



The Headwaters Fund

INVESTING IN OUR COMMUNITY

Closed Grants and Community Investment Fund Loans 2003-2009 Report on Outcomes

Introduction

The Headwaters Fund was set up in 2002 with a little over \$18 million. Over the past six years the Fund has infused over \$11 million into our local economy while growing over \$3 million to a current fund total of close to \$21 million. The \$11 million contributed by the Headwaters Fund leveraged close to \$33 million in other funds.

The economy of Humboldt County is approximately \$3.7 billion. This means the total amount of the Headwaters Fund is about .5% of the local economy. The greatest impact the Headwaters Fund can have over time is in being a catalyst for economic growth. The goal of the Headwaters Fund Board is to analyze impacts and develop granting criteria which will allow the Headwaters Fund to have the greatest positive impact on economic growth.

Charter language and prevailing public opinion define the focus of the Headwaters Fund in terms of directly creating jobs so there is resulting dissonance in the public's mind about how well the Headwaters Fund is meeting its goals and objectives. This is the problem that has motivated the analysis of outcome data and the invitation to the general public to provide input on priorities for the grant making program in terms of economic development and past successes.

A central challenge for the Headwaters Fund is that according to the Charter, it cannot directly give funds to businesses that create jobs; therefore a broader set of performance measures than short term job creation must be employed. Programs need to be evaluated in terms of their long term ability to support the creation of jobs or be a catalyst for change which allows for the establishment and retention of businesses.

The Headwaters fund Board evaluation committee has analyzed the completed grants and loans awarded through the first six years of the fund. Projects have been grouped into six separate categories related to how they further economic development:

- Developing Strategies for Economic Development
- Reducing Regulatory Bottlenecks
- Providing Access to External Markets or Plugging the Leaks
- Retaining and Growing Existing Businesses
- Workforce Training
- Economic Development Infrastructure
- Basic Infrastructure

In conducting this study, the committee has determined that outcomes of grants vary in terms of qualitative and quantitative outputs. Unfortunately, there is not a concrete economic formula which allows all of the grants to be tied to job or wealth creation. However, there are qualitative and quantitative stories to be told in relation to various grants' success.

Developing Strategies for Economic Development

This category of grant making involves planning for economic development through industry cluster work and support for municipal planning. These grants provided funding for research and analysis so that economic development professionals could further economic development by encouraging collaboration and by seeking outside funding for improving the local economy. The early grant to Humboldt County for the Cluster Formation and Development allowed County Economic Development to go on and leverage over \$5 million in grant funds to continue the cluster development work.

Humboldt County Industry Cluster Formation and Development -2003 for \$30,000

This grant allowed for the creation of the first Industry cluster work plans. The benefits to business networks over time included the early work for the natural beef market expansion, the STAA truck access efforts, airport expansion, development of organic dairies, close working relationships with business owners, Prosperity Network partner contributions to Economic Fuel for entrepreneurship support, and advocacy from the Workforce Investment Board regarding problems with worker's compensation insurance. This grant also allowed the County to lay the groundwork to be awarded close to \$5 million in grant funds to continue the cluster development work over the next 5 years.

Redwood Technology Consortium: RTC Business Plan – 2004 for \$9,078

This grant provided for the creation of a business plan which is still in use. RTC has continued to act as a conduit for communication between the Information Technology (IT) community, the business community, and economic development services. A direct result of the grant was connections with people and organizations in Oregon, Del Norte County and elsewhere. This has resulted in collaborations that have furthered the broadband efforts for the region. They have sponsored numerous events (luncheons, open meetings, Tech Conferences etc.) which have kept the community informed on various IT issues. From 2003 to 2008, the Information Technology cluster has grown the most in terms of employment and wages (it grew 78.7% in employment and 104% in wages) with some of the highest paying wages in the County.

City of Rio Dell Economic Development Strategic Plan – 2007 for \$30,000

Through this grant they defined a vision of the city and developed an economic strategy to complement that. They are now in the process of implementing that strategy. They also applied for and received a follow up grant from Headwaters for planning for food preparation and distribution center.

Redwood Region Economic Development Commission -Web Portal -2004 for \$50,000

The Prosperity Network website was created as hub of economic development information. A GIS interface was built and publicized. The site is updated regularly and the website has been used to share information with the business community. Examples include Humboldt Made branding, sign ups for events such as the Business Leader Luncheon series, referrals to the site for updates information on the local economy and referrals for its GIS mapping capacity.

Reducing Regulatory Bottlenecks

This category is about providing funding for research or collaborative processes which help businesses work effectively with regulatory agencies. These grants are strong in terms of job retention. A case could be made that both of the grants below allowed businesses – oyster farms and ranchers – to remain in business in the face of regulation. The \$45,000 grant for the Eelgrass study led to retaining 45 median wage jobs.

Characterization of Eelgrass Fish Communities in Humboldt Bay - 2003 for \$45,000

The State required that a California Environmental Quality Act (CEQA) document be developed for existing mariculture uses. This study provided biological information which is the basis for a Mitigated Negative Declaration that satisfied CEQA. The most directly effected business was Coast Seafoods, because the study directly fed into their Mitigated Negative Declaration. This allowed them to retain approximately 45 median wage earning jobs and continue to generate annual sales of about \$4.7 million (based on 2008 number), most of which is outside dollars coming into the county.

Buckeye Conservancy Forest Project, Phase 3 – 2003 for \$25,000

A report was produced on reducing the regulatory burden on timber land owners who want to harvest trees. Legislature was introduced to extend the time limit on timber harvest plans. Those involved in the project believe that there is a strong connection between the grant project in 2003 and the 2009 legislation to extend the life of Timber Harvest Plans. AB 1066 allows for plans which expired in 2008 and 2009 to be re-opened and granted up to 4 one year extensions and plans which are approved in 2010 and 2011 to be granted up to two 2-year extensions. This will provide assistance to landowners if the timber market recovers and they are then able to harvest profitably. Extending the life of the THP in which they have already invested prevents them from having to spend money to prepare the documents a second time. In addition, extending the timeframe allows them greater flexibility in waiting out the market rather than harvesting in a low market (at a loss) just to help recoup the costs they have already incurred.

Providing Access to External Markets or Plugging the Leaks

The goal of these grants is increasing sales. This is accomplished though either providing local businesses with access to external markets or redirecting consumers to purchasing local products instead of buying out of the county. In this category, the natural meat grant led to over \$5 million in additional revenue coming into the county, the Open Studios grants to about \$200,000 in sales per year for participating artists, and the Film Commission grants to over \$1 million in additional production revenue. Qualitative outcomes involve support for local goal dairies to expand, providing medical services locally rather than exporting healthcare dollars, expanding markets for local produce and wine and providing businesses with access to efficient low cost air travel.

Natural Meat in Humboldt: Market Development – 2004 for \$71,800

This grant provided access to additional markets for beef producers. For Humboldt Grass Fed Beef and Eel River Organic Beef, additional sales of \$2.8 million were created annually. In addition, Eel River Beef just signed an additional \$2.5 million deal with Whole Foods. Redwood Meats is now operating year round. They have more than doubled their production due to the natural meat market development efforts and have hired 2-4 additional employees. There are currently nine Humboldt producers participating in the Eel River beef brand and others could join in either brand if they wanted.

North Coast Open Studios Tour – 2004 for \$23,000 and 2005 for \$15,000

In 2004, they increased artist participation from 92 to 122 and increased sponsorship and advertising sales revenue by 65%. 105 artists participated in business classes, there was \$210,000 in art sales, and 5000 studio visits. In 2005, the business workshop was attended by 31 artists, 10,000 guidebooks were distributed from SF to Oregon and there were 5000 patrons (same as the year before). Follow up for 2009 showed that 135 artists participated in the tour, 20 of them took advantage of business workshops, and sales were approximately \$225k. Patron attendance is unknown since 2006 when it was holding steady at 5000.

Humboldt County Film Commission – 2004 for \$50,000 and 2005 for \$20,000

The business plan was completed and the film commission is continuing with one full time employee and in the process of becoming independent non-profit. There was an increase in local film production revenue from \$386k in 2004 to \$1.5 million in 2008. The grant also allowed for the creation and upkeep of a website for film producers which has been instrumental in attracting them to the area.

Arcata Economic Development Corp. – Humboldt Goat Dairy Project – 2005 for \$19,000

A strategic plan was created by a group of goat milk producers who formed an association with the help of a livestock business consultant. Four dairies developed individual business plans, six dairies received herd health and efficiency reviews from an out of county expert and made changes in their operations. A workshop was held with speakers from UC Davis. The Goat Dairy Association now meets quarterly. Since 2005 two new dairies have been established, one has

started and failed and other participating dairies have grown. The dairy that was lost was a short term producer and many of the goats stayed in the area. Since 2005, several grants have been written, securing more dollars for milk meters and workshops, which were held in 2006 and 2008 by UC Cooperative Extension. The Headwaters grant laid the groundwork for a USDA grant which is just being finished. This grant paid for research related to managing foot rot in the goat herds and using milk meters to sort goats and measure milk production which allowed for herds to be culled based on scientific data. Cypress Grove Chevre, the local buyer for goat milk, has invested over \$25,000 in the past year to continue the herd health work. According to Cypress Grove Chevre, the percentage of local milk they use has increased as their overall cheese production has grown, giving them a larger overall percentage of local milk.

North Coast Telemedicine Network – 2005 for \$135,000

The center opened and began seeing patients in December of 2005. Currently there are approximately 8 FTE positions at the center plus additional leveraging of physicians, nurses, community-based specialists and medical assistants who rotate through. During the last fiscal period, Open Door patients were able to access specialty care for Allergy/Asthma, Cardiology, Gynecology, Ophthalmology, Orthopedics, Anger Management, Podiatry, Pediatrics and Pulmonology. For the fiscal year December 2008 through November 2009 there were 6609 billable visits. Through the cardiology program, Del Norte county patients who would otherwise travel to Medford, Oregon are being served through telemedicine from TVSC. The current annual total budget is 1.18 million dollars. Telehealth has been the recipient of a steady stream of grant monies over the years. These grants have totaled over a million dollars to date, for ongoing telecommunication equipment and training needs involved in telemedicine and specialty care. TVSC has averaged 35 medical trainings per year, ranging from 1 hour in-services to multi-day conferences. Average attendance is 10 participants per session.

Outbound: Markets for Humboldt Produce – 2006 for \$17,317 and 2007 for \$25,222

The Project Coordinator for Community Alliance With Family Farmers (CAFF) facilitated institutional sales which led to wholesale accounts for 12 farmers and increased their sales by over \$20k. They launched Buy Fresh, Buy Local with the result of increasing local awareness about the benefits of buying locally. The work has been sustained and institutional sales are holding steady at \$20k per year. The Northcoast Growers Association attributes a 25% increase in sales over the past 3 years to the success of the Buy Fresh Buy Local branding. The Farmers Markets now generate over \$3.7million annually.

Redwood Region Economic Development Commission -Airport Service Expansion - 2006 for \$10,000

This grant led to a new LAX flight service, increased ACV air traffic, and reduced flight costs for local residents. Total Horizon emplanements at ACV increased from 16k to almost 37k (more than doubled). The new service increased total emplanements from 91k to 106k.

Airport Demand Analysis and Carrier Recruit - 2006 for \$37,500

Through this grant the Redwood Region Economic Development Commission determined that regional airline service to Salt Lake City was the highest priority and a proposal was presented to Delta Airlines. See later grant for airline revenue guarantee.

Airline Recruitment and Revenue Guarantee – 2007 for \$500,000

Delta provided direct service to and from Salt Lake City for one year. Their ridership fell just short of target numbers and they discontinued the service after one year. Currently Delta has no plans to return but the Redwood Region Economic Development Commission is actively working to encourage another airline to come into our local market.

Humboldt County Wine Industry Project – 2007 for \$12,950

All but 2 of the 25 local wineries joined in addition to several wine shops. The Wine Association president, Thomas Meagher believes that the losses would have been worse in the last two years without the work of an active association. They developed a marketing strategy to promote Humboldt wines to visitors and to sell direct through association websites. A map and rack card was created and a website developed: www.humwines.com. The rack cards are used at Wine Association events and tastings. The original plan was to sell wine off the website, however internet wine sales have not generally been successful on a national level. The association is self supporting with dues. The latest association initiative was a marketing junket to the Sunset Magazine Celebration Weekend in Menlo Park.

Retaining and Growing Existing Businesses

This category involved technical assistance to local businesses with the potential to grow. Outcomes should be quantitative in terms of cost savings and increased sales, however the recent economic downturn is a complicating factor in calculating these. One of the grants was estimated to have increased client sales by \$615k per year at the time of the final grant report but a revised estimate after the 2008-09 sales year brought that estimate down to \$455k annually – however that is still a significant increase.

Prosperity! Individual Development Account (IDA) Program – 2003 for \$8,400

This savings account program for small business start ups became part of ongoing AEDC operations. To date 22 businesses have used the program. 19 of these are still in business. Of the businesses which responded to a follow up survey, additional employment through the IDA program is approximately 12 employees and contractors. Overall the responding businesses have increased sales – one grossed \$100,000 after the first year, a second tripled monthly sales and four more increased sales by an average of 23%. In the completed programs, 22 participants saved close to \$26k and over \$43k in matching funds have been distributed for asset purchases.

Geese and Lean Manufacturing – 2004 for \$54,902

Sun Valley Farms received and hosted Lean manufacturing training. Businesses received exposure to basic lean concepts that allowed them to increase competitive advantage and production capacity by reducing waste. Sun Valley was also put in touch with Cognisense, a local company which is now developing a robotic arm for them. Fire and Light as well as Left in Stitches also received the training and gave positive feedback about increased capacity or

efficiency. Cypress Grove had the most tangible results – decreasing labor hours required for at least one of their product lines by 70 person hours per month, increased refrigerator capacity by 30% (by reducing the amount of space needed) which extended their ability to continue to grow without infrastructure upgrades by another year and a half to two years. Unfortunately, the grantee was unable to fulfill the objective of creating a self sustaining cadre of Lean trainers in Humboldt County – or at least one consistent trainer and point person.

The purpose of the Aleutian Geese portion of the grant was to help our region learn as much as possible and develop strategies that would lead to long-term solutions for reducing the financial burden the Aleutian Geese cause for ranching and farm businesses. HSU scientists (and their students) from several disciplines worked closely with ranchers, dairy farmers and public agencies to learn about what could be done. These strategies were discussed through the Aleutian Goose Working Group. The grant succeeded in bringing scientific research to the table. Through the State Department of Fish and Game there is now a program to increase hunting on private lands in order to shift the geese to grazing on public lands. A thesis documenting these efforts and the current distribution of the geese population will be published in the coming months.

N. Coast Small Business Resource Center: Enhancing Sales and Hiring – 2007 for \$55,090

As of the time of the grant reporting, they served 14 businesses, increased client’s sales by \$615,394, retained 116 jobs, created 7 jobs, and facilitated client capital investments of \$428,000. Meaningful follow up on the 10 clients that received the most significant services from this grant was challenging because of the recent economic downturn. Because of these declines, the best estimate for increased annual sales since the inception of the project drops to \$455,000. Jobs have shrunk, with a reasonable estimate being a dozen. This means that rather than an increase in 7 jobs, there is now a decrease of 5 since the project began, a drop in employment of 4.3%. However, one client’s results disproportionately impact these results. Without that one client, sales for the group as a whole would have risen and the number of jobs would be down by two.

Workforce Training

The goal of grants in this category is to provide local businesses with a ready, willing and skilled work force. Emphasis is put on grants which provide training in the Targets of Opportunity or base industry clusters. The grant below provides for training for the tourism industry cluster.

College of the Redwoods: Teaching Kitchen for Hospitality Training -2003 for \$55,000

The kitchen was completed. Five culinary laboratory classes are offered at the kitchen with one to three classes held per semester. The maximum student enrollment per class is 16 students. A total of 205 student enrollments have been recorded for kitchen lab classes since the completion of the facility and the first scheduling in 2006-2007. Culinary Fundamentals, with the highest

enrollment, saw 108 students through class completion from 2006 through December 2009. Course retention and success rates across all kitchen lab classes remain in the high 80% range.

Through their partnership with Hospitality 101, a \$2.1 million grant administered by Rural Human Services, CR will be offering hospitality education and job fair opportunities for high school and adult students. This program includes customer service and skills training for prep cooks, restaurant servers, front desk, housekeeping and other hospitality personnel. The program schedule is being planned for late spring 2010

Economic Development Infrastructure

The goal of grants in this category is to provide for infrastructure improvements related to economic development. The creation of the Garberville Town Square and Garberville Airport Fueling system have provided an additional tourist stop and increased sales for local businesses, the Humboldt Botanical Garden will be a tourist attraction and has already created 3 new jobs. Support for the fishing industry includes the retention of the hatchery with its 4 associated jobs and planning for the Eureka Fisherman's Terminal Building which leveraged \$2.4 million in federal funding. Planning for the Redwood Dock incorporates strategic thinking about additional revenue streams into the county such as tourism dollars from cruise ships.

Garberville Town Square Development – 2006 for \$12,500

The architectural plans and business plan is completed. The first phase of construction is complete and the square will be used this farmer's market season. They have raised \$310,000, \$4,000 of which came from out of the County. Businesses around the square are planning expansions to incorporate use of the square – outside café seating etc.

Humboldt Botanical Garden's Foundation – 2003 for \$40,000

Most of the infrastructure has been completed including various garden areas, trails, roads, information kiosks parking and an education center pavilion. There are currently 3 full time employees plus 3-6 Cal-Works positions. The annual revenue is approximately \$127-\$200k plus in-kind contributions. Currently admission is free and there were 715 recorded guests in 2009.

Garberville Airport Automated Fueling System – 2004 for \$6,767

Equipment is currently operating. In 2009, 758 planes used it generating \$31,691 in revenue.

Mad River Fish Hatchery – 2005 for \$26,935

The hatchery was in danger of closing however with Headwaters grant funding, they maintained operations and secured \$2.7m in state funding to maintain the hatchery. The Department of Fish and Game is still committed to maintaining it. Total annual budget is close to \$550 which primarily comes from grants out of the area. There are four full time employees. 150,000 steel ? head released annually.

City of Eureka: Eureka Fisherman’s Terminal Grant – 2005 for \$200,000

The goal was to construct a commercial dock and work area and a supporting terminal building. Two of the hoists were subsequently replaced last year. The dock was used by local fishermen, Coast Oyster and transient boats before the hoists were replaced. They are now being used by local fishermen, two local fish buyers, one out of town fish buyer and Coast Oyster.

They do not have access to revenue numbers until the Fisherman’s Terminal is complete, although since the January 9th 2010 earthquake, both buyers on Dock B have been permanently relocated to the Terminal Dock. Their intention has always been to move them, but the earthquake has forced the move, because Dock B is now condemned. Without this dock in place, they would have either had to move to another harbor or close operations here.

The \$3.2 million Fisherman’s Terminal Building is now fully funded with a \$2.4 million EDA grant. Three tenants have been secured for the building and we are talking to a potential café and seafood counter operator. The building should be complete by 2011.

Planning and Modernization of Redwood Dock – 2006 for \$200,000

The goals were to prepare a Feasibility and Business Plan for the modernization of Redwood Marine Terminal. The plan was completed. During 2009, the District circulated a Notice of Preparation (NOP) and then developed and circulated a Request for Qualifications (RFQ) to find a qualified consultant to prepare the National Environmental Policy Act and California Environmental Quality Act Compliance including a preliminary design. Seven firms responded. Through an extensive interview process, the District has recommended one of the consultants to develop these documents as soon as funding is secured. It is anticipated that the environmental document will be in preparation in 2010 and likely be completed in early 2011.

Trinidad Pier Reconstruction – 2007 for \$51,129

This grant was to prepare the engineering documentation for the Trinidad Pier Reconstruction. At the time of the final report in 2009, design and engineering were 95% complete. The Trinidad Rancheria is currently undergoing a community planning process to determine the best uses of the pier in terms of economic and community development.

Basic Infrastructure

These loans support economic development under the assumption that a community cannot grow and thrive without basic infrastructure to support the workforce and business development.

City of Rio Dell: Water System Rehabilitation – 2005 loan for \$1,800,000

The loan was paid off and the water facility is up to standards now. They are able to produce 1 MGD. Total connections at this time are 1183 with 49 of those being commercial and two being agricultural.

Willow Creek Community Services District Loan - 2006 loan for \$350,000

The loan was paid off and the water system upgraded. The loan leveraged \$2 million in grant funding to complete the upgrade. The water system now serves 960 connections or approximately 2,000 people.

Humboldt Waste Mgmt: Cummings Landfill Loan – 2007 for \$448,000

They paid off the loan and have finished a Closure Plan which was submitted in February 2010. The current schedule has construction starting in 2011. The total project cost is about \$6,000,000 which is already secured.