



# COUNTY OF HUMBOLDT

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The Honorable W. Bruce Watson  
Humboldt County Superior Court  
825 Fifth Street  
Eureka, CA 95501

April 22, 2011

Regarding: 2010-11 Grand Jury, Administration and Finance Committee's Report  
The Headwaters Fund

Dear Judge Watson,

Per the Grand Jury Report, the following is my response to Recommendations D and E.

**Recommendation 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)

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

**Treasurer's Response:** Recommendations D and E will not be implemented because it is not warranted. My opinion is that the Headwaters Fund program should continue to operate under the auspices of the Community Development Department (CDD) as it is currently assigned and administratively funded. The expertise for managing the Headwaters Fund Program is in the CDD, not with the County Treasurer-Tax Collector.

The reason I came to this conclusion is as follows:

The Economic Development Division, part of the Community Development Department (CDD), has several parallel goals with that of the Headwaters Fund; whereby their missions are closely aligned. (See the below goals and objectives of both entities, as copied from their respective websites)

## Humboldt County Economic Development Division

### STRATEGIC GOALS

1. Provide leadership and planning direction for economic, workforce, housing and infrastructure development.
2. Promote the growth of the County's industry clusters.
3. Build local capacity for coordinated economic, workforce and community development initiatives.
4. Obtain grants to fuel strategic projects and leverage funds.
5. Assist in the development of rural communities.
6. Relieve constraints and provide opportunities to distressed populations.

Assist in the implementation of local Workforce Investment Board efforts to build a comprehensive, coordinated and effective workforce development system.

### **The mission of the Headwaters Fund is to improve the economy of Humboldt County.**

The Headwaters Fund was initiated in 2003 as a public fund for the advancement of economic and community development in Humboldt County. The Headwaters Fund offers loans and grants for infrastructure projects, and economic development grants via the following three programs: [the Grant Fund](#), [the Community Investment Fund](#), and [the Revolving Loan Fund](#). The purpose of the Headwaters Fund is to:

- Support the growth of [base industry clusters](#)
- Increase the number of sustainable jobs that pay at or above the median income
- Enhance the quality of life for residents of Humboldt County through projects that promote healthy communities and protect and enhance the natural environment

### **Three additional objectives were adopted by charter:**

- To attract and leverage additional capital and grants in the local economy
- To reflect community priorities and create maximum public benefit over the long-term
- To manage the funds efficiently and cost effectively



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One strategic goal of the Economic Development Department is to “obtain grants to fuel strategic projects and to leverage funds” which is precisely why grants are submitted by that department to the Headwaters Fund. If they didn’t the CDD Director would be negligent in his duties and responsibilities to seek funding for economic development.

Once submitted for review to the Headwaters Fund Board (HWB) the CDD Director should not, and as I understand, does not, have any influence on whether the submitted grant is approved or not. ***The HWB is the firewall between grant applications and grant approval.***

Any involvement of the CDD Director up through the grant application to the HWB should not be a “perceived conflict of interest” because that position is responsible for grant applications submitted of any kind, whether they are to the State of California, the Federal Government, or to the Headwaters Fund.

I understand the concern of the Grand Jury regarding the checks and balances of the Headwaters Fund Program being a function of the CDD, but the broad objective for the Headwaters Fund is providing funding for community development. In addition Headwaters Fund staff members are not gatekeepers for grants being forwarded to the HWB. My understanding is they facilitate, answer questions, and support efforts for all grant applications. In fact, as seen below from the Headwaters website, some grant applications for the ‘Revolving Loan Funds’ are processed through Arcata Economic Development Corporation (AEDC) and Redwood Region Economic development Commission (RREDC).

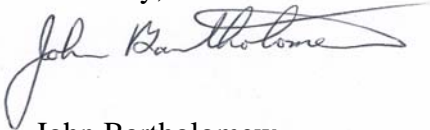
Currently the Headwaters Fund is contracted with the Arcata Economic Development Corporation (AEDC) <http://www.aedc1.org> and Redwood Region Economic Development Commission (RREDC) <http://www.rredc.com> to manage a portion of the Revolving Loan Funds. Loan applicants should apply directly to these financial institutions, not the Headwaters Fund itself.

If a study were done comparing the grant application process through AEDC and RREDC relative to those processed through the Headwaters Fund staff and it was shown that CDD grants were given priority and / or granted more readily due to Headwaters staff intervention, then the argument to remove Headwaters Fund oversight from the CDD would make sense.

**Conclusion:** Though I do not concur with Grand Jury 'Recommendations D and E', their report led me to see **that a conflict of interest does exist** in that the CDD Director is a member of the interview panel for selecting members of the HWB. This relationship should be severed so that no real, or perceived, influence exists between the CDD Director and any HWB Members.

My understanding from current HWB Members is that they have not felt any pressure or influence from the CDD Director regarding grant approvals, or denials. However, the CDD Director should be removed from the interview panel to ensure non-partisan decision making for the grant approval process undertaken by the Headwaters Fund Board.

Sincerely,

A handwritten signature in cursive script that reads "John Bartholomew". The signature is written in black ink and is positioned above the printed name.

John Bartholomew

Cc: Grand Jury