CALIFORNIA TRADEWINDS
GEOLOGIC HAZARD ABATEMENT DISTRICT

Program Budget

FISCAL YEAR 2017-2018

APRIL 2017

EXHIBIT A

CALIFORNIA TRADEWINDS
GEOLOGIC HAZARD ABATEMENT DISTRICT

May 30, 2017

CA Tradewinds GHAD Board of Directors
c/o Supervisor Federal D. Glover (Board Chair)
315 East Leland Road
Pittsburg, California 94565

SUBJECT: Program Budget for Fiscal Year 2017-2018
CA Tradewinds Geologic Hazard Abatement District

Dear Board Members:

Attached please find the proposed program budget for the California Tradewinds Geologic Hazard Abatement District (CA Tradewinds GHAD, or GHAD) for fiscal year 2017/2018. The proposed fiscal year budget totals $22,400, which exceeds projected revenues and anticipates a $1,023 deficit and the need to draw a commensurate amount from the reserve fund. At the time of this publication, it is expected that the fund balance on June 30, 2017 will be approximately $19,282. A fund balance of $18,259 is projected for June 30, 2018.

There are four major budget categories, their respective budget expenses break down as follows:

Major Projects	0 percent
Preventive Maintenance and Operations	53 percent
Special Projects	20 percent
Administration, Legal, Accounting	27 percent

BACKGROUND:

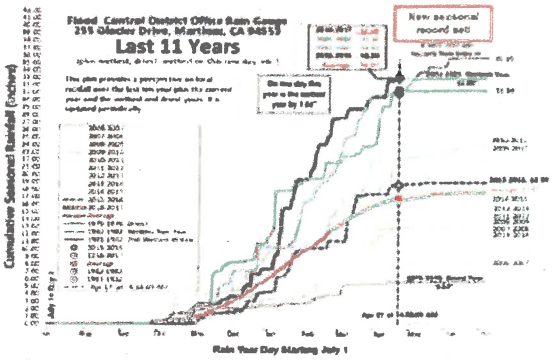
On June 1, 1997, the Contra Costa Board County of Supervisors adopted Resolution 97/297 approving the formation of the California Tradewinds Geologic Hazard Abatement District (CA Tradewinds GHAD), located in the hills of Bay Point within the jurisdiction of Contra Costa County. The CA Tradewinds GHAD was formed pursuant to State Public Resources Code § 26500 et seq. The Board of Supervisors at that time appointed itself as the Board of Directors of the CA Tradewinds GHAD.

Resolutions 98/194 adopted on April 21, 1998 by the Board of Supervisors, acting as the CA Tradewinds GHAD Board, confirmed the assessments for the district and ordered the collection of the amounts called for in the Assessment Report. The initial fiscal year for the CA Tradewinds GHAD was established as 1998-1999.

A 17-lot subdivision also completed in Bay Point known as Savana Seabreeze II was annexed in 2008 to the CA Tradewinds GHAD. The Final Map was filed in 2013. Assessments in fiscal year 2014-2015 included 11 of the planned 17 parcels. It is now known that building permits have now been pulled on the remaining 6 parcels and the 2017-2018 budget anticipates Seabreeze II to be fully populated with assessments levied on the remaining 6 parcels. Pursuant to the Plan of Control provisions[1] maintenance

[1] First Amendment to California Tradewinds Geologic Hazard Abatement District – Dated 10/07/2007: Revised 8/08/2008 – Exhibit C (3)

responsibilities have been and are currently being provided by the Savana developer. In late October of 2016 the developer, DeNova Homes, submitted an application to begin the transfer process pursuant to the Plan of Control[2]. Until the transfer is completed maintenance responsibilities remain with the developer.



As a percentage of the budget, this year the Major Projects Program is not anticipating a Major Project and therefore funds have not been set aside in advance of this program. The heavy seasonal rains did not produce landslides this year within the district. Since cumulative precipitation exceeded two-times that of normal annual precipitation, we were very encouraged to see that the CA Tradewinds GHAD site performed extremely well (see graphic). Additionally, in advance of this year's storms, GHAD staff and consultants conducted inspections and provided asset site improvements to anticipate the potential for heavy rains. Although it is not anticipated, if need should arise the Major Projects program is likely to focus on studies designed to further assess instrumentation effectiveness in providing markers that may indicate the potential for land movement, and studies focused on localized and regional slope stability analyses.

The Preventive Maintenance Program will focus on efforts to complete asset site restorations. The program will pursue analysis and upgrades to all instrument and asset sites and the associated data collection to insure all predictive features of these instrumentation sites are fully realized. Specifically, we will target the following program elements - Concrete Interceptor Ditch Systems (Repair and Replace Program); and the Soil Debris Bench/Bio swale (Maintenance Program). The Operations Program will continue its existing monitoring profile through this period, and we are currently beginning a study of accrued empirical data from its many monitoring assets in an effort to further expose any notable trending that might occur over significant periods of time, thereby reducing risk exposure. Currently, the National Oceanic and Atmospheric Administration (NOAA) predicts El Niño neutral conditions in the Southern Oscillation; however, these early probability forecasts have often changed throughout the summer months.

The Special Projects Program will be directed, in part, to analyzing the Plan of Control and other essential documents that establish and direct the CA Tradewinds GHAD. Preliminary review will be initiated to assess the need to conduct a formal Reserve Study which would serve to test, identify weaknesses, and expose any necessary adjustments to the criteria or methodologies utilized in the program and anticipate revenue and reserve demands. Additional studies may include assessing the feasibility of integrating a Geographic Information System (GIS) into the CA Tradewinds program.

This budget anticipates continued strengthening and building efficiencies within the Administration Program. General legal counsel will continue to be provided by the CA Tradewinds GHAD Board appointed attorney, Patricia Curtin of Wendel, Rosen, Black & Dean, LLP.

A summary of the expenses is shown on Table 1, pages 4 and 5, followed by brief descriptions of each of the budget items on pages 6 through 11.

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[2] First Amendment to California Tradewinds Geologic Hazard Abatement District – Dated 10/07/2007; Revised 8/08/2008 – Exhibit C (5)

Respectfully yours,

CA Tradewinds Geologic Hazard Abatement District

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Sands Construction Company, Inc.
General Manager

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CA Tradewinds Geologic Hazard Abatement District
Program Budget
Fiscal Year 2017/2018

The following proposed line item program budget (Table 1) summarizes the anticipated expenditures for fiscal year 2017/2018 for the CA Tradewinds Geologic Hazard Abatement District (CA Tradewinds GHAD, GHAD or District). Through an ongoing assessment, the manager evaluates and addresses geologic risk through the implementation of an annual program budget consisting of four major categories. Preceding Table 1, and directly below, is a general overview description of the four major program elements within the budget.

Major Projects Program

The annual Major Projects Program includes: landslide repair projects, drainage improvement projects and capital improvement projects necessary to either control, mitigate, or prevent landslide activity. Other large program responses necessary to implement the Plan of Control, including specific purpose studies and investigations, may also be included in the Major Projects Program.

Generally, for consideration of inclusion into the Major Projects Program, a project or study would represent a level of complexity requiring plans, specifications, and comprehensive engineering analysis including modeling and research, or a project with a protracted scope such as those requiring multiple regulatory agency approvals. Most Major Projects have a projected cost that exceeds $10,000.

Historically, the Major Projects Program has been comprised of significant landslide repair projects and other responsive large projects; at other times, it has included programmatic studies and investigations useful in generating proactive responses. This diversity of projects demonstrates the importance of a flexible Major Projects Program structure that adapts between responsive and proactive needs and capabilities to manage the dynamic nature of larger scale geologic events.

Preventive Maintenance and Operations Program

The annual Preventive Maintenance and Operations Program includes all minor repairs, cleanup, maintenance, monitoring and replacement of drainage structures and other assets that degrade over a serviceable life. The goal of preventive maintenance is to keep assets in operational condition and identify potential slope stability risks before they manifest, allowing measures to be taken to either prevent, or mitigate the impact of these hazards as defined in the CA Tradewinds GHAD Plan of Control.

Typical CA Tradewinds GHAD assets include concrete lined ditches, subdrainage systems, groundwater measuring instrumentation, slope inclinometers and moisture gauges, and slope debris catchment features.

The Preventive Maintenance Program also includes preparations for emergency response, winterization measures including erosion protection and slope stabilization supplies, and instrument maintenance.

The Operations Program is primarily populated with scheduled instrument monitoring events. Data from these instruments are evaluated to establish risk and trends in an effort to avert landslide activity. In addition to the instrumentation monitoring program, the Operations Program contains the Incident Response and Community Relations Program, which incorporates comprehensive first response capabilities, and fosters community incident interaction.

Special Projects

The CA Tradewinds GHAD pursues ongoing and new activities identified as "Special Projects." Special Projects include activities requested by the Board such as the Communications Program, or projects and studies designed to improve the District's operational effectiveness and insure financial solvency. Special Projects also include utilizing new technologies to increase the efficiencies of the day-to-day operations.

Administration

Administrative expenses are required to operate the CA Tradewinds GHAD and implement projects. Administrative expenses include personnel and consultants to manage the operations including; the General Manager, Administrative Manager, Construction Services Manager, certain clerical and accounting staff, consultants, and legal support.

With respect to the General Management of the CA Tradewinds GHAD - The CA Tradewinds GHAD Board of Directors through Resolution 2016/01, among other business, established a Consulting Services Agreement with Sands Construction Company, Inc. to act as General Manager. The payment limit established for a term through June 30, 2017 was $6,000; the proposed payment limit through June 30, 2018 is $7,200. The scope of services for the General Manager include, managing the day-to-day operations through implementation of the necessary financial recordkeeping and reporting; updating and maintaining governing documents, such as the Plan of Control; and managing and updating administrative tools such as the Reserve Study, Communications Plan, Work program and Monthly Incident Log. The General Manager Consulting Services Agreement provides for certain administrative positions including, but not limited to; a General Manager, an Administrative Manager, a Construction Services Manager and a Network Administrator as well as overhead costs, such as office space rent, office supplies and postage.

With respect to the Operations of the CA Tradewinds GHAD, the scope of services for Operations include implementing the Major Projects and Preventive Maintenance Programs through forecasting work schedules and priorities; and preparing Requests for Proposals and managing maintenance and repair operations within the Major Projects and Preventive Maintenance Programs, including project management and construction management and preparing for and responding to emergency incidents.

The General Manager will retain the necessary professionals, including without limitation, engineers, accounting professionals, and vendors to facilitate the operations of the CA Tradewinds GHAD. The General Manager Consulting Services Agreement, and associated budget, allows for the conditional use of subcontractors such as administrative sub-consultants and engineering or construction sub-consultants, within the payment limits of the Consulting Services Agreement.

A summary of the proposed Fiscal Year 2017/2018 Budget is presented in Table 1 on the following pages.

Table 1 – Summary of Fiscal Year 2017/2018 Budget

Budget Item	Budget Amount	% of Total Budget
Major Repairs		
No Major Projects Planned	0	
Total Major Projects	**$0**	**0%**

Preventive Maintenance/Operations		
Preventive Maintenance		
Drainage		
Storm Drain Facilities	0	
B-58 Concrete Lined Ditches		
Maintenance/Clean/Map	5,000	
Repair and Replace	0	
Retention Basins	0	
Subdrain Systems	1,000	
Horizontal Drains	0	
Subdrain Outlets	1,000	
Piezometers	0	
Settlement Monitors	0	
Minor Repairs	0	
Winterization	500	
Emergency Response	1,000	
Debris Benches/Impact Walls/ Bio-swales	2,000	
Subtotal	**$10,500**	
Operations		
Piezometer Monitoring	0	
Horizontal Drain Monitoring	0	
Subdrain Monitoring	200	
Settlement Monitoring	0	
Incident Response/Community Relations	1,000	
Subtotal	**$1,200**	
Total Preventive Maintenance/Operations	**$11,700**	**53%**

Budget Item	Budget Amount	% of Total Budget
Special Projects		
Plan of Control	0	
Reserve Study Update	0	
Special Studies Seabreeze II Transfer	1,500	
Information Technology	0	
Accounting Systems Upgrade	0	
Tax Assessment Calculation	1,500	
Communications Program	1,000	
CA Association of GHADs – **Membership/Insurance**	600	
Total Special Projects	**$4,600**	**20%**
Administration		
Legal fees		
General Counsel	1,000	
Special Counsel		
Litigation/Legal Concerns	0	
Staffing/Administrative Support	3,000	
Accounting/Bookkeeping	1,500	
Training/Education	0	
Office – **Rent/Supplies/Equipment/Lease**	600	
Total Administration	**$6,100**	**27%**
TOTAL PROPOSED BUDGET FY2017/2018	**$22,400**	**100%**

Available Funds	
Estimated **Beginning** Fund Balance – **July** 1, 2017*	19,282
Estimated **Property** Owner Assessments	
Tradewinds - $ 249.58 annually **per** unit x 46 units**	11,481
Seabreeze II - $ 520.85 annually per unit x 19 units**	9,896
Estimated Interest on Investments	0
Other Income	0
Total Available Funds	**40,659**
Uses of Funds	
Major Projects	0
Preventive Maintenance	11,700
Special Projects	4,600
Administrative	6,100
Total Use of Funds	**$22,400**
Estimated Reserve Available/Ending Fund Balance June 30, 2018	**$18,259**

* Projected Fund Balance date of publication, includes estimated true-up revenue payment (June 2017) $1,273.60

** Estimated – Resource CPI, San Francisco Metropolitan Area - April 2017

DESCRIPTION OF BUDGET ITEMS

Major Projects

No Anticipated Major Projects

Preventive Maintenance and Operations

Preventive Maintenance

Preventive maintenance generally consists of those measures taken to prevent an incident or landslide event including; asset maintenance, drainage structures, instrument sites and winterization measures. Operations include ongoing monitoring programs and responses to community requests. Details of the proposed budget for each of these categories are listed below.

Storm Drain Facilities (Major Repairs)

In addition to other drainage systems such as Concrete Interceptor Ditches, Subdrains, and other surface and subsurface drainage systems, the CA Tradewinds GHAD maintains an inventory of concrete drainage structures that from time to time are in need of refurbishment or repairs. A budget has been established to inspect these facilities and make any necessary repairs, not covered within the established *"B-58 Drain Systems – Repair and Replacement Program"* scope.

Estimated Cost $0

B-58 Drain Systems/Bio-swales

Maintenance – Allows for one major annual cleaning and mapping. In addition, District staff periodically walks the B-58 systems and Bio-swales to get a first-hand account of the current conditions and project serviceable life. This information, along with other empirical data, is typically utilized in Reserve Study updates. With the extreme weather conditions this year and the related soil and vegetation load impacting the network of B-58 systems, we have anticipated and allowed for a greater effort to maintain proper drainage for these facilities over the fiscal year.

Estimated Cost $5,000

Repair and Replacement – A detailed assessment will be performed to establish the existing condition of the B-58 Concrete ditches throughout the district. This assessment

will serve to establish a baseline for needed repairs and/or assessments as to the remaining serviceable life of these assets to be utilized in reserve study criteria.

Estimated Cost $0

Retention Basins

There is one retention basin within the district boundaries. This retention basin requires annual improvements and de-silting efforts.

Estimated Cost $0

Subdrain Systems

Subdrain systems must be monitored and maintenance provided to insure the systems have not been damaged or impeded. This budget will allow for an inspection and minor maintenance of these sites.

Estimated Cost $1,000

Horizontal Drains

There are no Horizontal Drains currently within the district.

Estimated Cost $0

Sub-drain Outlets

The CA Tradewinds GHAD is currently conducting efforts to identify, locate and make determinations about the effectiveness of the network of subdrains throughout the District. It is anticipated that on-site restoration work may be necessary at some sites. This additional work has been incorporated into this budget item.

Estimated Cost $1,000

Piezometers

There are no known piezometers currently within the district.

Estimated Cost $0

Settlement Monitors

There are no known inclinometers currently within the district.

Estimated Cost $0

Minor Repairs

No anticipated Minor Repairs

Estimated Cost $0

Winterization

The District provides an annual budget for procuring and storing an inventory of winterization materials and to provide for the costs of site installation. The district will procure materials as needed.

Estimated Cost $750

Emergency Response

During the winter rainy season, the CA Tradewinds GHAD prepares for and may respond to a range of urgent, active or threatening landslides as well as drainage issues where property damage is threatened. These incidents typically involve mud or debris flows, plugged storm drains at the base of slopes or flooded properties due to the overflow of runoff from plugged or damaged facilities. In severe cases these responses can require the initiation of temporary slope stabilization measures in preparation for a major repair.

Estimated Cost $1,000

Debris Benches

Earthen debris benches exist throughout the district. It is essential that these facilities are inspected to insure capacities and drainage have not been compromised. Annual inspections are made and periodic debris removal plans are initiated. This year's budget allows for geotechnical evaluations and the periodic removal of accumulated debris from several of those benches identified during the study and routine monitoring events.

Estimated Cost $1,000

Operations

An inventory of on-site instrumentation including piezometers, inclinometers, horizontal drains, sub-drains and settlement monuments are monitored periodically throughout the year as a preventative measure.

Monitoring sites can be established for a variety of uses. Often completed repair sites require monitoring to confirm that the slope has been stabilized. Other sites have been utilized to indicate signs of unstable conditions developing and have been instrumental in determining slope conditions prior to the activation of a landslide.

Through the use of collected data such as groundwater depth, magnitude of slope movement, depth of movement and ground surface movement, the District has been able to arrest slope movement in advance of an incipient failure.

Throughout the year, the District receives incident response or assistance calls from property owners regarding slope stability or drainage issues. Community relations, including incident responses through the annual Operations Program has been institutionalized as a role of CA Tradewinds GHAD management. All incidents are recorded and move through the district response mechanisms as is appropriate and consistent with the CA Tradewinds GHAD Plan of Control.

The CA Tradewinds GHAD Manager receives updates in long range weather and oceanic temperature changes through the National Oceanic and Atmospheric Administration (NOAA) and other scientific and atmospheric agencies that track data and produce probabilistic assessments on the likelihood of a recurrence of El Niño conditions.

Estimated Cost $2,200

Special Projects

During fiscal year 2017/2018, the District will continue several special projects. Brief descriptions of the special projects are presented in Table 1 and further described below:

Plan of Control

It is anticipated that an evaluation and assessment of the current Plan of Control for the CA Tradewinds GHAD will be pursued in an effort to confirm operational compliance. Project costs will be applied to General Administration.

Estimated Cost $0

Reserve Study Assessment

A reserve study functions as a pro-forma analysis of the financial needs of the CA Tradewinds GHAD. It serves as a tool to calculate the annual contribution required by the district to build and maintain sufficient funds for emergencies and capital replacement programs based on past weather patterns, landslide repair costs, and general attrition. As a result of severe winters, draws will likely be necessary in the future on the reserve fund. Work is planned to evaluate and complete an analysis of the fund health and methodologies. This analysis will be used in establishing a pro-forma plan and provide instruction to CA Tradewinds GHAD management as to the necessary reserve demands over time. Project analysis costs will be applied to General Administration.

Estimated Cost $0

Special Studies

The CA Tradewinds GHAD intends to continue targeted studies in the areas of fiscal policy and geologic risk. The CA Tradewinds GHAD, now in its 17th year, has the unique opportunity to address many of the issues surrounding long-term viability and sustainability, within a changing environment and financial conditions. Using empirical data, we can assess potentially increasing financial loads and geologic risks that may accompany the maturation process of this district. We are confident that these studies have produced, and will continue to produce beneficial results. We will defer this discretionary work this term in favor of building reserves.

Estimated Cost $0

Information Systems and Technology

The CA Tradewinds GHAD will consider integrating a GIS system to include all of the GHAD's data collection and monitoring operations. The record and tool that this system offers

facilitates the General Manager's ability to locate past repairs and assist in a variety of risk assessments within the District.

Estimated Cost $0

Accounting System Upgrade

Periodic upgrades are necessary to enhance accounting system capabilities. The CA Tradewinds GHAD utilizes expense accounting software to assist in reporting and the day to day operation of the District. Continued accounting systems enhancements will be implemented allowing more data entry streamlining, enhanced reporting, and quality control assurance procedures, augmenting the current systems. Project costs will be applied to General Administration.

Estimated Cost $0

Tax Assessment Calculation

Each year an assessment calculation is conducted to identify and determine all qualified parcels within the district to receive assessments for CA Tradewinds GHAD services. Typically the GHAD Manager will contract these services to a firm that specializes in these services. Historically, the CA Tradewinds GHAD has provided this information through its contracted consultant to the County Assessor's Office as required.

Estimated Cost $1,500

Communications Plan

The CA Tradewinds GHAD maintains a communications plan designed to keep constituents current on CA Tradewinds GHAD operations and developments. The plan addresses several venues and mediums in which to disseminate information within this district, and to other concerned parties, and to establish clear and accessible channels for community interaction. The CA Tradewinds GHAD intends to implement a web page for public information and a multi-page informational brochure to be available to interested Homeowner Associations (HOA) and stakeholders that describes the CA Tradewinds GHAD and its responsibilities and limitations. Additionally, the General Manager is available to write periodic articles for the HOA newsletter.

Estimated Cost $500

Outreach/Legislative Review
California Association of GHADs (CAGHADs) Membership/Insurance

The proliferation of new GHADs within California has resulted in new legislation and adopted procedures. The CA Tradewinds GHAD Manager, in association with others, shares information and knowledge through a consortium of GHAD managers known as the California Association of GHADs (CAGHADs). The CAGHAD has recently obtained General Liability policies for its member GHADs. Policy premium costs for the CA Tradewinds GHAD are

approximately $500.[3]. Additionally, the CA Tradewinds GHAD manager participates in the CAGHADs as the organization pursues other financial instruments that may provide the CA Tradewinds GHAD additional options for extraordinary financial demand and planning. In 2016 the CAGHAD Board adopted a new fee schedule reducing the annual GHAD fees for membership by 50%.

Estimated Cost $600

Administration

The administration of the CA Tradewinds GHAD includes all costs associated with legal support, office expenses, staffing, and accounting. Brief descriptions are presented below.

Legal

General Counsel – CA Tradewinds GHAD management must interact regularly with CA Tradewinds GHAD Counsel. The day-to-day operations of the CA Tradewinds GHAD present myriad opportunities and issues to work directly with GHAD counsel, in the areas of contracts, agreements, issues or new business to present to the Board, legislation, property owner issues, etc.

Estimated Cost $1,000

Special Counsel – Typically Special Counsel consists of legal representation in the event of legal issues that might arise. Currently there are no legal issues involving litigation.

Estimated Cost $0

Staffing/Administrative Support

The CA Tradewinds GHAD staff includes the General Manager, an Operations Manager, an Administration Manager and frequently other support staff and consulting professionals. The General Manager administers all CA Tradewinds GHAD day-to-day operations, including financial budgeting and communications regarding its activities. The Operations Manager, among other tasks, administers the Major Projects and Preventive Maintenance Programs and associated work schedules, consulting and construction contracts, and documents. The administrative staff is responsible for accounting/bookkeeping, contract administration, clerical, and construction management support. Additional management staff costs are also applied to specific projects as appropriate. Authorized business expenses such as rent, office supplies and leases are included in Staffing.

Estimated Cost $6,000

[3] Nominal increases in unit costs are expected in 2017

Statement of Investment Policy

CA Tradewinds GHAD
Policy Dated: June 2017

EXHIBIT B

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I. Introduction

Geologic Hazard Abatement Districts ("GHADs") are local governmental districts specifically formed for the purpose of prevention, mitigation, abatement or control of geologic hazards. GHADs are political subdivisions of the state and is not an agency or instrumentality of a local agency. A geologic hazard is broadly defined as an actual or threatened landslide, land subsidence, soil erosion, earthquake, fault movement, or any other natural or unnatural movement of land or earth. The board of directors of a GHAD is comprised of either five landowners from within the GHAD boundaries or the legislative body of the city or county that created the GHAD. The powers of the GHAD are vested in the board of directors.

A GHAD is empowered to acquire, construct, operate, manage or maintain improvements on public or private lands which are necessary or incidental to prevent, mitigate, abate or control geologic hazards within the district. The GHAD may assess landowners for the operation and maintenance of improvements acquired or constructed pursuant to GHAD law, found in the California Public Resources Code Section 26500 *et seq.* ("GHAD Law"). Further, the GHAD prepares plans of control which describe in detail a geologic hazard, its location and a plan for the prevention, mitigation, abatement or control thereof.

The GHAD Treasurer is entrusted with the financial management of the district's resources in close collaboration and cooperation with the GHAD Manager.

The GHAD Manager is empowered with the day-to-day responsibility of managing and overseeing the operations of the GHAD, including managing the annual budget, responding to constituents, execution and management of contracts.

The purpose of this Statement of Investment Policy ("Policy") is to identify various policies and procedures that enhance opportunities for a prudent and systematic investment policy and to organize investment-related activities. Activities include providing accurate cash projections, the expeditious collection of revenue, the control of disbursements, cost-effective management of custodial relations, prudent investment and portfolio allocation for a real return on investment.

II. Statement of Objectives

In managing the GHAD investment portfolio, the GHAD Treasurer seeks to balance the investments to meet the short term, intermediate, and long term (reserve) needs of the GHAD. Investments are intended to achieve a real rate of return while minimizing the potential for capital losses arising from market changes or issuer default. While the GHAD Treasurer will not make investments for the purpose of trading or speculation as the dominant criterion, they will seek to enhance total portfolio return by means of effective investment allocation.

The GHAD will consider the following objectives for portfolio management:

1. **Safety** - Each investment transaction shall seek to ensure that capital losses are minimized, whether they are from securities defaults or erosion of market value.

2. **Liquidity** - The investment portfolio will remain sufficiently liquid to enable the GHAD to meet all operating requirements that might be reasonably anticipated while preserving principal.

3. **Yield** - The GHAD may establish a performance benchmark based on current investment objectives and constraints. The investment portfolio shall be managed to attain a real rate of return throughout budgetary and economic cycles, taking into account the GHAD's policy constraints and cash flow requirements. The portfolio yield represents current income while total return will include both income and capital appreciation/depreciation.

4. **Diversification** - The investment portfolio will be diversified to manage interest rate, market event, liquidity, and credit risk to meet the GHAD's investment objectives.

5. **Real Rate of Return**- the investment portfolio will seek an investment return in excess of inflation.

III. Use of State Investment Guidelines

GHAD Law does not include any direction or prohibitions on investment practices for GHAD funds. Government Code Sections 53601, 53607, and 53646 of the State of California regulate investment practices for cities, districts and local agencies. This Policy uses the State's provisions for local government investments as a starting point for developing and implementing the GHAD's investment policies and practices.

IV. GHAD Treasurer Authority

The responsibility for conducting the GHAD investment program lies with the GHAD Treasurer, who has established procedures for the operation of the investment program, consistent with this Policy. Within the aforementioned authorities, the GHAD Treasurer coordinates closely with the GHAD Manager on budget, cash flow and disbursements and is responsible for managing the investment of GHAD revenues and reserve funds. The GHAD Treasurer has further authority to engage the services of one or more third party custodians ("Custodian") to provide safekeeping and custody of assets.

For purposes of this Policy, the GHAD Treasurer must be registered under the Investment Advisors Act of 1940, as a registered Investment Advisor and The custodians must be registered broker-dealers with (FINRA) Financial Industry National Regulatory Authority and a member of the Securities Investor Protection Corporation (SIPC).

V. Investment Policy Adoption

This Policy shall be reviewed and approved by the GHAD Manager and GHAD Treasurer. If the GHAD Manager and GHAD Treasurer determine substantial modifications to this Policy are necessary, such modifications shall be reported to the Board of Directors.

VI. Standard of Prudence

GHAD Board members, employees and consultants involved in the investment process ("Participants") shall act responsibly as custodians of the public trust. Participants acknowledge that the GHAD's investment portfolio is subject to public review and evaluation. Nevertheless, in a diversified portfolio, it must be recognized that occasional measured losses are inevitable, and must be considered within the context of the overall portfolio's investment return, provided that adequate diversification has been implemented.

The standard of prudence to be used by investment officials shall be the "prudent Investment Manager standard," which states:

> *"When investing, reinvesting, purchasing, acquiring, exchanging, selling, or managing investments, the Investment Manager shall act with care, skill, prudence, and diligence under the circumstances then prevailing, including, but not limited to, the general economic conditions and the anticipated needs of the client, that a prudent person acting in a like capacity and familiarity with those matters would use in the conduct of funds of a like character and with like aims, to safeguard the principal and maintain the liquidity needs of the (client) Investment Manager."*

Participants acting in accordance with this Policy and exercising due diligence, shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided deviations from expectations are reported in a timely fashion and the liquidity and the sale of securities are carried out in accordance with the terms of this Policy.

VII. Reporting

While there is no requirement in GHAD Law to do the following, the following investment activity reports will be completed.

A. Monthly

At the direction of the GHAD Treasurer, the Custodians shall provide a monthly institutional brokerage statement with an investment and transaction summary to the GHAD Manager.

B. Quarterly

The GHAD Treasurer shall submit quarterly investment reports to the GHAD Manager.

The quarterly report shall highlight key aspects of information contained in the investment reports; a summary of investment activity for each GHAD, total account balance, balance by position, quarterly performance summary of the investment portfolio and review of cash flow required to meet expenditures for the next six months.

C. Other

The GHAD Treasurer shall present to the GHAD Manager an annual report on the investment program and investment activity no later than 180 days following the end of the fiscal year. The annual report may include a performance summary, suggest policies and improvements that might enhance the investment program, and include an investment plan for the ensuing fiscal year. The GHAD Treasurer will provide additional data deemed necessary by the GHAD Manager to facilitate any additional accounting or reporting requirement.

VIII. Investment Instruments

The following sections describe individual investment types appropriate for the GHAD.

A. **United States Treasury Notes, Bonds, Bills, or Certificates of Indebtedness**, or those for which the faith and credit of the United States are pledged for the payment of principal and interest.

CA Govt Code 53601(b)

B. **Negotiable Certificates of Deposit** issued by a nationally- or state-chartered bank, a savings association or a federal association as defined by Section 5102 of the California Financial Code, a state or federal credit union, or by a federally-licensed or state-licensed branch of a foreign bank.

CA Govt Code 53601 (i)

C. **Money Market Funds** Shares of beneficial interest issued by diversified management companies that are money market funds registered with the Securities and Exchange Commission under the Investment Company Act of 1940 (15 U.S.C.).

The GHAD will typically utilize, but is not limited to, Government and Treasury money funds in portfolios. A Government money fund invests at least 99.5% of its total assets in cash, government securities, and/or repurchase agreements that are "collateralized fully" (i.e., collateralized by cash or government securities). A Treasury fund is a type of government money fund that invests in US Treasury Bills, Bonds and Notes.

CA Govt Code 53601 (l)

D. **Mutual Funds** an investment program funded by shareholders that trades in diversified holdings and is professionally managed.

E. **Exchange Traded Funds (ETF)** marketable securities that track an index; which can be comprised of a basket of assets (such as commodities, bonds, or equities) Unlike mutual funds, an ETF trades like a common stock on a stock exchange. ETFs experience price changes throughout the day as they are bought and sold.

F. **Municipal Bonds** issued by the State of California and any local agency within the state, including bonds payable solely out of revenues from a revenue-producing property owned, controlled, or operated by the state or any local agency, or by a department, board, agency or authority of the state or any local agency.

Registered treasury notes or bonds of any of the other 49 United States in addition to California, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by a state or by a department, board, agency, or authority of any of the other 49 United States, in addition to California.

CA Govt Code 53601 (c), CA Govt Code 53601 (d), CA Govt Code 53601 (e)

G. **Asset-Backed Securities** defined as all mortgage pass-through securities, collateralized mortgage obligations, mortgage-backed or other pay-through bonds, equipment lease-backed certificates, consumer receivable pass-through certificates, and consumer receivable-backed bonds.

Asset-backed securities shall be rated at least "AA" or the equivalent by a NRSRO at the time of purchase. Additionally, securities eligible for investment under this subsection shall be issued by an issuer whose debt is rated at least "A" or the equivalent by a NRSRO at the time of purchase.

CA Govt Code 53601 (o)

H. **Structured Notes**, a debt obligation that also contains an embedded derivative component that adjusts the security's risk/return profile. The return performance of a structured note will track both that of the underlying debt obligation and the derivative embedded within it.

The minimum rating criteria for particular investment categories is applied on the date of purchase. The GHAD may from time to time be invested in a security whose rating is downgraded. In the event a rating drops, the securities shall be reviewed and a plan of action shall be implemented by the GHAD Treasurer.

IX. Investment Diversification

Investments shall be based on a review of cash flow forecasts. Investments will be reviewed quarterly to permit the GHAD Manager to meet all projected obligations.

The short term allocation will be invested in safe and liquid assets, typically money market funds, to ensure that operational expenses will be met for the current budgetary year (1x operating expense).

The intermediate allocation is maintained at 1x operating expense and is invested in inflation-protected securities and short-term fixed income holdings. This allocation is intended to cover

unexpected events (earthquakes, extreme weather conditions, etc.) if the annual operating funds are exhausted.

The long term reserve allocation invests assets in excess of the operating and intermediate budget allocations and is used to generate income and modest growth for future use. The objective of the long term reserve allocation is balanced between long-term capital appreciation and high current income, with an emphasis on income. This sleeve of the portfolio strives to provide a real rate of return over time (nominal rates of return adjusting for factors such as inflation, interest rates, credit spreads and foreign exchange).

The minimum rating criteria for particular investment categories is applied on the date of purchase. The GHAD may from time to time be invested in a security whose rating is downgraded. In the event a rating drops, the securities shall be reviewed and a plan of action shall be implemented by the GHAD Treasurer.

X. Internal Controls

The GHAD Treasurer shall implement a system of internal controls. These controls are designed to prevent loss of investments arising from fraud, employee error, misrepresentation by third parties or imprudent actions by Participants involved in the investment process. Controls deemed most important include:

- **Separating transaction authority from accounting and record keeping.** Separating the person who authorizes or performs the transaction from the people who record or otherwise account for the transaction, fosters a system of checks and balances.

- **Avoiding physical delivery securities.** Book entry securities are much easier to transfer and account for since actual delivery of a document never takes place. Delivered securities must be properly safeguarded against loss or destruction. The potential for fraud and loss increases with physically delivered securities.

- **Confirming telephone transactions for investments and wire transfers in writing.** Due to the potential for error and improprieties arising from telephone transactions, all telephone transactions should be supported by written communications and approved by the appropriate person. Written communications may be via fax/email if on letterhead and the safekeeping institution has a list of authorized signatures.

- **Developing money transfer agreements with the third party custodian.** This agreement should outline the various controls and security provisions, and delineate responsibilities of each party making and receiving money transfers.

XI. Financial Institution Selection

The GHAD Treasurer shall review and select qualified financial institutions from which securities are held, purchased or sold.

In selecting financial institutions for the deposit or investment of GHAD funds, the GHAD Treasurer shall consider the financial stability of the institutions. The GHAD Treasurer shall

continue to monitor financial institutions' creditworthiness throughout the period in which GHAD funds are deposited or invested.

The GHAD Treasurer is authorized to conduct investment transactions on the GHAD's behalf. The GHAD Treasurer may use its own list of approved broker/dealers and financial institutions for investment purposes.

XII. Risk Tolerance

It is recognized that investment risks can result from issuer defaults, market price changes, or various technical complications leading to temporary illiquidity. Portfolio diversification is employed as a way to control risk. The GHAD Treasurer is expected to display prudence in the selection of securities as a way to minimize risk. No individual investment transaction shall be undertaken that jeopardizes the total capital position of the overall portfolio.

The GHAD Treasurer shall use strategies to control risks of default, market price changes, illiquidity, credit quality, investment duration and portfolio volatility (standard deviation). The GHAD Treasurer shall periodically review with GHAD Manager the investment results, risks and the steps that have been taken to mitigate future risks.

XIII. Safekeeping and Custody

To protect against potential fraud and embezzlement, the assets of the GHAD shall be secured through third-party custody and safekeeping procedures.

The GHAD Treasurer shall maintain a list of financial institutions authorized to provide custodial services. Assets are held directly with the Custodian who provides independent verification of assets through monthly institutional account statements. Each GHAD will maintain a separate account with the Custodian.

The GHAD Treasurer is responsible for the coordination, review and monitoring of GHAD cash disbursements. Through a dual control verification process, the GHAD Treasurer verifies disbursement requests from the GHAD Manager. GHAD Managers shall only submit check requests for vendors approved by the GHAD Manager. The GHAD Treasurer coordinates and verifies disbursements from the Custodian to the approved vendors.

Glossary

ASK PRICE: The price at which a seller offers to sell a security to a buyer.

ASSET-BACKED SECURITIES: Bonds created from various types of consumer debt. Returns on these securities come from customer payments on their outstanding loans. The primary types of asset-backed securities are mortgages, home equity loans, auto loans, leases, credit card receivables and student loans.

BANKERS' ACCEPTANCE: A letter of credit issued in a foreign trade transaction which allows exporters to receive payment prior to importation of their goods. Banks provide short-term financing to facilitate the transaction and may sell the obligation to a third party. Bankers' Acceptances are secured by the issuer of the bill, while the underlying goods also serve as collateral.

BANK DEPOSITS: Collateral in the form of currency that may be in the form of demand accounts (checking) or investments in accounts that have a fixed term and negotiated rate of interest.

BENCHMARK: A comparative base for measuring the performance or risk of the investment portfolio. A benchmark should represent a close correlation to the level of risk and the average duration of the portfolio's investments.

BID PRICE: The price at which a buyer offers to purchase a security from the seller.

BOND: A debt investment in which an investor loans money to an entity (corporate or governmental) that borrows the funds for a defined period of time at a fixed interest rate called a coupon payment. Bonds are used by companies, municipalities, states and the U.S. government to finance a variety of projects and operating activities.

BROKER: A broker aligns buyers and sellers of securities and receives a commission when a sale occurs. Brokers generally do not hold inventory or make a market for securities.

CALIFORNIA LOCAL AGENCY OBLIGATIONS: Bonds that are issued by a California county, city, city and county, including a chartered city or county, school district, community college district, public district, county board of education, county superintendent of schools, or any public or municipal corporation.

CD (CERTIFICATE OF DEPOSIT): Time deposits issued by a bank, savings or federal credit union, or state-licensed branch of a foreign bank. Negotiable Certificates of Deposits rely on the credit rating of the issuing entity.

COLLATERAL: Securities, evidence of deposit, or other property that a borrower pledges to secure repayment of a loan. Also refers to securities pledged by a bank to secure deposits of public monies.

COLLATERALIZATION: Process by which a borrower pledges securities, property, or other deposits for the purpose of securing the repayment of a loan and/or security.

COMMERCIAL PAPER: Short-term unsecured promissory note issued by a company or financial institution. Commercial paper is issued at a discount and matures at face value. Usually a maximum maturity of 270 days, and given a short-term debt rating by one or more NRSROs.

COUPON: The annual rate of interest that a bond's issuer promises to pay the bondholder, expressed as a percentage of the bond's face value.

CREDIT RISK: Credit risk is the likelihood that an issuer will be unable to make scheduled payments of interest or principal on an outstanding obligation.

CUSTODIAN: An agent such as a brokerage firm or a bank that stores a customer's investments for safekeeping. The custodian does not have fiduciary responsibilities.

DEALER: A dealer, as opposed to a broker, acts as a principal in security transactions, selling securities from, and buying securities for his/her own position.

DEFAULT: To default is to fail to repay principal or make timely interest payments on a bond or other debt investment security, or failure to fulfill the terms of a note or contract.

DELIVERY VERSUS PAYMENT (DVP): A securities industry procedure whereby payment for a security must be made at the time the security is delivered to the purchaser's agent.

DIVERSIFICATION: Dividing investment funds among a variety of securities offering independent returns.

DURATION: The weighted average time to maturity of a bond where the weights are the present values of future cash flows. Duration measures the price sensitivity of a bond to changes in interest rates.

EXCHANGE TRADED FUNDS (ETF): ETF is a marketable security that tracks an index, a commodity, bonds, or a basket of assets like an index fund. Unlike mutual funds, an ETF trades like a common stock on a stock exchange. ETFs experience price changes throughout the day as they are bought and sold. ETFs typically have higher daily liquidity and lower fees than mutual fund shares.

FIDUCIARY: An individual who holds something in trust for another and bears liability for its safekeeping.

FLOATING RATE INVESTMENTS: Notes whose interest rate is adjusted according to the interest rates of other financial instruments. These instruments provide protection against rising or falling interest rates, but may pay lower yield than fixed rate notes.

FUTURES: Commodities, which are sold in the present time and are to be delivered at a future date.

INTEREST ONLY STRIPs: Securities with cash flow based entirely on the monthly interest payments received from a mortgage, Treasury, or bond payment. No principal is included in these types of securities.

INVERSE FLOATING RATE INVESTMENTS: Variable-rate notes (such as inverse floating rate notes) whose coupon and value increase as interest rates decrease.

INVESTMENT PROGRAM: The process of modern portfolio management. The process includes establishing investment policy, analysis of the economic and capital markets environment, portfolio monitoring and rebalancing, and measuring performance.

LIQUIDITY: The ease with which investments can be converted to cash at their present market value. Liquidity is significantly affected by the number of buyers and sellers trading a given security and the number of units of the security available for trading.

LOCAL AGENCY BONDS: These bonds are issued by a county or city including a chartered city or county, school district, community college district, public district, county board of education, county superintendent of schools, or any public or municipal corporation.

LOCAL AGENCY INVESTMENT FUND (LAIF): A voluntary investment fund open to state and local government entities and certain non-profit organizations in California in which organizations pool their funds for investment. LAIF is managed by the State Treasurer's Office.

MARKET RISK: Market risk is the risk that investments will change in value based on changes in general market prices.

MARKET VALUE: The price at which a security is trading and could presumably be purchased or sold.

MASTER REPURCHASE AGREEMENT: A written contract which includes provisions specific to the governmental agency that is signed by an authorized officer with each counterparty. A master agreement will often specify details to the nature of transactions, the relationship of the parties to the agreement, parameters pertaining to the ownership and custody of collateral, and remedies in the event of default by either party.

MATURITY: The date upon which the principal or stated value of an investment becomes due and payable.

MEDIUM TERM NOTES (MTN): Unsecured, investment-grade senior debt securities of major corporations that are sold either on a continuous or an intermittent basis. MTNs are highly flexible debt instruments that can be structured to respond to market opportunities or to investor preferences.

MONEY MARKET: The market in which short-term debt instruments (bills, commercial paper, bankers' acceptances, etc.) are issued and traded.

MORTGAGE-BACKED SECURITIES: A debt instrument with a pool of real estate loans as the underlying collateral. The mortgage payments of the real estate assets are used to pay interest and principal on the bonds.

MORTGAGE PASS-THROUGH SECURITIES: A securitized participation in the interest and principal cash flows from a specified pool of mortgages. Principal and interest payments made on the mortgages are passed through to the holder of the security.

MUTUAL FUNDS: An investment company that pools money and can invest in a variety of securities, including equity securities, fixed-income securities and money market instruments. **Money market mutual funds** invest exclusively in short-term (1-day to 1-year) debt obligations such as Treasury bills, certificates of deposit, and commercial paper. The principal objective is the preservation of capital and generation of current income.

OFFER: The price asked by a seller of securities. See Ask Price and Bid Price.

OPTION: A contract that provides the right or obligation, depending on the buyer or seller's position within the contract, to buy or to sell a specific amount of a specific security within a predetermined time period at a specified price. A call option provides the right to buy the underlying security. A put option provides the right to sell the underlying security. The seller of the contracts is called the writer.

PORTFOLIO: A collection of securities held by an investor.

PRIMARY DEALER: A group of government securities dealers who submit daily reports of market activity and positions and monthly financial statements to the Federal Reserve Bank of New York and are subject to its informal oversight. Primary dealers include Securities and Exchange Commission (SEC)-registered securities broker- dealers, banks, and a few unregulated firms.

PRINCIPAL ONLY STRIPS: Securities with cash flow based entirely on the principal payments received from an obligation.

RANGE NOTES: A range note is a bond that pays interest if a specified interest rate remains above or below a certain level and/or remains within a certain range.

RATE OF RETURN: The yield plus capital appreciation/depreciation obtainable on a security based on its purchase price or its current market price.

REPURCHASE AGREEMENT (RP, Repo): A contractual transaction between an investor and an issuing financial institution (bank or securities dealer). The investor exchanges cash for temporary ownership or control of collateral securities, with an agreement between the parties that on a future date, the financial institution will repurchase the securities.

SAFEKEEPING: A service to customers rendered by banks for a fee whereby securities and valuables of all types and descriptions are held by the bank in the customer's name.

SECONDARY MARKET: A market made for the purchase and sale of outstanding issues following the initial distribution.

SECURITIES AND EXCHANGE COMMISSION (SEC): A federal government agency comprised of five commissioners appointed by the President and approved by the Senate. The SEC was established to protect the individual investor from fraud and malpractice in the marketplace. The Commission oversees and regulates the activities of registered investment advisers, stock and bond markets, broker/dealers, and mutual funds.

STATE OBLIGATIONS: Registered treasury notes or bonds of the 50 United States, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by a state or by a department, board, agency, or authority of any of the 50 United States.

STRIPS: Bonds, usually issued by the U.S. Treasury, whose two components, interest and repayment of principal, are separated and sold individually as zero-coupon bonds. Strips are an acronym for Separate Trading of Registered Interest and Principal of Securities.

SUPRANATIONALS: International financial institutions that are generally established by agreements among nations, with member nations contributing capital and participating in management. Supranational bonds finance economic and infrastructure development and support environmental protection, poverty reduction, and renewable energy around the globe.

TRUSTEE: An individual or organization, which holds or manages and invests assets for the benefit of another. The trustee is legally obliged to make all trust-related decisions with the trustee's interests in mind, and may be liable for damages in the event of not doing so.

U.S. AGENCY OBLIGATIONS: Federal agency or United States government-sponsored enterprise obligations (GSEs), participations, or other instruments. The obligations are issued by or fully guaranteed as to principal and interest by federal agencies or United States government-sponsored enterprises. Issuers include: Fannie Mae, Farmer Mac, Federal Farm Credit Banks, Freddie Mac, Federal Home Loan Banks, Financing Corporation, Tennessee Valley Authority, Resolution Trust Funding Corporation, World Bank, Inter-American Development Bank, and PEFCO.

U.S. TREASURY OBLIGATIONS (TREASURIES): Securities issued by the U.S. Treasury and backed by the full faith and credit of the United States. Treasuries are considered to have no credit risk and are the benchmark for interest rates on all other securities in the U.S. and overseas. The Treasury issues both discounted securities and fixed coupon notes and bonds.

Treasury Bills: All securities issued with initial maturities of one year or less are issued as discounted instruments, and are called Treasury Bills (T-bills). The Treasury currently issues 3-month and 6-month T-bills at regular weekly auctions. It also issues "cash management" bills as needed to smooth cash flows.

Treasury Notes: All securities issued with initial maturities of 2- to 10-years are called Treasury Notes (T-notes), and pay interest semi-annually.

Treasury Bonds: All securities issued with initial maturities greater than 10-years are called Treasury Bonds (T-bonds). Like Treasury Notes, they pay interest semi- annually.

YIELD: The rate of annual income return on an investment, expressed as a percentage. Yield does not include capital gain.

Income Yield is obtained by dividing the current dollar income by the current market price for the security.

Net Yield or **Yield to Maturity** is the current income yield minus any premium above par or plus any discount from par in purchase price, with the adjustment spread over the period from the date of purchase to the date of maturity of the bond.

ZERO-COUPON BOND: A bond on which interest is not payable until maturity (or earlier redemption), but compounds periodically to accumulate to a stated maturity amount. Zero-coupon bonds are typically issued at a discount and repaid at par upon maturity.