complaint was filed on July 10, 2018, and a conference was held on September 13, 2018, during which the Supreme Court, New York County, set the following discovery deadlines: 1) discovery requests due September 30, 2018; 2) discovery responses due December 15, 2018; 3) depositions of named plaintiffs to be completed by March 15, 2019; 4) depositions of defendants to be completed by May 15, 2019; 5) fact discovery completed by September 16, 2019; expert discovery to be completed by November 15, 2019; 6) note of issue due by November 22, 2019; and 7) summary judgment motions due 120 days after note of issue. On January 24, 2019, a conference was held, and the parties agreed to extend these deadlines by three months.

American Trucking Association v. New York State Thruway Authority, 13-CV-8123 (SDNY), is a purported class action by a trucking industry trade association and three trucking companies against the Thruway Authority, the Canal Corporation and individual officers and board members of both entities, claiming violations of the Commerce Clause and the Privileges and Immunities Clauses of the United States Constitution because of the Thruway Authority's use of revenues from Thruway Authority tolls to maintain and improve the State's canal system. The District Court granted defendant's motion to dismiss the complaint for failure to join the State as a necessary party. On August 4, 2015, the Second Circuit Court of Appeals reversed the judgment of the District Court dismissing the complaint and remanded the case to District Court for further proceedings.

Following the Second Circuit's remand, plaintiffs filed a motion for partial summary judgment on December 9, 2015. Defendants filed an opposition and cross-motion for summary judgment on February 15, 2016. Briefing on the motion and cross-motion were fully submitted as of April 1, 2016. In an August 10, 2016 decision, the District Court concluded that the claims were not barred by limitations or laches and that, to the extent that the tolls collected from interstate truckers were used to maintain the canal system, the incorporation of those expenses into the Thruway's toll rates, and their collection from the plaintiffs, violates the dormant commerce clause of the United States Constitution.

Plaintiffs' motion for class action certification was filed with the District Court on September 6, 2016. Defendants' response was filed on November 18, 2016 and plaintiffs' reply was filed February 3, 2017. In addition, on January 26, 2017, the Thruway Authority moved to dismiss for lack of subject matter jurisdiction based on Federal legislation authorizing the Thruway to use highway tolls for canal purposes. Plaintiffs' opposition to that motion was filed February 13, 2017 and defendants' reply was filed on February 16, 2017. Thereafter, all matters on the case were stayed pending the determination of the motion to dismiss - with discovery ongoing, a trial on the issue of damages had previously been scheduled to begin in March 2017. In addition, on February 1, 2017, counsel for plaintiffs filed a similar, companion, action on behalf of the motor bus industry as a related case, *Am. Bus Ass'n v. N.Y. Thruway Auth.*, 17-CV-0782 (SDNY).

On March 1, 2017, the Court entered a decision dismissing the complaint in the original matter under Fed. R. Civ. P. 12(c) for failure to state a cause of action, consistent with the Thruway Authority's motion to dismiss. The Court entered judgment in favor of defendants the same day. The Court also entered an order to show cause in the companion matter brought by the bus association, directing plaintiffs to indicate by March 20, 2017, why the similar matter should not be dismissed on the same grounds as the trucking lawsuit. The Court subsequently granted judgment in favor of defendants in the bus association case. Plaintiffs appealed in both the trucking association and bus association cases, and the two appeals were consolidated by the Second Circuit with the consent of both sides. Plaintiff's opening brief on appeal was filed June 26, 2017. Defendants' opposing brief was filed September 25, 2017. Plaintiffs' reply brief was filed on November 7, 2017. Argument was heard on January 25, 2018. On March 29, 2018, the Second Circuit affirmed the judgments in favor of defendants in both the trucking association and bus association cases. Plaintiffs' last day to petition the U.S. Supreme Court for a writ of certiorari was June 27, 2018. No petition was filed. These cases are now concluded.

In *NYSCOBPA v. Cuomo*, 11-CV-1523 (NDNY) and ten other cases, state retirees, and certain current court employees, allege various claims, including due process and violation of the Contracts Clause of the United States Constitution, via 42 U.S. Code § 1983, against the Governor and other State officials, challenging the 2011 increase in their health insurance contribution.

In 2011, the Civil Service Employees Association negotiated a two percent increase in the employee contribution to health insurance premiums. Over time, the other unions incorporated this term into their collective bargaining agreements. But in October 2011, the premium shift was administratively extended to unrepresented employees, retirees, and certain court employees pursuant to their contract terms (which provide that their health insurance terms are those of the majority of executive branch employees). The administrative extension is at issue.

Certain claims have been dismissed, including the claims against all State agencies and the personal capacity claims against all individual State defendants except Tricia Hite and Robert Megna.

Discovery is complete, and the State defendants filed motions for summary judgment in all eleven cases. In the motions, the State defendants argued primarily that nothing in the language of any of the collective bargaining agreements or in the negotiating history supports plaintiffs' claim that the health insurance premium contribution rate vested into retirement. With respect to the court employees, State defendants argued that their contract terms required extension of the premium shift to them. Briefing was completed on January 26, 2018.

On September 24, 2018, the District Court granted defendants' motions for summary judgment in all respects. Between October 13, 2018 and October 24, 2018, notices of appeal were filed in all eleven cases. On December 21, 2018, the U.S. Court of Appeals for the Second Circuit issued an order coordinating appellate briefing in the eleven cases. Under that order, briefing is expected to conclude in early August 2019.

Authorities: General

Generally, the fiscal stability of the State is partially dependent upon the fiscal stability of its public Authorities, including those that finance, construct and/or operate revenue-producing public facilities. These Authorities generally pay their own operating expenses and debt service costs from revenues generated by the projects they finance or operate, such as tolls charged for the use of highways, bridges or tunnels, charges for public power, electric and gas utility services, tuition and fees, rentals charged for housing units, and charges for occupancy at medical care facilities. In addition, State legislation also authorizes numerous financing structures, which may be used for the financings.

Furthermore, there are statutory arrangements that, under certain circumstances, authorize State local assistance payments otherwise payable to localities to be made rather to certain Authorities to secure the payment of debt service on their revenue bonds and notes. However, the State has no constitutional or statutory responsibility to give assistance to localities above amounts that have been appropriated therefor in any particular year. Some public Authorities also receive funds from State appropriations to pay for the operating costs of certain programs.

Authorities are not subject to the constitutional restrictions on the incurrence of debt that apply to the State itself and may issue bonds and notes within the amounts and restrictions provided for in legislative authorization. Not surprisingly, the State's access to the public credit markets could be impaired and the market price of its outstanding debt may be materially and adversely affected if certain of its Authorities were to default on their respective obligations. As of December 31, 2017 (with respect to the New York Job Development Authority, as of March 31, 2018), there were 17 Authorities with outstanding debt of $100 million or more, and the aggregate outstanding debt, including refunding bonds, was approximately $187 billion, only a portion of which constitutes State-supported or State-related debt.

Metropolitan Transportation Authority

In fiscal year 2020, the State expects to provide almost $5.8 billion in operating aid to mass transit systems, including over $2.3 billion in off-budget aid to the MTA. This aid is funded mainly from various dedicated taxes and fees. The MTA, the nation's largest transit and commuter rail system, receives the majority of the mass transit aid - totaling $5.3 billion in fiscal year 2020. Despite an improved outlook and signs of regional economic recovery, if the national recovery were to falter and negatively impact the regional economy, MTA has limited financial reserves to offset lower-than-expected operating revenues, taxes and subsidies. The MTA plan assumes that State budget actions will provide full remittance to MTA of all resources collected on MTA's behalf.

The official financial disclosure of the MTA and its subsidiaries is available by contacting the MTA, Finance Department, 347 Madison Avenue, 6th Floor, New York, New York 10017, or by visiting the MTA website at www.mta.info.

New York City Economy

The fiscal demands on the State may be affected by the fiscal condition of the City. The City relies in part on State aid to balance its budget and meet its cash requirements. It is also possible that the State's finances may be affected by the ability of the City, and certain entities issuing debt for the benefit of the City, to market securities successfully in the public credit markets. There can be no assurance that there will not be reductions in State aid to the City from amounts currently projected; that State budgets in any given fiscal year will be adopted by the April 1 statutory deadline; that interim appropriations will be enacted; or that any such reductions or delays will not have adverse effects on the City's cash flow or expenditures.

The discussion that follows regarding the status of the City economy is based primarily on information published by OMB and the New York City Comptroller no later than May 2019, and includes discussion of the February 2019 Financial Plan for fiscal years 2019-2023. All predictions and past performance information regarding the City economy contained in this subsection were made by OMB on or prior to that date, even though they may be stated in the present tense, and may no longer be accurate. All the risks to the national and State economies apply to the City economy.

The U.S. economy grew, as measured in real GDP, by 3.2 percent in the first quarter of 2019 from 2.2 percent in the fourth quarter of 2018. The largest contributor to GDP growth was net exports, contributing 1.03 percentage points to the 3.2 percent GDP growth, mostly because of a large decline (3.7 percent) in imports. The second biggest contributor to GDP growth was private investment, contributing 0.92 percentage points to the GDP.

According to OMB, in the first quarter of 2019, the City's labor market added 18,800 jobs, an increase of 1.6 percent on a seasonally adjusted annualized rate ("SAAR") basis, significantly lower than the 28,800 jobs created in the fourth quarter of 2018. U.S. jobs grew 1.7 percent in the first quarter of 2019, the same as in the fourth quarter of 2018. Across the private sector, the largest gains were in health care and social assistance (10,800 new jobs) of which 6,500 were in home healthcare services (and may be a result of changes in Medicaid).

Average hourly earnings of all private NYC employees, a proxy for personal income, rose 4.5 percent on a year-over-year basis for the first quarter of 2019, the biggest first-quarter increase since 2008. U.S. average hourly earnings were $27.74 in the first quarter of 2019, 3.3 percent higher than the $26.86 recorded in the first quarter of 2018. This was the fastest first-quarter increase since 2009.

New commercial leasing activity in Manhattan rose 16.6 percent, on a year-over-year basis, to nearly 8.3

million square feet in the first quarter of 2019, the best first quarter since 2014. Despite the increase in new commercial leasing, Manhattan's overall commercial vacancy rate increased to 10.2 percent in the first quarter of 2019 from 8.8 percent in the first quarter of 2018, due largely to increased supply. The residential housing market, especially in Manhattan, continued to show weakness. The TCJA, which limited the deductibility of mortgage interest and state and local taxes, the rise in mortgage interest rates, and other uncertainties, including higher interest rates, were likely contributing factors. House prices in Manhattan, as measured by the average sales price and average price per square foot, rose for the second consecutive quarter on a year-over-year basis in the first quarter of 2019 by 9.6 percent and 4.2 percent, respectively, after five consecutive quarters of year-over-year decline.

OMB expected that tax revenue would reach the $60.7 billion mark in fiscal year 2019, which is growth of 2.7 percent over 2018. Property taxes were forecasted to increase 6.3 percent and non-property taxes were forecasted to increase 0.6 percent. Economic growth is expected to continue into the year 2020 as tax revenue is forecasted to grow 3.7 percent, resulting in total revenues of $62.9 billion. Property tax revenue is forecasted to grow 6.0 percent in 2020. Non-property tax revenue is expected to grow 2.0 percent in 2020.

OMB projects that the City's economic outlook is positive; however, there are several risk factors that could alter the projections. The most pressing is the threat of escalating trade friction, triggered largely by the Trump Administration's renegotiation of trade relations with the rest of the world. At the same time, international growth has been fading, with the International Monetary Fund recently cutting its projection of 2019 global growth to 3.5 percent, down 0.2 percentage points from its October forecast. Germany, Italy, and Japan are facing slowdowns if not outright contractions, and the Euro area grew just 1.8 percent in 2018, down from 2.4 percent the year prior. China's pace of growth declined to to 6.6 percent in 2018, the slowest in nearly three decades. Domestically, leading indicators such as housing, the slope of the yield curve, and credit spreads have all been worsening. In addition, the recent episode of financial market volatility and the potential for another federal shutdown have added to the unease.

The official financial disclosure of the City and the financing entities issuing debt on its behalf is available by contacting OMB Investor Relations at (212) 788-0920 or contacting the City Office of Management and Budget, 255 Greenwich St., 8th Floor, New York, NY 10007.

New York City Financial Plan

On February 7, 2019, the OMB released the February 2019 Financial Plan for Fiscal Years 2019-2023. On April 25, 2019, the City Council's office released the Executive Budget for Fiscal Year 2020. The City's fiscal year end is at the end of June; the 2020 fiscal year will run from July 1, 2019 to June 30, 2020. The Financial Plan's projected revenues and expenditures for the 2019 fiscal year are balanced, in accordance with GAAP (except for the application of GASB Statement No. 49, which prescribes the accounting treatment of pollution remediation costs). The budget totals approximately $92.5 billion.

The staffs of the New York State Financial Control Board ("FCB"), Office of the State Deputy Comptroller for the City of New York ("OSDC"), the City Comptroller and the Independent Budget Office ("IBO") issue periodic reports on the City's financial plans. Copies of the most recent reports are available by contacting: FCB, 123 William Street, 23rd Floor, New York, NY 10038, Attention: Executive Director; OSDC, 59 Maiden Lane, 29th Floor, New York, NY 10038, Attention: Deputy Comptroller; City Comptroller, Municipal Building, 6th Floor, One Centre Street, New York, NY 10007-2341, Attention: Deputy Comptroller for Budget; and IBO, 110 William Street, 14th Floor, New York, NY 10038, Attention: Director.

New York City Financing Program

Successful execution of the Financial Plan depends upon the City's ability to market its securities successfully. The City's financial program projects $53.9 billion of long-term borrowing during fiscal years 2019 to 2023 to support the City's current capital program, excluding $737 million planned to be issued for education purposes through Building Aid Revenue Bonds

(“BARBs”). The portion of the capital program not financed by the New York City Municipal Water Finance Authority (“NWA”) will be split between General Obligation (“GO”) bonds of the City and New York City Transitional Finance Authority (“TFA”) bonds. During fiscal years 2019 through 2023, the City is expected to issue approximately $21.8 billion in GO bonds and TFA is expected to issue approximately $23.4 billion in bonds.

The City has taken steps to manage its outstanding floating rate debt. The City reoffered approximately $195 million of floating rate bonds since July 1, 2018. The City plans to issue approximately $2.3 billion, 4 billion, 4.7 billion, 5.3 billion and 5.5 billion of GO bonds for capital purposes during fiscal years 2019 to 2023, respectively. Currently, the debt service for the City, TFA (excluding BARBs) and City appropriation debt, or conduit debt, excluding the effect of pre-payments, is 7.3 percent of the City’s total budgeted revenues in fiscal year 2019.

The City Plan is predicated on numerous assumptions, including the condition of the City’s and the region’s economies and the associated receipt of economically sensitive tax revenues in the projected amounts. The City Plan is also subject to a variety of other factors.

In addition to borrowing related capital projects, the City issues both revenue and tax anticipation notes to finance its seasonal working capital requirements. The success of projected public sales of City, NYW, TFA, TSASC and other bonds and notes will be subject to prevailing market conditions. The City’s planned capital and operating expenditures are dependent upon the sale of its GO debt, as well as debt of the NYW, TFA, Dormitory Authority of the State of New York and TSASC.

As of June 2019, the City’s outstanding GO bonds were rated AA with a stable outlook by S&P, AA with a stable outlook by Fitch and Aa1 with a stable outlook by Moody’s. Ratings reflect only the respective views of such organizations, and an explanation of the significance of such ratings may be obtained from the rating agency that furnished the rating. There is no assurance that a particular rating will continue for any given period of time or that any such rating will not be revised downward or withdrawn entirely, if in the judgment of the agency originally establishing the rating, circumstances so warrant. Any such downward revision or withdrawal could have an adverse effect on the market prices of the City’s GO bonds.

Other Localities

Historically, the State has provided unrestricted financial assistance to cities, counties, towns and villages outside of the City. Certain localities outside the City have experienced financial problems and have consequently requested and received additional State assistance during the last several fiscal years. While a relatively infrequent practice, deficit financing by local governments has become more prevalent in recent years. Not included in the projections of the State’s receipts and disbursements for the State’s 2020 fiscal year or thereafter is the potential impact of any future requests by localities for additional financial assistance.

Like the State, localities must respond to changing political, economic and financial influences that can adversely affect their financial condition. For example, the State or Federal government may decrease (or, potentially, eliminate) funding of local programs, therefore requiring localities to pay those expenditures using their own funds. Furthermore, prior cash flow problems for the State have caused delays in State aid payments, which in some instances have necessitated short-term borrowing at the local level. Additional factors that have had, or could have, an impact on the fiscal condition of localities include: the loss of temporary Federal stimulus funding; recent State aid trends; constitutional and statutory limitations on the imposition by localities and school districts of property, sales and other taxes; and for certain communities, the substantial upfront costs for rebuilding and clean-up after a natural disaster.

Localities may face unanticipated problems as a result of pending litigation, judicial decisions and long-range economic trends. They may also require additional State assistance because of other large-scale potential problems, such as declining urban populations, reductions in the real property tax base, increasing expenditures, or the loss of skilled manufacturing jobs.

Severe financial difficulties could jeopardize localities' access to the public credit markets, which may negatively impact the marketability of notes and bonds issued by the localities within the State.

Counties, cities, towns, villages, school districts and fire districts have engaged in substantial short-term and long-term borrowings. While a relatively infrequent practice, deficit financing by local governments have become more common in recent years. State legislation enacted post-2004 includes 27 special acts authorizing bond issuances to finance local government operating deficits. When local governments are authorized to issue bonds to finance operating deficits, the local government generally is subject to certain additional fiscal oversight during the time the bonds are outstanding, including an annual budget review by the Office of the New York State Comptroller.

High-Yield Securities. An investment in Units of a Portfolio should be made with an understanding of the risks that an investment in "high-yield, high-risk" debt obligations or "junk" obligations may entail, including increased credit risks and the risk that the value of the Units will decline, and may decline precipitously, with increases in interest rates. In recent years there have been wide fluctuations in interest rates and thus in the value of debt obligations generally. Certain of the securities included in the funds in a Portfolio may be subject to greater market fluctuations and risk of loss of income and principal than are investments in lower-yielding, higher-rated securities, and their value may decline precipitously because of increases in interest rates, not only because the increases in rates generally decrease values, but also because increased rates may indicate a slowdown in the economy and a decrease in the value of assets generally that may adversely affect the credit of issuers of high-yield, high-risk securities resulting in a higher incidence of defaults among high-yield, high-risk securities. A slowdown in the economy, or a development adversely affecting an issuer's creditworthiness, may result in the issuer being unable to maintain earnings or sell assets at the rate and at the prices, respectively, that are required to produce sufficient cash flow to meet its interest and principal requirements. For an issuer that has outstanding both senior commercial bank debt and subordinated high-yield, high-risk securities, an increase in interest rates will increase that issuer's interest expense insofar as the interest rate on the bank debt is fluctuating. However, many leveraged issuers enter into interest rate protection agreements to fix or cap the interest rate on a large portion of their bank debt. This reduces exposure to increasing rates, but reduces the benefit to the issuer of declining rates. The sponsor cannot predict future economic policies or their consequences or, therefore, the course or extent of any similar market fluctuations in the future.

"High-yield" or "junk" securities, the generic names for securities rated below BBB- by Standard & Poor's or Fitch, or below Baa3 by Moody's, are frequently issued by corporations in the growth stage of their development, by established companies whose operations or industries are depressed or by highly leveraged companies purchased in leveraged buyout transactions. The market for high-yield securities is very specialized and investors in it have been predominantly financial institutions. High-yield securities are generally not listed on a national securities exchange. Trading of high-yield securities, therefore, takes place primarily in over-the-counter markets that consist of groups of dealer firms that are typically major securities firms. Because the high-yield security market is a dealer market, rather than an auction market, no single obtainable price for a given security prevails at any given time. Prices are determined by negotiation between traders. The existence of a liquid trading market for the securities may depend on whether dealers will make a market in the securities. There can be no assurance that a market will be made for any of the securities, that any market for the securities will be maintained or of the liquidity of the securities in any markets made. Not all dealers maintain markets in all high-yield securities. Therefore, since there are fewer traders in these securities than there are in "investment grade" securities, the bid-offer spread is usually greater for high-yield securities than it is for investment grade securities. The price at which the securities may be sold and the value of a Portfolio will be adversely affected if trading markets for the securities are limited or absent. If the rate of redemptions is great, the value of a Portfolio may decline to a level that requires liquidation.

Lower-rated securities tend to offer higher yields than higher-rated securities with the same maturities because the creditworthiness of the issuers of lower-rated securities may not be as strong as that of other issuers. Moreover, debt if a security is recharacterized as equity by the Internal Revenue Service for federal income tax purposes, the issuer's interest deduction with respect to the security will be disallowed and this disallowance may adversely affect the issuer's credit rating. Because investors generally perceive that there are greater risks associated with the lower-rated securities in the funds in a Portfolio, the yields and prices of these securities tend to fluctuate more than higher-rated securities with changes in the perceived quality of the credit of their issuers. In addition, the market value of high-yield, high-risk securities may fluctuate more than the market value of higher-rated securities since these securities tend to reflect short-term credit development to a greater extent than higher-rated securities. Lower-rated securities generally involve greater risks of loss of income and principal than higher-rated securities. Issuers of lower-rated securities may possess fewer creditworthiness characteristics than issuers of higher-rated securities and, especially in the case of issuers whose obligations or credit standing have recently been downgraded, may be subject to claims by debtholders, owners of property leased to the issuer or others which, if sustained, would make it more difficult for the issuers to meet their payment obligations. High-yield, high-risk securities are also affected by variables such as interest rates, inflation rates and real growth in the economy. Therefore, investors should consider carefully the relative risks associated with investment in securities that carry lower ratings.

The value of the shares of the closed-end funds reflects the value of the portfolio securities, including the value (if any) of securities in default. Should the issuer of any security default in the payment of principal or interest, the closed-end funds in a Portfolio may incur additional expenses seeking payment on the defaulted security. Because amounts (if any) recovered by the funds in payment under the defaulted security may not be reflected in the value of the fund shares until actually received by the funds, and depending upon when a Unitholder purchases or sells his or her Units, it is possible that a Unitholder would bear a portion of the cost of recovery without receiving any portion of the payment recovered.

High-yield, high-risk securities are generally subordinated obligations. The payment of principal (and premium, if any), interest and sinking fund requirements with respect to subordinated obligations of an issuer is subordinated in right of payment to the payment of senior obligations of the issuer. Senior obligations generally include most, if not all, significant debt obligations of an issuer, whether existing at the time of issuance of subordinated debt or created thereafter. Upon any distribution of the assets of an issuer with subordinated obligations upon dissolution, total or partial liquidation or reorganization of or similar proceeding relating to the issuer, the holders of senior indebtedness will be entitled to receive payment in full before holders of subordinated indebtedness will be entitled to receive any payment. Moreover, generally no payment with respect to subordinated indebtedness may be made while there exists a default with respect to any senior indebtedness. Thus, in the event of insolvency, holders of senior indebtedness of an issuer generally will recover more, ratably, than holders of subordinated indebtedness of that issuer.

Obligations that are rated lower than "BBB-" by Standard & Poor's, or "Baa3" by Moody's, respectively, should be considered speculative as such ratings indicate a quality of less than investment grade. Investors should carefully review the objective of a Portfolio and consider their ability to assume the risks involved before making an investment in the Portfolio.

Discount Securities. Certain of the securities held by the closed-end funds in your Portfolio may have been acquired at a market discount from par value at maturity. The coupon interest rates on the discount securities at the time they were purchased and deposited in the funds were lower than the current market interest rates for newly issued securities of comparable rating and type. If such interest rates for newly issued comparable securities increase, the market discount of previously issued securities will become greater, and if such interest rates for newly issued comparable securities decline, the market discount of previously issued securities will be reduced, other things being equal. Investors should also note that the value of securities purchased at a market discount will increase in value faster than securities purchased at a market premium if interest rates decrease. Conversely, if interest rates increase, the value of securities purchased at a market discount will decrease faster than securities purchased at a market premium. In addition, if interest rates rise, the prepayment risk of higher yielding, premium securities and the prepayment benefit for lower yielding, discount securities will be reduced. Market discount attributable to interest changes does not indicate a lack of market confidence in the issue.

Premium Securities. Certain of the securities held by the closed-end funds in your Portfolio may have been acquired at a market premium from par value at maturity. The coupon interest rates on the premium securities at the time they were purchased by the fund were higher than the current market interest rates for newly issued securities of comparable rating and type. If such interest rates for newly issued and otherwise comparable securities decrease, the market premium of previously issued securities will be increased, and if such interest rates for newly issued comparable securities increase, the market premium of previously issued securities will be reduced, other things being equal. The current returns of securities trading at a market premium are initially higher than the current returns of comparable securities of a similar type issued at currently prevailing interest rates because premium securities tend to decrease in market value as they approach maturity when the face amount becomes payable. Because part of the purchase price is thus returned not at maturity but through current income payments, early redemption of a premium security at par or early prepayments of principal will result in a reduction in yield. Redemption pursuant to call provisions generally will, and redemption pursuant to sinking fund provisions may, occur at times when the redeemed securities have an offering side valuation which represents a premium over par or for original issue discount securities a premium over the accreted value.

Liquidity. Whether or not the securities in your Portfolio are listed on an exchange, the securities may delist from the exchange or principally trade in an over-the-counter market. As a result, the existence of a liquid trading market could depend on whether dealers will make a market in the securities. We cannot guarantee that dealers will maintain a market or that any market will be liquid. The value of the securities could fall if trading markets are limited or absent.

Additional Units. The Sponsor may create additional Units of your Portfolio by depositing into a Portfolio additional securities or cash with instructions to purchase additional securities. A deposit could result in a dilution of your investment and anticipated income because of fluctuations in the price of the securities between the time of the deposit and the purchase of the securities and because the Portfolios will pay brokerage or acquisition fees.

Voting. Only the Trustee may sell or vote the securities in your Portfolio. While you may sell or redeem your Units, you may not sell or vote the securities in your Portfolio. The Trustee will vote the underlying funds in the same general proportion as shares held by other shareholders.

SPONSOR INFORMATION

Invesco Capital Markets, Inc. is the Sponsor of your Portfolio. The Sponsor is a wholly owned subsidiary of Invesco Advisers, Inc. ("Invesco Advisers"). Invesco Advisers is an indirect wholly owned subsidiary of Invesco Ltd., a leading independent global investment manager that provides a wide range of investment strategies and vehicles to its retail, institutional and high net worth clients around the globe. The Sponsor's principal office is located at 11 Greenway Plaza, Houston, Texas 77046-1173. As of June 30, 2019, the total stockholders' equity of Invesco Capital Markets, Inc. was $93,716,910.81 (unaudited). The current assets under management and supervision by Invesco Ltd. and its affiliates were valued at approximately $1,197.8 billion as of June 30, 2019. (This paragraph relates only to the Sponsor and not to your Portfolio or to any other Series thereof. The information is included herein only for the purpose of informing investors as to the financial responsibility of the Sponsor and its ability to carry out its contractual obligations. More detailed financial information will be made available by the Sponsor upon request).

The Sponsor and your Portfolio have adopted a code of ethics requiring Invesco's employees who have access to information on Portfolio transactions to report personal securities transactions. The purpose of the code is to avoid potential conflicts of interest and to prevent fraud, deception or misconduct with respect to your Portfolio.

If the Sponsor shall fail to perform any of its duties under the Trust Agreement or become incapable of acting or shall become bankrupt or its affairs are taken over by public authorities, then the Trustee may (i) appoint a successor Sponsor at rates of compensation deemed by the Trustee to be reasonable and not exceeding amounts prescribed by the Securities and Exchange Commission, (ii) terminate the Trust Agreement and liquidate the Portfolios as provided therein or (iii) continue to act as Trustee without terminating the Trust Agreement.

TRUSTEE INFORMATION

The Trustee is The Bank of New York Mellon, a trust company organized under the laws of New York. The Bank of New York Mellon has its principal unit investment trust division offices at 2 Hanson Place, 12th Floor, Brooklyn, New York 11217, (800) 856-8487. The Bank of New York Mellon is subject to supervision and examination by the Superintendent of Banks of the State of New York and the Board of Governors of the Federal Reserve System, and its deposits are insured by the Federal Deposit Insurance Corporation to the extent permitted by law.

The duties of the Trustee are primarily ministerial in nature. It did not participate in the selection of Securities for the Portfolios.

In accordance with the Trust Agreement, the Trustee shall keep proper books of record and account of all transactions at its office for the Portfolios. Such records shall include the name and address of, and the number of Units of a Portfolio held by, every Unitholder. Such books and records shall be open to inspection by any Unitholder at all reasonable times during the usual business hours. The Trustee shall make such annual or other reports as may from time to time be required under any applicable state or federal statute, rule or regulation. The Trustee is required to keep a certified copy or duplicate original of the Trust Agreement on file in its office available for inspection at all reasonable times during the usual business hours by any Unitholder, together with a current list of the Securities held in the Portfolios.

Under the Trust Agreement, the Trustee or any successor trustee may resign and be discharged of its responsibilities created by the Trust Agreement by executing an instrument in writing and filing the same with the Sponsor. The Trustee or successor trustee must mail a copy of the notice of resignation to all Unitholders then of record, not less than 60 days before the date specified in such notice when such resignation is to take effect. The Sponsor upon receiving notice of such resignation is obligated to appoint a successor trustee promptly. If, upon such resignation, no successor trustee has been appointed and has accepted the appointment within 30 days after notification, the retiring Trustee may apply to a court of competent jurisdiction for the appointment of a successor. The Sponsor may remove the Trustee and appoint a successor trustee as provided in the Trust Agreement at any time with or without cause. Notice of such removal and appointment shall be mailed to each Unitholder by the Sponsor. Upon execution of a written acceptance of such appointment by such successor trustee, all the rights, powers, duties and obligations of the original trustee shall vest in the successor. The resignation or removal of a Trustee becomes effective only when the successor trustee accepts its appointment as such or when a court of competent jurisdiction appoints a successor trustee.

Any corporation into which a Trustee may be merged or with which it may be consolidated, or any corporation resulting from any merger or consolidation to which a Trustee shall be a party, shall be the successor trustee. The Trustee must be a banking corporation organized under the laws of the United States or any state and having at all times an aggregate capital, surplus and undivided profits of not less than $5,000,000.

PORTFOLIO TERMINATION

A Portfolio may be liquidated at any time by consent of Unitholders representing 66 2/3% of the Units of the Portfolio then outstanding or by the Trustee when the value of the Securities owned by the Portfolio, as shown by any evaluation, is less than $500,000 ($3,000,000 if the value of the Portfolio has exceeded $15,000,000). A Portfolio will be liquidated by the Trustee in the event that a sufficient number of Units of the Portfolio not yet sold are tendered for redemption by the Sponsor, so that the net worth of the Portfolio would be reduced to less than 40% of the value of the Securities at the time they were deposited in the Portfolio. If a Portfolio is liquidated because of the redemption of unsold Units by the Sponsor, the Sponsor will refund to each purchaser of Units the entire sales charge paid by such purchaser. The Trust Agreement will terminate upon the sale or other disposition of the last Security held thereunder, but in no event will it continue beyond the Mandatory Termination Date.

Commencing during the period beginning nine business days prior to, and no later than, the Mandatory Termination Date, Securities will begin to be sold in connection with the termination of a Portfolio. The Sponsor will determine the manner, timing and execution of the sales of the Securities. The Sponsor shall direct the liquidation of the Securities in such manner as to effectuate orderly sales and a minimal market impact. In the event the Sponsor does not so direct, the Securities shall be sold within a reasonable period and in such manner as the Trustee, in its sole discretion, shall determine. Unitholders will receive a cash distribution from the sale of the remaining Securities within a reasonable time following the Mandatory Termination Date. The Trustee will deduct from the funds of a Portfolio any accrued costs, expenses, advances or indemnities provided by the Trust Agreement, including estimated compensation of the Trustee, costs of liquidation and any amounts required as a reserve to provide for payment of any applicable taxes or other governmental charges. Any sale of Securities in a Portfolio upon termination may result in a lower amount than might otherwise be realized if such sale were not required at such time. The Trustee will then distribute to each Unitholder of a Portfolio his pro rata share of the balance of the Income and Capital Accounts of a Portfolio.

The Sponsor may, but is not obligated to, offer for sale units of a subsequent series of a Portfolio. There is, however, no assurance that units of any new series of a Portfolio will be offered for sale at that time, or if offered, that there will be sufficient units available for sale to meet the requests of any or all Unitholders.

Within 60 days of the final distribution Unitholders will be furnished a final distribution statement of the amount distributable. At such time as the Trustee in its sole discretion will determine that any amounts held in reserve are no longer necessary, it will make distribution thereof to Unitholders in the same manner.

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