

1. Humboldt County Grand Jury Report

2. Admin and Finance : 2011/AF/2

3. The Headwaters Fund: Charter versus Reality

4. History: The Headwaters Fund (HWF) was developed in 2002 following the public acquisition of the Headwaters Forest. This fund represents the \$20 million mitigation package to Humboldt County, offsetting economic losses incurred with the loss of timber related revenues and jobs.

The purpose of this fund was specifically delineated by the Headwaters Fund Charter and was developed following public and county input. The charter sets the rules for the perpetual use of this fund to benefit Humboldt County's economy. (available on HWF web-site)

This report discusses the successes and failures that have occurred since the inception of the Headwaters Fund Charter.

5. BACKGROUND: In 2009 the Grand Jury received a complaint about the Headwaters Fund (HWF) regarding the quality of management. The 2009/10 Grand Jury worked that year with interviews and investigated and prepared an initial report addressing this issue. With the judge's accord, that report and all of that

former year's material was submitted to the 2010/2011 Grand Jury.

The current Grand Jury's responsibility has been to review all of the material in the remanded report through research and interviews.

What follows is the 2010/2011 Grand Jury's report.

6. REPORT: Much progress has been made in the management and operation of the HWF. The 2010/11 Grand Jury commends the Headwaters Fund Coordinator for many of these improvements.

Those efforts have resulted in the following:

- The HWF website is now a valuable asset.
- Efforts are underway to document progress and assess goal achievement.
- Better checks and balances are being used in the awarding of loans.

Improved policies are in place resulting in timely loan payments and pay-offs . There are now guidelines for awarding of these loans and an effective procedure for the tracking of a loan from inception to conclusion.

- A new ten-year education program called *Decade of Difference- The 2020 Initiative* inspires optimism. A community initiative led by the County Office of Education seeks to broaden partnerships. Major stated goals are to build a well-educated workforce;

increase opportunities for viable employment; grow entrepreneurship and small business; and improve the regional standard of living.

- Attempts are being made to quantify jobs created, require timely reports, and assess benefits to the community.

However, despite this observable progress, some areas continue to fall short of directly addressing the defined purposes of the Headwaters Fund Charter.

- Grant funds have not always been used in a manner designed to increase the number of sustainable jobs that pay at or above median wages i.e. “Support the growth of base industry clusters and increase the number of sustainable jobs that pay near or above the median income.” (HWF Charter, page 2)
- New jobs at median or higher wages rarely have been created, while the main achievement has been to retain existing jobs.
- Granted funds do not always appear to “enhance the quality of life through social and environmental projects that promote healthy communities and protect the natural environment.” (HWF Charter, page 2)

- The charter states that the charter itself is to be reviewed and amended as needed every three years, indicating that the originating group expected the need to redefine and adjust its goals. This charter review duty is assigned to the Board of Supervisors, which makes the final decision on any recommendation and also appoints the seven members of the HWF Board. (page 7, HWF Charter)
- The charter clearly and firmly states that no monies may be used by the county to relieve it in times of economic strain.(page 7, HWF Charter)

It is hard to assess exactly what success HWF has had meeting community needs in the last couple of years due to a strained local economy deepened by state budget cuts. This fund and the charter which governs it, however, have been in effect since 2002. Therefore, these economic problems did not impact those years; yet the problems noted above already existed.

7. FINDINGS:

- A. It has not been adequately documented that sustainable jobs have been created to fulfill the terms of the charter.

- B. In general, jobs that have been saved are not of a “median or above income” level.
- C. Few new jobs have been created that are in the “median or above income” level.
- D. According to available records, a perceived conflict of interest originates with the head of the Community Development Department. The Headwaters Fund Staff (headed by that Director) is charged with the following in the charter:
1. Implementation of the HWF program from development and administration of systems, to program evaluation and reporting.
 2. Assists in preparing Grant applications
 3. Screens grant project applications

The perceived conflict arises when the Director applies for a grant, screens the grant, prepares a staff report and signs the grant contract as Grantee. The Headwaters website shows the number of grants applied for and received by this method, and Figure 1 (found on the Headwaters Fund web-site, page 20) following also explains in detail, the above referenced chain of events.

- E. Funds were allocated at the inception of this Fund for the annual administrative costs accrued by the Community Development Department.
- F. Public awareness of the availability of Headwaters grant money or the process involved is insufficient.
- G. Headwaters Funds cannot be used for financing ongoing government operations, even during times of fiscal emergencies.
- H. Reviews and recommendations to the Headwaters Fund Program have not been done since the inception of the program. According to the charter, this should have been undertaken after the first full year of operation, then every three years thereafter, including public input. Today's charter is 2002's charter.

10. RECOMMENDATIONS:

- A. The HWF Coordinator should establish and maintain a data base on job creation. Award funds to projects that address this as a primary criterion.
- B. Since few if any median income jobs have been saved by grants awarded, this must become a major part of the granting criteria.
- C. Job creation at median income levels must be given strong emphasis when awarding grants.

D. The Grand Jury strongly advises the removal of the Community Development Department from the checks and balances entirely, because of the perceived conflict of interest. Control would then be given directly to the HWF Coordinator, who would operate under the auspices of the County Treasurer.(refer to Finding D)

E. Those monies allocated for administration that formerly went to the Community Development Department should then go to the Headwaters Fund Coordinator and County Treasurer.

F. Initiate a campaign to increase public awareness of the granting process and the availability of these Headwaters funds.

G. The Board of Supervisors should immediately correct any misunderstandings about the availability of Headwaters Funds for County use. According to the Charter:

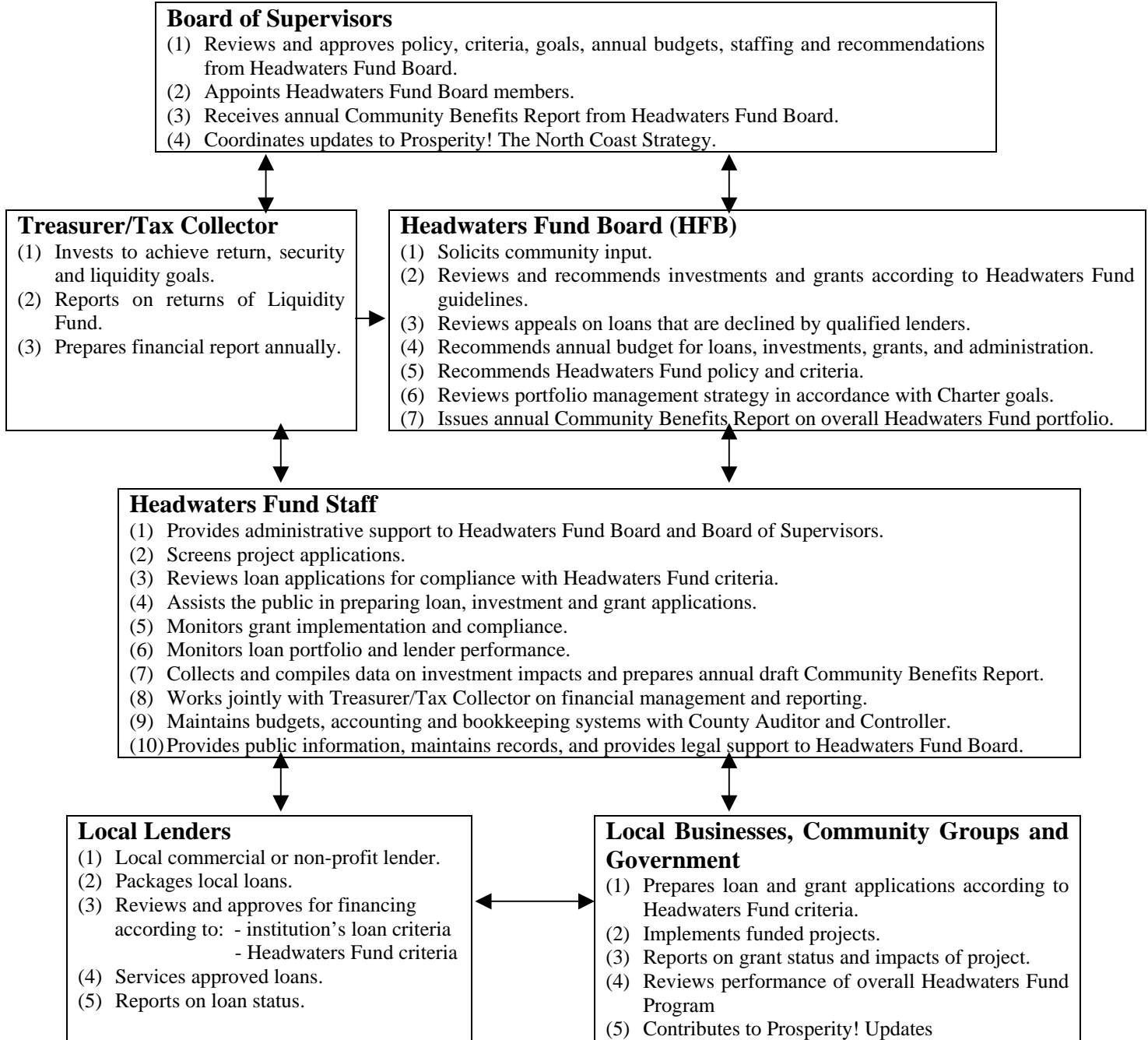
“the Headwaters Funds are segregated from the General Fund and budget of the County. The funds are irrevocably committed to the Headwaters Fund and cannot be used for financing ongoing government operations. The funds are considered ‘unavailable’ to the County for general purpose spending or working capital, even during times of fiscal emergencies.” (page 4, HWF Charter)

H. The Board of Supervisors should use the Grand Jury recommendations to fulfill the requirements of the charter review and follow this by immediately preparing and maintaining a schedule of review as was originally requested.

REQUEST FOR RESPONSES:

1. The Board of Supervisors shall respond to Recommendations A,B,C D,E,F,G, H
- 2 The Community Development Services Director shall respond to Recommendations D,E,
3. The County Treasurer shall respond to Recommendation D, E

Figure 1. Headwaters Fund Organization Chart



The Board of Supervisors – has the final authority and accountability for the use of the funds. They appoint members to the Headwaters Fund Board and oversee County staff support. They review and approve Headwaters Fund Board funding recommendations. The Board provides oversight of the process focusing on the following issues:

- Adherence to the Headwaters Fund Charter