



COUNTY OF HUMBOLDT

For the meeting of: 9/3/2019

File #: 19-1246

To: Board of Supervisors

From: County Administrative Office

Agenda Section: Time Certain Matter

SUBJECT:

9:15 a.m. - Update to Nordic Aquafarms Presentation and Infrastructure Development on the Samoa Peninsula

RECOMMENDATION(S):

That the Board of Supervisors:

1. Receive the staff report regarding plans, liabilities, obligations, and partnership/financing options for infrastructure development on the Samoa Peninsula;
2. Direct to staff to explore the creation of a Joint Powers Authority with public agencies with a vested interest in infrastructure development on the Samoa Peninsula and report back to your Board; and
3. Direct the Board Chair to sign the Letter of Support for Nordic Aquafarms.

SOURCE OF FUNDING:

General Fund and Economic Development.

DISCUSSION:

BACKGROUND

The County of Humboldt's Economic Development team have been engaged in conversations and activity concerning numerous potential coastal dependent and aquaculture-based development opportunities for the Samoa Peninsula.

One such opportunity is the Nordic Aquafarms project which would entail the construction of a new world class recirculating aquaculture system (RAS) and land-based fish farming facility. The investment for this project is anticipated to be \$400 million and would result in the creation of 85 primary, and 25 secondary, full-time benefited jobs.

On July 23rd, 2019 Nordic Aquafarms made a presentation to your Board outlining specific infrastructure challenges that exist and which may financially prohibit their project. Said infrastructure challenges also could hamper other future development on the Samoa Peninsula.

Prior to Nordic's July presentation, Economic Development staff had also identified a substantial lack or limitation of infrastructure on the Samoa Peninsula and brought these findings to your Board on May 21st, 2019. This report by staff resulted in the creation of the Responsible Engagement for the Development of Infrastructure (REDI) Task Force aimed at seeking financing and funding solutions for infrastructure.

Because of prior action taken by your Board (i.e. establishment the REDI task force) and due to the nature of the project concerns outlined in Nordic Aquafarms July 23rd presentation, your Board directed staff to return with funding and financing solutions regarding the infrastructure development on the Samoa Peninsula.

HISTORY OF INFRASTRUCTURE ON THE SAMOA PENNINSULA

The Samoa Peninsula has historically been a hub for commercial and industrial activity. Industrial operations on the peninsula date back into the late 1800's when the Vance Lumber Company purchased property from Samoa Land and Improvement Company which resulted in the construction of a large sawmill in 1892.

Georgia-Pacific Corporation purchased the Samoa sawmill complex in 1956 and began operation of a plywood mill in 1958. A more modern mill facility was constructed in 1964 and pulp mill operations commenced. The Samoa mill complex was later transferred to Louisiana-Pacific Corporation during a Federal Trade Commission action initiated in 1972.

After a series of ownership and operational changes, Evergreen Pulp closed the mill in October of 2008 after a global collapse of the banking industry that left Evergreen insolvent. New ownership purchased the Samoa mill assets in February of 2009 with plans to convert the mill to an integrated pulp and tissue plant that would convert forest residuals into consumer-ready, eco-friendly products. The projected cost of the plant conversion was \$400 million; however, the new owners were unable to secure the necessary financing for the conversion. As a result, the Samoa pulp mill permanently closed in September of 2010.

COUNTY OF HUMBOLDTS PLANS FOR INFRASTRUCTURE ON THE SAMOA PENNINSULA

With the timber industry presence on the Samoa Peninsula greatly reduced, there are significant opportunities for re-use of existing industrial sites in this area. The Humboldt Bay Area Plan is currently being updated with an eye to facilitate redevelopment of these properties. A central component of this update is the place of the Coastal Dependent Zoning on the properties. An

economic analysis has been prepared and is being used to inform ongoing discussions with property owners to determine the preferred scenarios for economic development. The information we have is there is demand for Coastal Dependent Uses on the peninsula as evidenced by Nordic's interest and other discussions with prospective aqua-culture uses.

The bigger planning issue associated with this discussion is ensuring that there are sufficient utilities to accommodate the uses which could be allowed on the coastal dependent industrial sites. The Nordic discussion has raised an issue that is much larger than the possible Nordic project. Aquaculture requires a large source of freshwater in addition to sea water. If the county wants to see these properties redevelop with Coastal Dependent Uses, the utility infrastructure must be in place to support those users.

There is another need here which needs to be addressed and makes this discussion crucial. Firefighting water for the peninsula comes from the industrial water line. There is currently sufficient water storage on the peninsula for existing development, but as growth occurs, it will be critical to ensure that firefighting water is provided.

It is important to acknowledge that those areas lacking in infrastructure on the Samoa Peninsula also fall into a congressionally established Opportunity Zone. Opportunity Zones are a new tool for community development. Established in the Tax Cuts and Jobs Act of 2017, Opportunity Zones provide tax incentives for investment in designated census tracts.

IMPACT OF PULP MILL CLOSURE ON WATER INFRASTRUCTURE

The Humboldt Bay Municipal Water District (HBMWD) was formed in November 1956 pursuant to the Municipal Water District Act of 1911, Water Code section 71000, et seq. One of the express intents and purposes of its formation was to induce Louisiana-Pacific Corporation and Crown-Simpson Corporation to locate their pulp mills within the District's boundaries.

At the time of the 1956 election, the voters of Humboldt County understood that the assurance of a water supply to the pulp mills was a means of inducing appellants to locate their mills in Humboldt County. (Louisiana-Pacific Corp. v. Humboldt Bay Mun. Water Dist. (1982) 137 Cal.App.3d 152, 154.)

During the years that the mill remained open and in operation, the HBMWD used the revenues paid by industrial users on the Samoa Peninsula to pay for maintenance and operational costs related to the supply and delivery of industrial water. However, with the closure of the mills, the HBMWD lacked sufficient revenues and resources to maintain the industrial line which fell into a state of deferred maintenance and disrepair.

The industrial water line is different from the domestic water supply line. The industrial water line comes from a diversion in the Mad River (surface water rather than from wells in the gravel bar) making the water turbid particularly during the high flows of the winter season. In order to address this the two pulp mills on the peninsula each had their own clarifiers to remove turbidity.

At present, the industrial supply line does receive limited use, however the line leaks and due to lack of consistent water flow the line contains sediment. Moreover, many of the line's components (such as the valves, gates, screens, pumps, motors, electrical systems, etc.) have not received proper repair and maintenance in roughly a decade.

According to a study completed by an HBMWD consultant, the immediate cost to remedy deferred maintenance on the water intake is approximately \$3 million dollars. Additional water infrastructure upgrades and improvements for clarification of industrial water and for the reduction of turbidity (As, for example, is required for the Nordic Aquafarms project,) will range in cost from \$15 to \$50 million depending on scope and phasing of said project. A complete analysis on the condition of the actual line has not been completed

COUNTY OF HUMBOLDTS LIABILITIES AND OBLIGATIONS FOR WATER INFRASTRUCTURE ON THE SAMOA PENNINSULA

The County is not responsible to monitor the district and the debts and/or obligations of HBMWD will not default to the County. The issue is HBMWD has expressed concern about their immediate ability to provide water service to this industrial site and by extension to the entire Samoa Peninsula unless expensive maintenance is undertaken on the existing industrial water line facilities.

The statutory scheme under which the water district was formed (and currently exists) does provide ample methods for the water district to raise funds (including via bonds and taxation) to support the development of infrastructure.

HBMWD remains accountable for the industrial water supply infrastructure maintenance and repairs, but HBMWD has engaged the County for support, collaboration, and assistance.

On August 8th, 2019 Economic Development staff attended a HBMWD Board meeting to discuss ways that the County can help the HBMWD. These were presented by HBMWD staff to the HBMWD board on August 8th, 2019 and were identified as;

- Letters of support for grant and financing applications.
- Consider being a co-applicant for financing.
- MOU between HBMWD and County for project cooperation.
- Assistance in reaching out to state/federal counterparts
- Assistance in reaching out to state elected officials.
- Assistance with identifying appropriate site for clarifier facility.
- Assistance with identifying potential funding solutions.
- Assistance with connecting HBMWD with GoBIZ.
- Investigate possible financing options by the County. I.E. COP's or other.

IMPACTS OF THE CONTINUATUION OF DEFFERED MAINTENANCE AND REPAIR ON INDUSTRIAL WATER INFRASTRUCTURE

The HBMWD water rights are up for review by the State Water Resources Control Board in 2029. Because the closed pulp mills made up for the majority of demand for industrial water supply, the HBMWD's water use has been reduced by approximately 80 percent. Unless a new beneficial user of water is found, the districts water rights may be in jeopardy. Given the effects of climate change, and the demand for water elsewhere in the state, the loss of water rights for Humboldt County may be an irreversible event. Furthermore, a continuation of deferred maintenance and repair on the Samoa Peninsula industrial water line puts Humboldt County and its residents at a disadvantage for attracting and securing new and ongoing business opportunities on the peninsula.

PARTNERSHIP OPTIONS

1. Your Board may want to consider the County's position with regards to water and other infrastructure development on the Samoa Peninsula and determine whether or not the County should engage as a partner with external agencies for the financing and development of said infrastructure. Partnership options for the development of infrastructure on the Samoa Peninsula include:
 - No partnership or extraordinary levels of assistance to HBMWD or other external agencies beyond that for which the County is obligated.
 - A continuation of non-committal and "soft" level assistance. This is the current level of assistance that is being provided to the HBMWD and external agencies.
 - Exploration of those items identified by the HBMWD staff in its August 8th, 2019 to its Board concerning ways that the County can help the HBMWD.
 - Direct partnership with external agencies and project stakeholders through potential MOU's, contracts, co-applications, or the formation of a JPA aimed at infrastructure development on the Samoa Peninsula.

Of the aforementioned partnership options, staff has identified, through its due diligence, that the establishment of a Joint Powers Authority (JPA) aimed at infrastructure development on the peninsula may offer all stakeholders involved the greatest level of flexibility and opportunity for securing financing and funding for infrastructure improvements. Staff has reviewed this option with staff from the HBMWD and the Humboldt Bay Harbor, Recreation and Conservation District and there does seem to be general interest amongst the parties for exploring this option.

Exploration of a JPA will also include the financial feasibility of such a JPA, as well as financing options for the development of infrastructure on the Samoa Peninsula. There are many financing options for funding infrastructure. Since receiving prior direction from your Board, Economic Development staff have been engaged in discussions with the EDA, USDA, California iBank, and other financing agencies to discuss a variety of funding options available to the County (and external agencies) for the development of infrastructure, including but not limited to;

- Industrial Development Bonds (IDBs)
- Exempt Facility Bonds
- Public Agency Revenue Bonds (PARBs)
- California iBank Loan
- USDA Rural economic development grants and loans
- EDA Grants and loans

Staff Recommendation

Direct staff to explore the creation of a Joint Powers Authority with public agencies with a vested interest at infrastructure development on the Samoa Peninsula and report back to your Board.

BUSINESS DEVELOPMENT AND ONGOING PROJECT OPPORTUNITIES ON THE SAMOA PENINSULA

While the discussion regarding infrastructure development on the Samoa Peninsula continues, the Economic Development team (as well as other County agencies and staff) continue to have discussions with numerous developers regarding potential business and employment opportunities for the Samoa Peninsula. The outcome of these discussions will have a direct impact on developers' interest and ability to pursue projects in Humboldt County.

By way of real example; the Nordic Aquafarms operations team must present its final site conclusions and findings to its Board of investors on September 15th, 2019. Depending on the perceived ability of the County of Humboldt and external agencies to work together to resolve infrastructure challenges, Nordic Aquafarms' investors may elect to forgo Humboldt County as a viable site for its project and investigate other sites along the west coast for its RAS facility.

Staff Recommendation

That your Board direct the Board Chair to sign the Letter of Support for Nordic Aquafarms.

FINANCIAL IMPACT:

Depending on your Board's actions today, and the direction given to staff, the financial impact to the County may vary. These impacts can be presented in greater detail and provided to your Board for further review as part of future staff reporting on any action taken today on staff's recommendation.

STRATEGIC FRAMEWORK:

This action supports your Board's Strategic Framework by supporting business, workforce development and creation of private-sector jobs .

OTHER AGENCY INVOLVEMENT:

County of Humboldt Treasurer - Tax Collector, County of Humboldt Planning and Building, Humboldt Bay Municipal Water District (HBMWD)

ALTERNATIVES TO STAFF RECOMMENDATIONS:

File #: 19-1246

Board discretion

ATTACHMENTS:

1. Nordic Project Fact Sheet - NAF One-Pager
2. 2019 July HBMWD letter to BOS
3. HBMWD Industrial pipeline map
4. Humboldt County Opportunity Zone Map - HUMCO OZ MAP
5. Letter of Support for Nordic Aquafarms

PREVIOUS ACTION/REFERRAL:

Board Order No.:

Meeting of: May 21st, 2019, July 23rd, 2019

File No.: 19-642, 19-1048