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**OAKLAND AREA
GEOLOGIC HAZARD ABATEMENT DISTRICT**

TO: Oakland Area GHAD
Board of Directors

FROM: GHAD Attorney Patricia Curtin

BOARD MEETING DATE: June 20, 2017

SUBJECT: Approve the GHAD Budget for the 2017/2018 Fiscal Year and Receive the GHAD Statement of Investment Policy

RECOMMENDATION(S):

1. ADOPT Oakland Area GHAD Resolution No. 16 approving the GHAD budget for 2017/2018 fiscal year and updating GHAD Manager payment limit under Consulting Services Agreement, as recommended by the GHAD Attorney and GHAD Manager.
2. RECEIVE the GHAD Statement of Investment Policy prepared by the GHAD Treasurer.

FISCAL IMPACT:

The GHAD is funded 100% through assessments levied on properties within the GHAD. Therefore, there is no impact on the County General Fund.

BACKGROUND:

On July 18, 2006, the Oakland City Council adopted Resolution 80058 approving the formation of the Oakland Area Geologic Hazard Abatement District (GHAD) and appointed itself to serve as the GHAD Board of Directors. The GHAD Board is requested to adopt budgets for the GHAD operations each fiscal year. The GHAD Board is being requested to adopt the fiscal year budget for 2017/2018 as prepared by the GHAD General Manager, ENGE0, Inc., which is attached to Resolution No. 16. In addition, the GHAD Board is being requested to update the GHAD General Manager payment limits under the existing Consulting Services Agreement as required by that Agreement. The budget attached to Resolution No. 16 as Exhibit A identifies that limit at \$16,753.

CONSEQUENCE OF NEGATIVE ACTION:

The GHAD will not be able to continue operation starting July 1, 2017 if the budget is not approved.

GHAD STATEMENT OF INVESTMENT POLICY

The GHAD Manager, GHAD Attorney, and GHAD Treasurer recommend that the GHAD Board review and acknowledge receipt of an annual Statement of Investment Policy with sets forth a prudent and systematic investment relative to the monies generated by the GHAD property assessments. These activities help ensure the appropriate management of the GHAD investment portfolio in order to achieve a meaningful return on investment.

The responsibility for conducting the GHAD investment program is delegated to the Treasurer, who has established written procedures for the operation of the investment program, consistent with the Statement of Investment Policy. The 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 Treasurer has further authority, with consent of the GHAD Board of Directors, to engage the services of one or more third party custodians ("Custodian") to provide safekeeping and custody of assets.

The 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. The Statement of Investment 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.

Finally, the GHAD's Statement of Investment Policy shall be reviewed regularly by the GHAD Manager and Treasurer. The Board of Directors shall approve all substantive modifications of the Policy.

The Statement of Investment Policy is attached to Resolution No. 16 as Exhibit B.

ACTION REQUESTED BY THE GHAD BOARD:

The GHAD Attorney recommends that the GHAD Board accept the Agenda Report and take the appropriate actions as specified herein.

Respectfully submitted,



PATRICIA E. CURTIN
GHAD Attorney

ATTACHED RESOLUTION:

1. Resolution No. 16 Adopting 2017/2018 Budget.

**THE BOARD OF DIRECTORS OF OAKLAND AREA
GEOLOGIC HAZARD ABATEMENT DISTRICT**

RESOLUTION NO. 16 (OAKLAND AREA GHAD)

SUBJECT: ADOPT the 2017/2018 annual budget and updating GHAD General Manager payment limits under the existing consulting services agreement; and RECIEVE the District's Statement of Investment Policy.

WHEREAS, on July 18, 2006, the Oakland City Council adopted Resolution 80058 approving the formation of the Oakland Area Geologic Hazard Abatement District (GHAD) and appointed itself to serve as the GHAD Board of Directors.

WHEREAS, the GHAD Board of Directors desires to adopt the budget for the fiscal year 2017/2018 prepared by the GHAD General Manager, ENGEO, Inc., attached hereto as Exhibit A.

WHEREAS, in order to monitor and maintain the GHAD Property and GHAD Improvements and otherwise carry out its responsibilities under the Plan of Control, the GHAD Board of Directors must consider and approve a budget each year;

WHEREAS, the GHAD Manager, ENGEO, Inc. prepared a budget for the fiscal year 2017/2018 (which also includes a status report on the GHAD) attached as Exhibit A; the annual budget amount for monitoring and maintenance responsibilities is \$16,753; and

WHEREAS, the GHAD Board of Director's desires to adopt the budget for the fiscal year 2017/2018 attached in Exhibit A.

The Board of Directors of the GHAD HEREBY RESOLVES THAT:

1. The GHAD Board approves the GHAD budget for the 2017/2018 fiscal year attached as Exhibit A and incorporated herein by this reference.
2. The GHAD Board adopts the payment limit for the GHAD General Manager services at \$7,700.00 for fiscal year 2017/2018 as set forth in Exhibit A, and incorporates this payment limit into the consulting services agreement.
3. The GHAD Board hereby acknowledges receipt of the Statement of Investment Policy.
4. The recitals are incorporated herein by this reference.

This Resolution shall become effective immediately upon its passage and adoption.

OAKLAND, California, June 20, 2017

PASSED BY THE FOLLOWING VOTE:

AYES:

NOES:

ABSENT:

ABSTAIN:

Attachments: Exhibit A (GHAD budget for the Oakland Area GHAD for the FY 2017/2018)
Exhibit B (GHAD Statement of Investment Policy)

**OAKLAND AREA GEOLOGIC HAZARD ABATEMENT DISTRICT
BUDGET FOR FISCAL YEAR 2017/18**

EXHIBIT A



June 5, 2017

Oakland Area Geologic Hazard Abatement District Board of Directors

Chair Desley Brooks
Boardmember Dan Kalb
Boardmember Abel J. Guillen
Boardmember Lynette Gibson McElhaney
Boardmember Annie Campbell Washington
Boardmember Noel Gallo
Boardmember Larry Reid
Boardmember Rebecca Kaplan

Oakland Area Geologic Hazard Abatement District
Oakland City Hall
One Frank Ogawa Place
Oakland, CA 94612

Subject: Oakland Area Geologic Hazard Abatement District
Oakland, California

BUDGET FOR FISCAL YEAR 2017/18

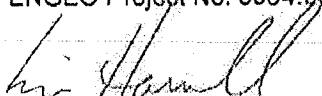
Dear Chair Brooks and Boardmembers:


Attached is the proposed budget for the Oakland Area Geologic Hazard Abatement District (GHAD) for fiscal year (FY) 2017/18. The FY for the Oakland Area GHAD is from July 1 through June 30. The budget as proposed is \$16,753. The budget expenses break down into the following totals.

Major Repair	\$0
Preventive Maintenance and Operations	\$7,000
Special Projects	\$0
Administration and Accounting	\$3,100
Additional - Outside Professional Services	\$6,653

A summary of the expenses is shown on Table I followed by a brief description of each budget item on the following pages. If you have any questions regarding the contents of this letter, please contact us.

Sincerely,
Oakland Area Geologic Hazard Abatement District
ENGEO Incorporated, General Manager
1630 San Pablo Ave., Suite 200
Oakland, CA 94612
ENGEO Project No. 6964.002.017


Eric Harrell
eh/pcg/bvv


Paul C. Guerin

**Oakland Area Geologic Hazard Abatement District
Program Budget
Fiscal Year 2017/18**

The following budget summarizes the anticipated expenditures for FY year 2017/18 for the Oakland Area Geologic Hazard Abatement District (GHAD), which currently includes the Siena Hill development.

The 2016/17 assessment amount was set at \$1,119.00 per residential unit adjusted down from the 2015/16 assessment level of \$3,262.24 with the approval of a revised Engineer's Report by the Oakland Area GHAD Board of Directors on July 19, 2016 and the approval of a new assessment limit (Resolution No. 11) on September 20, 2016. The final assessment roll prepared for the 2016/17 fiscal year and submitted to the Alameda County Assessor's Office identifies ten properties subject to the levy of the GHAD assessment. The total levy amount for the 2016/17 FY was \$11,190.00.

Based on the San Francisco/Oakland/San Jose consumer price index figures reported through April 2017, for budgeting purposes, we estimate a FY 2016/17 inflation rate adjustment of 3.5 percent. With the additional adjustment of one-half of one percent, as specified in the Engineer's Report, the assessment adjustment for FY 2017/18 is estimated at 4.0 percent. We estimate that ten residential units will be subject to assessment in the FY 2017/18.

The current Program Budget projects that at the beginning of the 2017/18 fiscal year (July 1, 2017), the cumulative reserve will be about \$119,900 and about \$116,800 at the end of the 2017/18 fiscal year (June 30, 2018).

The GHAD has maintenance and monitoring responsibilities for the following parcels within the District as of September 20, 2016.

NUMBER	STREET
64	Siena Drive
67	Siena Drive
68	Siena Drive
71	Siena Drive
72	Siena Drive
75	Siena Drive
76	Siena Drive
79	Siena Drive
80	Siena Drive
84	Siena Drive

The budget amounts listed are based on the Engineer's Report approved by the Oakland Area GHAD Board of Directors in 2016. The budget amounts have been inflation adjusted to provide the listed budget estimates. In the 2017/18 fiscal year, we estimate approximately ten parcels will be subject to a levy of the assessment out of a total of 32 units within the Siena Hill development at build-out. Parcels are subject to a levy of the assessment the first fiscal year following issuance of a building permit.

For fiscal year 2017/18 (July 1, 2017, through June 30, 2018), the GHAD management payment limit is set at \$7,700. The tasks included within the payment limit may include site monitoring events, report preparation, oversight of maintenance and repair projects, administration, accounting, and assessment roll updates.

The budget is divided into four categories including Major Repair, Preventive Maintenance and Operations, Special Projects, and Administration and Accounting.

MAJOR REPAIR

Included within the major repair category are those repair or improvement projects that are intermittent and, by their nature, do not fit within a scheduled maintenance program. Minor slope repair and erosion control items are generally funded within the Preventive Maintenance and Operations category. For the purposes of this budget, we define major repairs as those estimated at over \$25,000.

PREVENTIVE MAINTENANCE AND OPERATIONS

Preventive maintenance and operations include slope stabilization, erosion protection, and professional services within the District. Professional services include site monitoring events as scheduled in the GHAD Plan of Control. Slope stabilization and erosion protection responsibilities include the open space slopes. GHAD-maintained improvements generally include the District's slopes, concrete-lined drainage ditches, retaining walls, subsurface drainage facilities, monitoring instruments, and storm drain facilities.

SPECIAL PROJECTS

The Special Projects category allows the GHAD to budget for projects beneficial to the GHAD that are not included in one of the other three categories.

ADMINISTRATION AND ACCOUNTING

Administrative expenses include the General Manager duties related to the operation and administration of the GHAD. The administrative budget category includes tasks of the General Manager, clerical and accounting staff.

A summary of the proposed budget through the end of FY 2017/18 is shown in Table I.

TABLE I: Summary of Proposed Fiscal Year 2017/18 Budget

Budget Item	Label	Budget Amount
Major Repairs		
Major Projects		\$0
Preventive Maintenance and Operations		
<u>Professional Services</u>		
Scheduled Monitoring Events		\$3,000
Heavy Rainfall Monitoring Events		\$1,000
	Subtotal	\$4,000

Budget Item	Label	Budget Amount
Maintenance and Operations		
Erosion Control Including Ditches		\$1,000
Slope Stabilization		\$2,000
	Subtotal	\$3,000
Preventive Maintenance and Operations	Total	\$7,000
Special Projects		
Special Projects		\$0
	Special Projects	Total
		\$0
Administration and Accounting – General Manager		
Administration and Accounting		\$2,400
Annual Report and Budget Preparation		\$700
	Subtotal	\$3,100
Outside Professional Services - Nontechnical		
Assessment Roll and Levy Update Preparation		\$1,000
GHAD Attorney		\$2,000
GHAD Treasurer		\$350
GHAD Clerk		\$500
Alameda County Assessor's Fees		\$200
California Association of GHADs Membership		\$103
Insurance – Directors		\$2,000
Insurance – General Liability		\$500
	Subtotal	\$6,653
Administration and Accounting	Total	\$9,753
Proposed Expenditures	Total	\$16,753
Estimated Receivables		
Balance (June 30, 2017)		\$124,934
2017/18 Assessment Amount (Estimated)		\$11,638
Estimated Interest on Investments		\$1,961
Estimated Total Available Funds		\$138,533
Estimated Expenditures		
Remaining Expenditures FY 2016/2017 (Estimated)		\$5,000
Major Projects		\$0
Preventive Maintenance and Operations		\$7,000
Special Projects		\$0
Administration, Accounting and Legal		\$9,753
Estimated Expenditures FY 2017/18	Total	\$16,753
Estimated Reserve/Fund Balance on June 30, 2018		\$116,780

MAJOR REPAIRS (MAJOR)

There are currently no ongoing major repair projects, and none are anticipated for the 2017/18 fiscal year within the GHAD-maintained areas of the Oakland Area GHAD. Minor slope repair and erosion control items are generally funded within the Preventive Maintenance and Operations category. While no major repairs are ongoing at this time, by their nature, major repairs such as landslides are unpredictable and could occur during the 2017/18 fiscal year. The reserve portion of the budget allows for funding toward these unpredictable events.

PREVENTIVE MAINTENANCE AND OPERATIONS (PREVM&O)

Professional Services

Scheduled Monitoring Events (SCMON)

As provided in the Plan of Control, there are two scheduled monitoring events within the GHAD during each calendar year.

Estimated budget \$3,000

Heavy Rainfall Events (HRMON)

We have budgeted for one heavy-rainfall monitoring events during the 2017/18 winter season.

Estimated budget \$1,000

Maintenance and Operations

Erosion Control (ERCON)

Anticipated tasks under this budget item include the repair of slope erosion and maintenance of concrete-lined drainage ditches within the accepted lots.

Estimated budget \$1,000

Slope Stabilization (SLOPE)

This is for minor repairs, including slope instability, which may occur during the 2017/18 fiscal year. Purchase of emergency stabilization supplies will be included within this budget item.

Estimated budget \$2,000

SPECIAL PROJECTS (SPEPROJ)

There are currently no ongoing special projects, and none are anticipated for the 2017/18 fiscal year within the GHAD-maintained areas of the Oakland Area GHAD.

ADMINISTRATION AND ACCOUNTING (ADMIN)

Administration (ADACC)

Administrative expenses include the General Manager duties related to the operation and administration of the GHAD. The budget estimate for the accounting and administrative services is derived from the original GHAD budget used to prepare the GHAD Engineer's Report.

Estimated budget \$2,400

Annual Report and Budget Preparation (BDGET)

This budget provides for the preparation of the annual report and budget. The budget estimate for the accounting and administrative services is derived from the original GHAD budget used to prepare the GHAD Engineer's Report.

Estimated budget \$700

Assessment Roll and Levy Update (ASSESS)

This budget item allows for preparation of the assessment roll for the District and the updated levy based on the Consumer Price Index adjustment.

Estimated budget \$1,000

GHAD Attorney (LEGAL)

This budget item allows the GHAD to seek review and comment from GHAD counsel for the District.

Estimated budget \$2,000

GHAD Treasurer (TREAS)

This budget item accounts for fees related to investment of the GHAD reserve funds and processing of accounts payable.

Estimated budget \$350

GHAD Clerk (CLERK)

This budget item accounts for fees to provide clerical staffing and support services for the GHAD Board of Directors and to keep and provide interested parties with accurate records and documents relative to Board actions.

Estimated budget \$500

Alameda County Assessor's Fees (ALAAS)

This budget item accounts for commission charged by the Alameda County Assessor's Office (currently 1.7 percent of total annual assessment amount) for collection of assessments within the Oakland Area GHAD.

Estimated budget \$200

Association Membership (CGHAD)

The GHAD maintains membership in the California Association of GHADs.

Estimated budget \$103

Directors and Officers Insurance (INSUR)

The GHAD will obtain directors and officers insurance for the Board of Directors.

Estimated budget \$2,000

General Liability Insurance (INSURGL)

The GHAD will maintain general liability insurance for open space areas within the District.

Estimated budget \$500

Statement of Investment Policy

Oakland Area 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 regularly reviewed 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.