
**The Headwaters Fund
of the County of Humboldt**

Annual Report
2005

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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.

The Headwaters Fund, though only in its third year, has begun to generate positive impact. Through loans disbursements of \$2.2 million, Revolving Loan Fund loans have leveraged over \$6.5 million in total loans to local businesses. There have been loans to 22 borrowers ranging from consumer product manufacturers, food manufacturers, retailers, restaurants, and furniture/fixture manufacturers. Loans have helped to finance the creation of 125 jobs, the retention of 251 jobs, and the continued growth of local businesses. Income from these jobs and businesses stimulates further economic growth as funds circulate locally.

While most Headwaters Grant Fund projects are still in-progress, completed grants have demonstrated success.

- A grant for advocacy to improve highways and lower transportation costs for businesses has helped lead to the U.S. House of Representatives allocating \$8 million to improve Highway 299; the Governor's Office of California has proposed an additional \$146 million for the project.
- A grant to support air service expansion helped secure Horizon Airlines flights from Arcata to Los Angeles, a benefit for many local businesses; passenger use of the Arcata airport has grown to a record 110,300 in 2005, a 12% increase from 2004 levels.
- Because of a grant for the College of the Redwoods Teaching Kitchen, the College now offers degree and certificate programs in Restaurant and Culinary Management; the program served over 230 students in 2005 and continues to grow.

The Community Investment Fund has financed several projects that will provide infrastructure for business and community development.

- A short-term loan of \$3.6 million helped finance a new water system for the City of Rio Dell; this joint Headwaters/Rural Community Assistance Corporation loan will help fund a new transmission and supply system that will improve water quality and pressure while reducing costs and shortages.
- A \$277,000 loan to the County Redevelopment Agency will assist in the start-up of the proposed agency. The agency is slated to become the largest county-wide funder of business infrastructure and economic development.
- A \$200,000 grant for the Eureka Fishermen's Terminal Project will provide needed dock space and facilities for the fishing industry. The project will remove blight, provide key infrastructure for value added and specialty fish processing, and serve as the cornerstone for an estimated \$3.5 to 5 million in private development.

The Headwaters Fund Board and County Board of Supervisors will continue to assess and improve Headwaters programs to best catalyze the economic health of Humboldt County.

II. Overview

Much of the information in this section appears in an expanded form in *The Headwaters Fund 2004 Annual Report* available online at www.theheadwatersfund.org.

History

In 1999, the state and federal governments purchased the 3,000-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. 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.

In October 1999, the County Board of Supervisors decided to reserve the bulk of the funds for the "economic prosperity and quality of life for all Humboldt County residents." 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.

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*.

Mission & Objectives

The Fund uses 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. Key objectives are 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
- **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
- **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)

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 assists these businesses so that jobs will be created/retained and income will be generated within the County. Eligible loans must also meet underwriting guidelines such as sufficient future cash flows and collateral security. Loan applicants apply directly to contracted financial institutions, the Arcata Economic Development Corporation and the Redwood Region Economic Development Commission.

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

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 varies according to interest earnings from the Headwaters trust funds, but has been between \$200,000 to \$300,000 annually.

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 base industries 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. Fund Board Members serve staggered three-year terms with one term renewal 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. Mr. Cleary is the former Interim General Manager of the North Coast Cooperative and former Managing Director of the Chase Manhattan Bank.
- Kathleen Moxon is the CAO and Director of Programs for the Humboldt Area Foundation. Ms. Moxon has worked for the Eureka/Humboldt Economic Development Corporation (President), Arcata Economic Development Corporation (Executive Director), Bank of Loleta, and U.S. Bank. She is the co-chair of the Humboldt County Economic Development Forum, President of Garfield School District Board of Trustees, and board member of the Women Entrepreneurs Institute.
- Dan Opalach, Ph.D., is the Timberlands Manager for Green Diamond Resource Company. Dr. Opalach manages the Company's real estate transactions and its silviculture investments. Prior to his appointment to the Headwaters Fund Board, he

- served as a Director for the North Coast Railroad Authority. He is a Registered Professional Forester in the state of California.
- Jon Sapper is the Assistant Superintendent of 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. Ms. Stillman is the former mayor of Arcata.
 - Paul Ziegler (Chair) is a partner with North Coast Investors Group which is primarily engaged in investing in and managing commercial real estate properties. Prior to joining the North Coast Investors Group, Mr. Ziegler spent 23 years in the banking industry, most recently as President of Humboldt Bank.

Administrative Costs

Total administrative costs in fiscal year 2004-05 were \$93,663. This amount includes expenses for staff, facilities, professional services and consultants, overhead, training, marketing, and all other costs. Administrative costs declined from the previous year's total of \$107,522.

The Fund strives to streamline administrative costs. 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

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 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 participation in loans from private lenders. Umpqua Bank, North Valley Bancorp (formerly Six Rivers Bank), and Coast Central Credit Union have all participated in Headwaters RLF loans. 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 of \$2.2 million have leveraged over \$6.5 million in loans from other public and private lenders. In 2005, the RLF disbursed about \$195,000 in new loans, comparable to 2003's total of \$255,000 but significantly less than 2004's total of \$1,770,000. AEDC and RREDC also report sharp declines in 2005 loan volumes.

There have been loans to 22 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 helped to finance the creation of 125 jobs, the retention of 251 jobs, and the continued growth of local businesses. The average estimated wage rate for these jobs is approximately \$11 per hour. 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.

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 design of the Grant Fund may undergo revision from year-to-year, but the focus remains on projects that benefit the base economy through the support of industry clusters. Especially encouraged are 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 fluctuates from year to year. In the first three years of operations, the Grant Fund offered between \$200,000 and \$300,000 annually in grants.

Because businesses and industry clusters create employment and build the economy, the Fund seeks the input of cluster representatives at key steps of the funding process from developing the funding focus to program setup. The Headwaters Fund Board has sponsored meetings with cluster representatives and key business leaders to identify and prioritize projects that the Fund could finance. The Fund also solicits input on proposals from executives and cluster representatives.

Review Process

The application review process includes:

- Evaluation of all applications according to project ranking criteria, including economic impact, project readiness, and applicant strength
- Assessment of fit with the Grant Fund funding focus, i.e. economic development and facilitation of base cluster growth
- Consultation with industry cluster leaders for perspectives on possible projects
- Staff due diligence to review eligibility, fiscal integrity, past project experience, and project background

2005 Grantees

The Fund received 14 grant proposals requesting over \$1 million. The projects that were awarded funding are shown in the table below³:

Grantee	Project Description	Total Project Cost	Award Amount
North Coast Small Business Resource Center	<p>The grant will help support the 2006 North Coast Open Studios (NCOS) to solidify its business model and become sustainable at a high operational level. NCOS is an annual event for all levels of professional artists to showcase their art where it is made, in their studios. NCOS is open to artists, art-based manufacturers, and fine craftsmen in Humboldt.</p> <p>In 2006, NCOS will concentrate on attracting art buyers from out of the area, building strategic alliances within the local arts and business community, and developing economic growth strategies for artists through business training and counseling.</p> <p>Economic development benefits include drawing more out-of-county visitors, increasing the local spending of visitors via packaged tours, building the local base of art buyers, and continued business training for artists.</p>	56,085	15,000
Arcata Economic Development Corporation	<p>The grant will fund business and agricultural consulting to commercial producers of goat milk. The grant will help expand operations and meet the demands of local processors and other buyers. The project will result in business and herd management consulting, connecting local producers with a regional industry, and a strategic plan for the Humboldt-Del Norte Goat Milk Producers Association.</p> <p>The main buyers of local goat milk include local goat cheese manufacturers that have grown significantly in recent years and would like to increase purchases from local suppliers.</p>	39,953	19,000
North Coast Small Business Resources Center	<p>HSU will act as the Lead Center to manage the network of 10 Small Business Development Centers (SBDC's) serving the Northern California region including the counties of San Francisco, Monterey, Santa Cruz, and Santa Clara. The grant comprises part of the local match required to be the Lead Center and will leverage over \$50,000 committed by local businesses and \$2.1 million annually from the Small Business Administration.</p> <p>Economic development benefits include the ability to connect local businesses with industry experts and consultants in the Bay Area, business-to-business opportunities like matching local businesses with outside buyers/suppliers, access to new funding and programs, and greater job opportunities for HSU students via an expanded business network.</p>	571,859	50,000
Open Door Community Health Centers	<p>The grant will fund an Open Door Telemedicine Center in Eureka to serve as the hub site for the North Coast TeleMedicine Network. The Network will provide specialty medical services to patients of small rural clinics throughout northern California. The project will establish a critical mass of demand to grow the local medical provider community.</p> <p>Economic development benefits include: 1. direct job creation (the Center will initially hire about ten new employees), 2. job and business creation through the use and attraction of specialty medical providers to the area, 3. capturing health care funds now spent outside of the County, and 4. generating revenues by serving patients outside of Humboldt.</p>	631,990	85,565

³ Awards are contingent upon applicants documenting matching funds and other requirements; at this time, there is an additional proposal under review for funding.

The Open Door Telemedicine Center grant supplemented an earlier Headwaters grant, resulting in a total funding of \$135,000 for the project. The total amount awarded in 2005 for all grants was \$219,000. An additional grant proposal is still pending approval.

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

- Redwood Coast Energy Authority: \$1,000 for scholarships for a training program on increasing organizational energy efficiency and reducing costs. The scholarships supported the participation of facility managers from a base industry organization. The training is part of a program for low-interest loans for energy improvements. Energy costs are an increasingly significant portion of business operations.
- Ink People on behalf of the Blue Ox Millworks: \$1,000 for a site plan for a proposed new home for Blue Ox Millworks, School and Historic Park. The plan will jumpstart the proposed development of a Timber Heritage museum/attraction. The development is slated to include the Blue Ox Millworks (a working, historical mill) and the Timber Heritage Museum. Once complete, the attraction will serve as a tourist draw and showcase an important component of local heritage.
- North Coast Small Business Resource Center: \$1,000 for an Arts Industry Cluster seminar to market art products globally and facilitate next steps for cluster development. The event builds upon a recently upgraded Open Studios Event to improve the financial sustainability of local artists and businesses.
- Humboldt State University: \$500 for the creation of business plan to bring broadband redundancy infrastructure (e.g. a second fiber line) to Humboldt. The grant funded part of the consultant procurement and management process. Redundant infrastructure, no longer a luxury, is key to retaining and attracting businesses.

In addition, the Fund awarded \$54,902 for a proposal received in the 2004 grant cycle, but was finalized in 2005 due to an extended review period. The grantee, Humboldt State University, will utilize its faculty expertise to address two issues of importance to local industry. First, the project will fund research, recommendations, and solutions to address the problem of Aleutian Canada Geese competing with livestock for pasture grazing. This competition leads to significant financial losses for dairies and ranches; estimated losses range from \$25,000 to \$125,000 per dairy. The geese are a protected species with increasing numbers estimated at up to 75,000.

The second part of the project will support market research on and implementation of lean manufacturing, predictive maintenance, and condition monitoring technologies for local businesses. These technologies will reduce costs and improve the competitiveness of manufacturers. Due to Humboldt's isolation and limited training programs, local manufacturers lag behind those in other areas in their adoption of lean and other new technologies.

To date, the Grant Fund has awarded close to \$800,000 over three years.

Impacts

Measuring grant impacts 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.

However, completed grants have shown impact. The College of the Redwoods' *Teaching Kitchen* grant of \$55,000, awarded in 2003, funded the construction of a teaching kitchen that opened in November 2004. In spring and fall semesters of 2005, there were 13 credit classes with over 230 students and 19 non-credit classes. The College is now able to offer degrees and certificates in Restaurant and Culinary Management. The College is tracking students and job creation in the Hospitality Program after course completion. Direct job creation to date includes one part-time staff, two part-time faculty, and one full-time faculty position.

The County of Humboldt's *Highway 101 and 299 Improvement* grant of \$50,000 addresses transportation, a core business issue for many industries. The project facilitates the upgrade of the key roadways into and out of Humboldt to national highway network standards allowing for the passage of standard-sized trucks. The current situation relegates Humboldt businesses to paying significantly higher transportation costs for outmoded, smaller-sized trucks when transporting goods. Humboldt is one of only two California counties that face this problem.

Although not complete, the project is already helping to secure State and Federal funding. The U.S. House of Representatives allocated \$8 million to improving Highway 299. California Governor Arnold Schwarzenegger has allocated \$146 million for the project in his recent \$12 billion bond list of proposed projects for strategic growth. The Headwaters grant also is supporting a Caltrans study of options to ameliorate bottlenecks on Highway 101.

The \$10,000 grant to support air service expansion helped secure Horizon Airlines flights from Arcata to Los Angeles beginning in May 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. Passenger use of the Arcata airport has grown to a record 110,300 in 2005, a 12% increase from 2004 levels.

The 2004 grant of \$23,000 for the Open Studios Event achieved some notable milestones. The annual event showcases the work of local artists and art-based manufacturers and is a regional draw. The grant led to a 25% increase in artist participation with 9% of visitors coming from out of the area. The event expanded to two weekends. Sales from the event, though often difficult to track, exceeded last year's totals. The North Coast Small Business Development Center (SBDC) provided an Open Studios art business workshop for 32 artists and one-on-one business counseling. SBDC and Humboldt State University provided an art business seminar for 73 HSU students who subsequently formed an art business club. The project developed an expanded website to encourage tourism and year-round sales opportunities for Humboldt County artists. Sponsorship and advertising sales exceeded the previous year's revenue by 65%.

The 2004 grant of \$6,767 funded an automated fuel card system at Garberville Airport so that non-local pilots can access fuel services. Prior to the project, access to the fuel services was limited to a few local users. The project installed a new system to encourage commercial and private travel into Garberville and Humboldt County. Fuel (and thus airport) usage has climbed 277% before and after the project.⁴

Other Headwaters grants projects are still being completed, and will be reported on in future Headwaters Fund annual reports.

⁴ Fuel usage comparison from August to December 2004 (pre-project) and August to December 2005 (post-project)

Future

The design of grant rounds will continue to evolve as the Fund gathers input from the business community and evaluates past awards. Information on upcoming grant rounds is available on the Headwaters website (www.theheadwatersfund.org) which allows visitors to sign-up for a mailing list.

V. Community Investment Fund

Purpose

Launched in September 2004, the Community Investment Fund began as a \$5 million loan and grant program for infrastructure and related projects that result in permanent and tangible economic benefits to the community. As opposed to the Grant Fund, the Community Investment Fund typically 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 slow or stop economic and community development. There are over \$120 million in repairs and improvements needed to meet the current needs of water, wastewater, and drainage systems. This figure does not include needs to accommodate future maintenance, operations, and growth. These needs translate into the ability of people and businesses to turn on faucets, dispose of sewage, and support housing development.

Infrastructure financing has become increasingly difficult. In the past, federal and state governments provided grants while jurisdictions could more easily approve bond financing. Today, with the exception of occasional state-wide bonds, grants have largely disappeared. Bonds now require 2/3rds voter approval. The small rate bases of many Humboldt County areas compound the financing difficulties.

The Community Investment Fund program aims to assist in the financing of infrastructure and help provide the climate for economic development. The cost of a single infrastructure project is often enormous, far beyond the resources of the Community Investment Fund. Thus, 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

For projects where employers in base industries are the primary beneficiary, the Community Investment Fund (CIF) offers loans and/or grants for infrastructure-related projects. 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).

For projects where the community or a residential area is the primary beneficiary, the CIF offers loans for infrastructure-related projects. Eligible projects include water, sewer, drainage, power, telecommunications, workforce housing, and transportation facilities/systems.

For all projects, 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

City of Rio Dell – a water system for businesses and the community

The CIF has provided a one-year loan of \$1.8 million to the City of Rio Dell to improve its water system. The loan funds two projects. The first is a \$5 million storage and distribution project to install transmission mains, valves, and storage tanks. For years, Rio Dell residents have suffered from substandard water system conditions including black and odorous water likely caused by accumulated manganese and sediment. There has also been low or no water pressure at times. The new transmission mains will reduce the occurrences of water main breaks and the need to drain the system. New mains will also restore flow in the system and improve water pressure. The project will decrease water system losses, energy costs, and operational and maintenance costs. The project will also lead to higher water pressure and improved quality.

The second project is a \$2.2 million water supply project that will provide a permanent water supply to meet Rio Dell's current and future needs. The project will construct a water infiltration gallery within the Eel River. The current water supply facility was installed under emergency circumstances as a temporary facility. Recurrent system failures have led to water shortages and their accompanying health and safety problems for residents.

The Headwaters bridge loan will finance these projects until long-term financing arrives from the State. The California Department of Water Resources and Department of Health Services have awarded grants for the work, but there are significant delays in receiving the funds.

The loan also represents a partnership between the Headwaters Fund and the Rural Community Assistance Corporation (RCAC). Headwaters money leverages an additional RCAC loan of \$1.8 million for a total package of \$3.6 million. Headquartered in Sacramento, RCAC is a nonprofit organization serving rural communities in 13 western states. RCAC has experience in infrastructure lending, having operated an infrastructure loan fund since 1988. As of 2003, RCAC has closed 291 loans totaling \$114 million, supporting over 4,800 water and wastewater hook-ups for rural residents and over 6,500 housing units. The Rio Dell loan establishes a funding relationship that will continue to serve local infrastructure needs.

County Redevelopment Agency – infrastructure and business financing program

Redevelopment is a tool created by State law to assist local governments in eliminating blight and rehabilitating residential and commercial districts. Redevelopment projects strive to improve the conditions for business and thus create jobs, generate income, and beautify the community. Redevelopment creates a long-term, publicly generated plan for economic development in a designated area and funds the development of blighted, polluted, or otherwise underutilized property. Projects include infrastructure (e.g. roads, power, and water facilities), building renovations, commercial/industrial development, environmental cleanup, historic preservation, walkways, construction of retail/industrial space, affordable housing, and public facilities.

The CIF has loaned the Humboldt County Redevelopment Agency (HCRDA) \$277,000 for 5 years to help fund the launch of the Agency. As the potentially largest local funder for infrastructure and affordable housing, HCRDA fits well within the mission of the CIF. The potential benefits of redevelopment include:

- Substantial, upfront money for economic development and infrastructure projects that support business development and job creation. There are huge infrastructure needs in Humboldt that will not get funded without redevelopment. Redevelopment provides upfront cash flows, rather than the usual small annual tax revenues, dedicated for these projects. HCRDA estimates it will receive bonds totaling \$50-70 million. Redevelopment money is the seed money to encourage investments from private developers (e.g. the Headwaters Fund Fisherman's Terminal Project described below).
- Greater retention of local tax dollars. 52% of the money for redevelopment comes from local property taxes that now flow to the State. Under redevelopment, those tax revenues are re-directed back for investment in the local area.
- Substantial, upfront money for affordable housing (\$21.4 million in current dollars according to HCRDA estimates). After the federal government, redevelopment is the largest funder of affordable housing in California.

Redevelopment is a popular tool adopted by jurisdictions in California. 80% of all California cities have redevelopment agencies. Eureka, Arcata, and Fortuna also have redevelopment agencies. The Eureka Redevelopment agency, for example, has invested heavily into old told Eureka to transform the area from a blighted, underused area into a draw for tourists, residents, and businesses.

Fishermen's Terminal Project – dock space and facilities for the fishing industry

Over the past two decades, Eureka and the Humboldt Bay region have experienced an on-going loss of commercial dock space and processing facilities needed to support the fishing and fish processing industries. The losses of Dock B, fish processing facilities in Eureka and Fields Landing, and other commercial waterfront space have resulted in fish processors relocating to other areas and significantly reduced infrastructure for fishing and related industries.

The CIF awarded a grant of \$200,000 to fund the completion of the fishermen's dock and unloading area, including Eureka boardwalk. The project was a joint application by the City of Eureka and the Humboldt Fishermen's Marketing Association. The project will remove the blight at the foot of C Street and provide new commercial and public dock space. The project provides key infrastructure for the fishing industry. When completed, the Fishermen Terminal building will be the keystone of waterfront space for value added and specialty fish processing. The building will also include a retail seafood counter and café that will allow fisherman to sell more of their catch locally.

The project is the top priority listed by the Fisheries, Processing and Aquaculture industry cluster. The fishing industry will benefit from more competition for buying and processing of its products, as well as an additional off-loading facility. Other beneficiaries include the Eureka and Humboldt County residents and tourists who will enjoy increased bay access.

The construction of the proposed Fishermen Terminal Building will produce upwards of 25 new jobs within 24 months of completion of construction. A business plan prepared by SHN Consulting Engineers & Geologists estimated that up to 50 long-term direct and indirect jobs would be created. The project will inject several million dollars into the local economy during the construction phase.

The project will be the cornerstone for more than \$3.5 to 5 million in private development in the immediate area. Headwaters funding leverages over \$4.5 million in additional project funding from federal, state, and local sources.

VI. Closing

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. 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.