
The Headwaters Fund
of the County of Humboldt

Annual Report
2004

Table of Contents

I. Executive Summary _____ 2
II. Overview _____ 3
III. Revolving Loan Fund _____ 8
IV. Grant Fund _____ 10
V. Community Investment Fund _____ 16
VI. Conclusion _____ 17

I. Executive Summary

The Headwaters Fund is a public fund for the advancement of economic and community development in Humboldt County. The Fund's mission, developed through a comprehensive public input process, is to promote economic development in Humboldt County. The Fund uses the principles and strategies of the County's Comprehensive Economic Development Strategy, currently known as *Prosperity! The North Coast Strategy*, to support the growth of base industry clusters and increase the number of sustainable jobs in Humboldt.

The programs of the Headwaters Fund utilize three avenues for sustaining and growing the local economy:

- Direct financing of businesses (Revolving Loan Fund)
- Financing of projects benefiting base industries (Grant Fund)
- Financing of infrastructure for business development (Community Investment Fund)

Application forms and information on applying for Headwaters Fund financing are available on the Headwaters Fund website, www.theheadwatersfund.org.

The Headwaters Fund Board, a seven-member community Board, reviews and recommends policies and projects to the County Board of Supervisors. The Board of Supervisors has the ultimate authority over management of the Headwaters Fund. There is one full-time staff person, the Headwaters Fund Coordinator, to implement programs and administer operations of the Headwaters Fund.

Although just part way into its second year of operations, the Headwaters Fund has already recorded significant successes. Revolving Loan Fund loans have totaled \$3,400,683 of which the Headwaters Fund provided \$1,935,171 and loan fund lenders provided the balance. There have been loans to 19 borrowers ranging from consumer product manufacturers, food manufacturers, retailers, restaurants, and furniture/fixture manufacturers. Loans have led to the creation of 69 jobs, the retention of 178 jobs, and the continued growth of local businesses. These jobs and businesses have a multiplicative effect in the economy; income from jobs and businesses circulates locally through purchases by the businesses and employees.

The Headwaters Grant Fund has only recently been implemented. Nevertheless, the Grant Fund has already achieved several markers of success. A \$50,000 grant for advocacy efforts to upgrade Highway 299 has helped lead to the U.S. House of Representatives allocating \$8 million to the project; final funding is dependent upon approval by the Senate and President. A \$10,000 grant to support air service expansion helped secure Horizon Airlines flights from Arcata to Los Angeles beginning in 2005. The Headwaters grant demonstrated local commitment to the project and helped to garner a \$500,000 Federal Aviation Administration grant to jump-start the new air service.

The Community Investment Fund is in its initial stages and has recently issued a request for grant and loan proposals.

Though the Headwaters Fund assets are significant, they are insufficient to address all the economic development needs of Humboldt County. Nevertheless, the Headwaters Fund Board and County Board of Supervisors will continue to evaluate and refine the Fund's programs to ensure that they best facilitate the economic vitality and community strength that form the backbone of Humboldt County.

II. Overview

History

In 1999, the state and federal governments purchased the 3000-acre old-growth Headwaters Grove in Humboldt County. While this landmark acquisition preserved internationally significant forest habitat, it also removed significant timber resources from Humboldt County's economy.

Leading up to the sale, local officials and community leaders argued that the Headwaters acquisition should include an appropriation to offset local economic losses. In July 1997, a resolution of the County Board of Supervisors, supported by a Memorandum of Understanding between the County of Humboldt, the City of Eureka, the Humboldt Bay Harbor, Recreation and Conservation District, and the Northwestern Pacific Railroad, requested a \$118 million mitigation package. This local effort, combined with the work of Humboldt County's legislators, resulted in a \$22 million state and federal appropriation to the County of Humboldt.

The state share of \$12 million was earmarked for "economic assistance." The \$10 million federal share was termed a "direct payment" to Humboldt County. Congressman Mike Thompson and Assemblywoman Virginia Strom-Martin worked to secure the funds. Governor Gray Davis and others presented the checks to the Board of Supervisors in a courthouse ceremony.

On October 19, 1999, following a recommendation from a County Board of Supervisors sub-committee consisting of Supervisors Bonnie Neely and John Woolley, the full Board voted to reserve the bulk of the funds for the "economic prosperity and quality of life for all Humboldt County residents." They approved using a fraction of the funds to offset certain County costs directly related to the Headwaters acquisition.

While the Headwaters Fund is a significant amount of money, it pales in comparison to the economic, social and environmental needs of the County. To obtain tangible benefits, the funds must be used selectively and strategically.

Public Input

Extensive public input drove all aspects of the design and implementation of the Fund. The Board of Supervisors instructed staff of the Community Development Services Department to work with citizens and organizations to develop recommendations for the long-term management and use of the funds. Detailed information on the public information process and input collected is contained in the *Headwaters Fund Alternatives Report*.

On July 18, 2000, the Board of Supervisors approved a plan to conduct public outreach. Public meetings were held at different locations in the County during 2000. At those meetings, over 300 individuals provided input on the use of the Headwaters Fund. These public meetings were followed by interviews with individuals having specific expertise or representing specific areas of interest. The interviews sought more in-depth comments on topics raised in the initial round of public input. In addition, numerous organizations and individuals submitted written comments.

The firm of Williams-Kuebelbeck & Associates, an economic and financial consulting firm, was hired to assist County staff in the analysis of public input and the development of fund alternatives. The County also retained the law firm of Stradling, Yocca, Carlson & Rauth to advise on legal matters related to the Fund's formation.

A *Discussion Draft* of Headwaters Fund input was released in November 2001 and presented in a public workshop in Eureka on December 11, 2001. Input was solicited through this workshop as well as a request for written comments. The input received was incorporated in the *Alternatives Report*, the report that the Board of Supervisors considered in open public meetings. Following public review and comment on the *Alternatives Report*, the Board conducted additional public meetings to receive input, deliberate and choose fund alternatives.

In December 2002, the Board adopted the Headwaters Fund Charter that outlines the purpose and structure of the Fund. The Board's votes on the various Fund alternatives provided direction for the Charter.

Mission & Objectives

The Fund will use the values, principles and strategies of the County's Comprehensive Economic Development Strategy, currently known as *Prosperity! The North Coast Strategy*, to support the growth of base industry clusters and increase the number of sustainable jobs that pay near or above the median income. Long-term economic sustainability and development occurs through the influx of dollars into Humboldt. Businesses and other organizations selling to consumers outside of the County generate this influx. These exporting organizations form the base economy. Base industries bring money into the County and thus create employment and wealth.

Industry clusters, a key component of the Prosperity! strategy, are groups of organizations related by a common industry. Nine industry clusters have been identified locally because they are base industries, generate significant revenues, and represent local economic strengths. These clusters are Forest Products, Tourism, Dairy & Dairy Processing, Fisheries & Aquaculture, Specialty Agriculture & Horticulture, Manufacturing, Arts & Culture, Education & Research, and Information Technology.

Developing base industry clusters can lead to the growth of clusters, their member organizations, and the overall economy. For example, manufacturers in the Manufacturing Cluster could undertake mutually beneficial activities such as joint training, marketing, and development programs. A cluster could also identify and advocate for priority issues affecting all member organizations. As the *Prosperity!* strategy states:

“The demanding and competitive nature of business causes most businesses to be isolated from each other. However, those clusters with higher levels of business interaction enjoy greater benefits because they compete with and learn from each other. These businesses also are more effective in identifying, prioritizing and communicating their needs among themselves and to the economic development community. Research in well-established industry clusters (such as the film industry in Los Angeles and the high technology industry in Silicon Valley) show that when businesses aggregate in a region, they benefit most when their employees network and innovate among each other in both formal and informal activities....Base industry clusters create a positive feedback loop in local economies by using their competitive advantage to aggregate

more firms, concentrate employment, and increase the multiplier effect, which results in an even greater competitive advantage and more wealth in the local economy.”¹

Representatives from each Cluster are continuing to develop cluster workplans that outline projects and activities that will benefit cluster growth and economic development.

In addition to aligning with *Prosperity!*, the Headwaters Fund Charter outlines objectives in carrying forth its mission. Each objective, followed by examples of the objective’s implementation, is listed below:

- **Attract and leverage additional capital and grants in the local economy** – all grants require matching funds from non-Headwaters sources; the business loan portfolio supplements and leverages funds from private lenders
- **Keep the funds working in the community in perpetuity** – Grant Fund grants and administration expenses subsist on interest earnings of the Headwaters principal; the loan portfolio revolves and generates interest to cover costs
- **Reflect community priorities and create maximum public benefit over the long-term** – a community board, the Headwaters Fund Board, oversees all aspects of the Fund; all programs leverage public and private funds into the County
- **Make the decision process objective, non-political and easy for the public to participate in and understand** – all grant and loan criteria and selection processes are widely available online and through other media
- **Manage the funds efficiently and cost effectively** – a streamlined administration includes only one full-time staff person; loan underwriting and servicing is outsourced to local economic development lenders

Summary of Programs

The programs of the Headwaters Fund address three avenues for sustaining and developing the local economy:

- Direct financing of businesses (Revolving Loan Fund)
- Financing of projects benefiting base industries (Grant Fund)
- Financing of infrastructure for business development (Community Investment Fund)

These programs are in operation and have been allocated funds from the original Headwaters agreement. The Headwaters Fund Board and Board of Supervisors will continually monitor allocations to best meet the mission of the Fund.

The Revolving Loan Fund, currently an \$8 million account, provides loans to businesses in Humboldt County for start-up and expansion projects. These loans fill gaps in the market for available financing (i.e. borrowers who are unable to secure adequate private funding). The Fund seeks to assist these businesses so that jobs will be created/retained and income will be generated within the County. Eligible loans must also meet strict underwriting guidelines such as sufficient future cash flows and collateral security. Loan applicants apply directly to contracted financial

¹ For more information on the Prosperity! strategy and industry clusters, refer to the Prosperity! strategy available online at www.theheadwatersfund.org

institutions, the Arcata Economic Development Corporation, and the Redwood Region Economic Development Commission.

The Grant Fund provides grants for projects benefiting base industries in Humboldt County. Non-profit organizations and government jurisdictions in Humboldt are eligible to apply. Interest earnings from the Headwaters Fund principal provides funding for the Grant Fund. The annual Grant Fund allocation is \$300,000 for the first two years of Fund operations; the Headwaters Fund Board and Board of Supervisors will determine annual allocations for 2005 and beyond.

The Community Investment Fund is a \$5 million grant and loan program for projects that will result in permanent and tangible economic benefits to the community. The Community Investment Fund has two components, the *Financing for Industries* program and the *Financing for Communities* program.

The *Financing for Industries* program offers loans and/or grants for infrastructure-related projects where businesses, preferably in base industries bringing money into the County, are the primary beneficiary. Eligible projects include industrial parks, transportation infrastructure, telecommunications networks/facilities, and other projects that facilitate business and economic development in Humboldt.

The *Financing for Communities* program offers loans for infrastructure-related projects where community or residential areas are the primary beneficiary. Eligible projects are water, sewer, drainage, power, telecommunications, workforce housing, and transportation facilities/systems.

Application forms, instructions, and updates for applying for Headwaters Fund financing are available on the Headwaters Fund website (www.theheadwatersfund.org).

Governance

The Headwaters Fund Board, a seven-member community Board, reviews and recommends policies and projects to the County Board of Supervisors. The Board of Supervisors has the ultimate authority over management of the Headwaters Fund. There is one full-time staff person, the Headwaters Fund Coordinator, to implement programs and administer operations of the Headwaters Fund.

Duties of the Headwaters Fund Board include:

- Recommend funding of Grant Fund and Community Investment Fund applications
- Recommend annual budgets for administration, grants, and program allocations
- Recommend changes to policies and procedures
- Issue annual reports to the public

Fund Board Members serve staggered terms ranging from 2-4 years, with two 2-year term renewals possible. Fund Board Members do not receive any financial compensation for Board service.

Members of the Headwaters Fund Board are as follows:

- Mark Burtchett is a Broker/Owner of Benchmark Realty Group of Eureka. Mr. Burtchett has been active in the Humboldt County Real Estate industry for over 24 years including many commercial and residential real estate projects in the area. He

has served on many boards and is involved with a number of community service organizations and projects.

- Patrick Cleary is President and General Manager of Lost Coast Communications, Inc., a local radio station group. He is the former Interim General Manager of the North Coast Cooperative and former Managing Director of the Chase Manhattan Bank.
- Kathleen Moxon is the interim Executive Director of Humboldt Area Foundation and has also worked for the Eureka/Humboldt Economic Development Corporation (President), Arcata Economic Development Corporation (Executive Director), Bank of Loleta, and U.S. Bank of California. She is the co-chair of the Humboldt County Economic Development Forum and President of Garfield School District Board of Trustees.
- Joel Risch is the President and Founder of Amulet Manufacturing, a leading manufacturer of construction equipment. Mr. Risch has served as the Chair of the Humboldt County Workforce Investment Board and been active numerous local community organizations.
- Jon Sapper is the Assistant Superintendent at the Humboldt County Office of Education. As a Humboldt County native, Mr. Sapper is interested in contributing to the economic breadth and well being of Humboldt County communities and businesses.
- Alexandra Stillman (Vice-Chair) manages historical properties and Alex Stillman & Associates. She is the former mayor of Arcata.
- Paul Ziegler (Chair) is a partner with North Coast Investors Group, which is primarily engaged in the business of investing in, and managing, commercial real estate properties. Prior to joining NCIG, Paul spent 23 years in the banking industry, most recently as President of Humboldt Bank.

Administrative Costs

For the first full year of Fund operations, fiscal year 2003-2004, total administrative expenditures were \$107,522. This amount includes expenses for staff, facilities, professional services, overhead, training, marketing, and all other costs.

Administrative costs are streamlined. There is only one full-time staff person for the Headwaters Fund. Lending services (application review, due diligence, contracting, monitoring, and servicing) are contracted out to RLF lenders to take advantage of existing expertise in the community and maximize resources. Lenders receive a portion of loan interest revenues to offset administration costs.

III. Revolving Loan Fund

Purpose

Initiated in the spring of 2003, the Revolving Loan Fund (RLF) of the Headwaters Fund provides gap financing to support job creation and retention as well as overall business development in Humboldt County. The RLF also employs standard loan underwriting criteria common to lending institutions.

As a gap, economic development lender, the RLF finances projects that are not commercially bankable on their own.² Thus, the RLF assumes a higher risk than commercial lenders and typically charges higher interest rates as compensation. The RLF also is designed to encourage and maximize the participation of local commercial banks and other private sector lenders/investors by engaging in private-public partnerships and gap financing.

Design

The RLF has been designed for efficiency, risk sharing, and effectiveness. To avoid duplicating existing lending capacities, the Fund contracts with two economic development lenders – the Arcata Economic Development Corporation (AEDC) and the Redwood Region Economic Development Commission (RREDC) – to administer the RLF. Applicants apply directly to AEDC and RREDC, not the Headwaters Fund, for loans. AEDC and RREDC market loan programs, receive loan applications, review, execute and service loans. Both organizations have long track records of managing economic development loan programs.

To share risk and encourage prudent lending, an RLF lender and the RLF itself each contribute 50% of the total loan amount. In addition, the Fund encourages and has achieved participation in loans from private lenders. Umqua Bank, Six Rivers Bank, and Coast Central Credit Union have all participated in Headwaters RLF deals. This participation catalyzes commercial investments in RLF portfolio firms, mitigates risk, and maximizes Headwaters Fund resources.

Humboldt County businesses and non-profits in any industry or field are eligible for loans. Loan uses include purchases of real estate, equipment, machinery, and inventory.

The RLF is crafted to revolve in perpetuity; loan repayments are re-loaned to new borrowers. Interest earnings are designed to cover administration costs and loan losses, a fact of life in all loan programs. \$8 million has currently been allocated to the RLF. The Fund will continue to assess and, if necessary, adjust monetary allocations among all Headwaters programs.

Technical assistance for borrowers is a best practice of successful economic development loan programs. Assistance in business planning, accounting, finance, marketing, and operations helps businesses flourish and safeguards the lenders investment in the business. The RLF, through its partnership with the North Coast Small Business Development Center, offers technical assistance to applicants and borrowers. This assistance is tailored to the unique needs of the borrower and includes consulting with industry experts.

² Examples of other economic development loan programs include the U.S. Small Business Administration (utilized by many banks), the U.S. Department of Agriculture, and the U.S. Economic Development Administration.

Loan Portfolio

RLF loans have totaled \$3,400,683 of which the Headwaters Fund provided \$1,935,171 and RLF lenders provided the balance.³ There have been loans to 19 borrowers in a range of industries such as consumer product manufacturing, food manufacturing, retail, restaurants, and furniture/fixture manufacturing. Borrowers include Cal-Pacific Food Enterprises, Eureka Car Stereo, Arcata Music, and JR Stephens.

RLF loans have led to the creation of 69 jobs, the retention of 178 jobs, and the continued growth of local businesses. These jobs and business have a multiplicative effect in the economy; a portion of the income from jobs and businesses is spent locally through purchases by the businesses and employees. The re-spent money is further circulated throughout the economy, and so on.

³ In certain loans, the RLF lender was not able to provide 50% of the total loan amount due to liquidity constraints.

IV. Grant Fund

Purpose

The Grant Fund is a grant-making program to promote economic development in Humboldt County. Economic development occurs through the growth of the base economy, i.e. industries generating part or all of their revenues from outside of the County. Thus, the Grant Fund supports projects that benefit base industry clusters, a central tenet of the County's comprehensive economic development strategy known as *Prosperity!*. Refer to Section II of this report for a description of base industry clusters.

Design

The specific funding focus of the Grant Fund continues to be refined as the Board assesses the program's performance. In the past two grant rounds (October 2003 and September 2004), the focus was on projects that benefited the base economy through the support of industry clusters. Especially encouraged were projects referenced on industry clusters workplans, the document that cluster representatives used to outline their highest priority issues and projects. Cluster workplans are available on the Headwaters Fund website.

The source of the Grant Fund awards is the interest earnings from the Headwaters principal. Thus, the Grant Fund is expected to exist in perpetuity, although its size may fluctuate from year to year. In each of the first two years of operations, up to \$300,000 was available for grants.

Because businesses and industry clusters create employment and build the economy, the Fund sought the input of cluster representatives at key steps of the funding process from developing the funding focus to program setup. In 2003 and 2004, the funding focus was on projects benefiting industry clusters, especially projects derived from cluster workplans. In 2004, the Headwaters Fund Board sponsored a meeting with cluster representatives to prioritize and comment on the most critical projects that the Fund could finance. In attendance were CEO's and senior managers from leading local organizations such as Simpson Timber, Carvahlo Fisheries, Coast Seafood, Redwood Capital Bank, Cypress Grove, Loleta Cheese, Ink People, and College of the Redwoods. This input led to the identification of five funding focus special priority areas including niche product and market development for agricultural products and air transportation expansion and/or improvement.

Prior to the first grant round in 2004, the Fund sponsored a session with businesses to announce and solicit input on its grant programs. The Fund Board continues to gather input from Cluster representatives on possible projects and their value to clusters and the economy.

2003 Grantees

In the 2003 grant round, the Fund received 27 grant proposals totaling over \$1.1 million. The eight projects that were awarded funding were as shown in the table below⁴:

⁴ Awards are contingent upon applicants documenting matching funds from non-Headwaters Fund sources and other basic requirements

Applicant	Project Description	Total Project Cost	Award Amount
College of Redwoods	Building a teaching kitchen for the Tourism & Hospitality program. The project addresses the need for staff training identified by businesses and will support the tourism and hospitality industry.	298,750	55,000
County of Humboldt	Efforts to upgrade Hwy 299 and 101 to national highway network standards; legislative advocacy for construction funding for Hwy 299 and preparation of Hwy 101 STAA Access Feasibility Study. The project addresses a fundamental, burgeoning economic development issue (transportation in & out of the county) identified as a top priority by many industries and most local governments. The project targets a narrow window of opportunity in the allocation of federal funding.	183,000	50,000
Humboldt Bay Harbor, Recreation & Conservation District	Data collection needed to maintain oyster harvesting and exports from Humboldt Bay. The project, noted on Fishing Cluster workplan, will analyze eelgrass fish in Humboldt Bay to determine mariculture impact and address pending regulatory action.	102,858	45,000
City of Eureka	Master plan for the Balloon Tract property to encourage the redevelopment of this valuable, dormant land. The project could provide land for industrial development, tourism, and/or a marine center.	100,000	45,000
Humboldt Botanical Gardens Foundation	Construction of a Native Plant Garden in botanical gardens. The gardens have the potential to draw tourists and are a priority on the Tourism Cluster Workplan.	469,299	40,000
County of Humboldt	The Project will continue the successful development of industry clusters- groups of base industries developing projects of mutual benefit. The project will facilitate Cluster leadership, implement Cluster projects, and develop cross-Cluster networks. The Project will facilitate cluster/business development during a critical formative stage.	246,250	30,000
Buckeye Conservancy	Examine current vs. incentive based permitting; communicate impact that regulatory complexity has on local industry, economy, and environment. The project is a priority for the Lumber & Wood Products and Ranching clusters. The project will address problems with current regulations that pressure non-industrial landowners to log more frequently, clear-cut, and sell/subdivide family properties.	64,860	25,000
County of Humboldt	Administration of the Prosperity Individual Development Account Program, a matched savings program providing seed capital and training to low-income entrepreneurs and first-time home buyers. The project will expand a successful program fostering local entrepreneurship.	298,397	8,400

Status of 2003 Grants

- *College of the Redwoods Teaching Kitchen:* The Kitchen had its grand opening on November 13, 2004. Classes are now being taught in the new kitchen, and it is completely booked with classes for next semester.

- *County of Humboldt Highway Project:* Although the grantee is still in the process of finalizing the grant contract, the overall project has helped lead to the U.S. House of Representatives allocating \$8 million to the Highway 299 project; final funding is dependent upon approval by the Senate and President.
- *Humboldt Bay Harbor, Recreation & Conservation District:* A preliminary research/progress report has been issued examining 47 fish species in the Bay. The research is set to conclude in May 2005 and will be a crucial input into management and regulation of mariculture in Humboldt Bay.
- *City of Eureka Balloon Tract:* This grant was declined by the grantee in fall 2004. The land, unused for years, recently generated interest from a private developer. It is common practice in city planning to create a master plan for unused land not owned by the city in order to determine the land's best future use and zoning according to community needs. As the City was about to select a consultant to begin the project in the summer of 2004, a private developer emerged with interest in the property. The developer asked the City not to proceed with its project.
- *Humboldt Botanical Gardens:* Construction began in August 2004 on the Native Plant Garden. Construction has been continuing in other garden areas. The Core Gardens are set to open in spring 2006.
- *County of Humboldt Cluster Project:* Planning has begun and an advisory board formed for the Dairy-Agriculture-Tourism marketing project. Cluster workplans have been presented at local conferences, County Board of Supervisors, and other forums.
- *Buckeye Conservancy:* Two workshops have been held. A two-day Non-industrial Timber Management Plan (NTMP) workshop included representatives from environmental interests, forest landowners, resource agencies, foresters and watershed restoration specialists. A report was produced on NTMP's strengths, weaknesses, and possible use for larger acreages. A one-day Watercourse Protection workshop identified problems and possible solutions for watercourse protection, especially in regards to non-industrial forestland stewardship.
- *County of Humboldt IDA Program:* The program has graduated 11 participants who invested in and grew their micro-enterprises. Participants saved approximately \$19,000 which was matched for a total of over \$57,000 invested in the growth of local businesses and jobs. 27 people are enrolled in training, saving, and completing their business planning.

2004 Grantees

In the 2004 grant round, the Fund received 14 grant proposals totaling over \$540,000. Grant awards were announced in November 2004 and totaled \$230,645. The projects approved for awards were as follows:

Applicant	Project Description	Total Project Cost	Award Amount
University of California Cooperative Extension in Humboldt County	Development of a natural meat industry in Humboldt including a market development plan and industry training for local producers to tap this fast growing, high value national market. The project utilizes an existing advantage of a base industry (natural meat production) in a move to higher value products in a rapidly growing national market.	107,400	71,800
Humboldt County Convention and Visitors Bureau	Provide one-year of bridge funding for staff salaries to establish a full-service Film Commission to attract film and video productions from out-of-the-area. The Film Commission helps draw outside film/video productions that generate revenues for local film/video workers and support industries (e.g. food service, lodging, etc.).	200,000	50,000
To be determined	Set-aside funds for a future website portal project for economic and business development. The website could facilitate business networks, relocation, and attraction to Humboldt.		50,000
North Coast Small Business Resources Center	Expansion of the North Coast Open Studios event to become a regional draw, boost sales for local artists, and train artists in business management. The project seeks to increase the purchases of local art and related products by out-of-county consumers.	48,200	23,000
Humboldt State University	Analysis and development of long-term funding for the Humboldt Film Commission to ensure the Commission's future; recommendation of steps to develop the local film and digital media industries.	28,044	20,000
Redwood Technology Consortium (RTC)	Creation of a business plan to guide the development of the local information technology industry and the RTC; recommendation of "electronic village" models to improve information technology usage and systems in the County.	24,288	9,078
County of Humboldt, Public Works	Implementation of an automated fuel system at Garberville Airport to increase the airport's usage and utility among local and external businesses and tourists.	14,883	6,767

An additional \$55,000 in grants is being held for a possible Grant Fund project in the future. The website portal project (the fourth project listed above) dedicates up to \$50,000 for a possible future project of a web portal for business and economic development. The Headwaters Fund received a proposal for such a portal, but felt the proposal was not sufficiently strong. However,

the Fund recognized the potential for such an on-line resource, and will consider future proposals.

The Fund also has awarded three mini-grants. Mini-grants are small awards made on an ad hoc basis at the discretion of the Headwaters Fund Board and staff. The three awarded mini-grants were:

- Redwood Technology Consortium: \$1,000 to support the Tech Expo in 2004. The Tech Expo is designed to foster economic growth within the technology industry, encourage collaborations among the technology industry, business and education communities, and enhance the competitive edge of the business community in Humboldt County
- Humboldt Folklife Society: \$600 for regional advertising (Ashland, Ukiah, Crescent City, Redding, and Sonoma) to increase out-of-county attendance at the Humboldt Folklife Festival and future summer music camps in 2005 or 2006 as well as building Humboldt's image as a place for music.
- Redwood Region Economic Development Commission: \$10,000 to support expanding commercial air service from Arcata to Los Angeles.

Impacts

Measuring the impact of grants is important but difficult for any grant-maker. Grants for economic development are especially challenging to evaluate due to the macro and microeconomic factors that shape an area's economy. Furthermore, it takes time for the impact of any project to be felt, and Headwaters grants just recently have been awarded. Finally, the size of the grant program (\$300,000) pales in comparison to the needs of economic development.

Nevertheless, the Grant Fund has already recorded several indicators of success in its short tenure. The \$50,000 grant for advocacy efforts to upgrade Highway 299 has helped lead to the U.S. House of Representatives allocating \$8 million to the project; final funding is dependent upon approval by the Senate and President. Currently, Humboldt is one of two California counties inaccessible to STAA trucks, the larger, standard sized trucks that carry most goods and freight in California. This inaccessibility leads to higher costs and lower competitiveness for local businesses. The Highway 299 or Buckhorn project is designed to modify key sections of Highway 299 to ameliorate the transportation bottleneck.

The \$10,000 grant to support air service expansion helped secure Horizon Airlines flights from Arcata to Los Angeles beginning in 2005. The Headwaters grant demonstrated local commitment to the project and helped to garner a \$500,000 Federal Aviation Administration grant to jump-start the new air service. Los Angeles is the top destination of travelers from the Arcata airport. Businesses and industry clusters have repeatedly voiced the need to expand limited air service from Humboldt County.

College of the Redwoods, another grant recipient, received \$55,000 to help build a teaching kitchen for the College's Tourism & Hospitality program.

"The grant came at the perfect time to assist us in developing our culinary training program," states Ray Geary, Dean of Community and Economic Development for the College of the Redwoods. "Businesses are continuing to guide the project to make sure we are providing the right training for the right jobs."

Future

The design and funding focus of grant rounds will continue to evolve as the Fund gathers input from clusters and businesses and evaluates the impact of previous awards. The date, focus, and requirements for the 2005 grant round will be announced in 2005 on the Headwaters website which includes a mailing list sign-up form. The amount of funds available to the grant fund may fluctuate yearly due to changes in interest earnings on the Headwaters Fund principle.

V. Community Investment Fund

Purpose

Launched in September 2004, the Community Investment Fund is a \$5 million loan and grant program for infrastructure and related projects that will result in permanent and tangible economic benefits to the community. As opposed to the Grant Fund, the Community Investment Fund focuses on larger scale projects such as systems and financing programs for sewer, water, transportation, and industrial facilities.

Infrastructure is a critical need in Humboldt County. Inadequate or incomplete infrastructure can retard economic and community development. The Community Investment Fund program aims to address these projects and help provide the necessary climate for economic development. Because costs for a single infrastructure project can be enormous, the Community Investment Fund seeks to be a gap financier, i.e. providing the final or bridge component of financing to complete a project.

Design

The Community Investment Fund (CIF) has two separate programs. As with all Headwaters Fund programs, the Community Investment Fund may periodically change to better meet the mission of the Headwaters Fund.

The *Financing for Industries* program offers loans and/or grants for infrastructure-related projects where businesses, preferably base industries bringing money into the County, are the primary beneficiary. Eligible projects include industrial parks, transportation infrastructure, telecommunications networks/facilities, and other projects that facilitate business and economic development in Humboldt. Applicants may apply for a loan, a loan and grant, or a grant (though loan-only financing is preferred).

The *Financing for Communities* program offers loans for infrastructure-related projects where community or residential areas are the primary beneficiary. Eligible projects are water, sewer, drainage, power, telecommunications, workforce housing, and transportation facilities/systems.

For both programs, eligible applicants are non-profit or government entities. There are no annual minimum or maximum outlays for grants and loans. The CIF may make no awards in a given year depending on the quality of project applications.

Portfolio

The CIF has just recently been launched and has not yet financed any projects.

VI. Conclusion

The Headwaters Fund will continue to refine its programs to better facilitate economic development in Humboldt County. The Fund is studying additional business financing products such as loan instruments and ways to facilitate equity investment in Humboldt County. The design of the Grant Fund undergoes ongoing review in its mission to promote the base economy. The Fund will closely follow the usage of the newly launched Community Investment Fund to support infrastructure contributing to economic and community well being.

For further information on the Headwaters Fund, please visit our website at www.theheadwatersfund.org. Thank you for your interest in the economic development of Humboldt County.