

# **The Headwaters Fund**

## **Charter**

December 2, 2002  
(revised 08-19-14)

1. Name and Purpose
  - a) Name: The Headwaters Fund (HWF)
  - b) Purpose
    - i) To use the values, principles and strategies of the County’s Comprehensive Economic Development Strategy, currently known as Prosperity! The North Coast Strategy to:
      - a) Support the growth of base industry clusters and increase the number of sustainable jobs that pay near or above the median income;
      - b) Enhance the quality of life through social and environmental projects that promote healthy communities and protect and enhance the natural environment.
    - ii) To manage the HWF to:
      - a) Attract and leverage additional capital and grants in the local economy;
      - b) Keep the funds working in the community in perpetuity
      - c) Reflect community priorities and create maximum public benefit over the long-term;
      - d) Make the decision process objective, non-political and easy for the public to participate in and understand;
      - e) Manage the funds efficiently and cost effectively;
      - f) Track and publicize the economic, social and environmental gains.
  - c) The management objective is to maximize the amount of money working within the community providing desired benefits while preserving the Headwaters Fund principal.
  
2. Fund Structure and Activities
  - a) Investments in the community will be made in three categories:
    - i) Revolving Loan Fund
      - a) Investments in businesses and non-profit organizations will be made through the Revolving Loan Fund administered by qualified financial institutions working under Board of Supervisor approved contracts.
      - b) Potential financing investments include debt, near-equity, and equity financing to businesses and non-profit organizations.
      - c) Financing will provide capital to a wide range of businesses to fill gaps in the market for available financing, while still maintaining good banking practices.
    - ii) Community Investment Fund
      - a) The Community Investment Fund is a grant and loan program intended for community endowments, revolving loan programs and infrastructure projects that will result in permanent, tangible benefits to the community. Eligible

endowments and revolving loan fund projects must demonstrate the ability to operate sustainable programs with the funds provided from the Community Investment Fund.

- b) The Fund is administered by the Headwaters Fund Board, with the Board of Supervisors having final authority.
  - c) Government jurisdictions and non-profit organizations are eligible for funds.
  - d) Endowments and revolving loan fund projects must obtain a minimum of 50% of the funding required from other sources. Infrastructure projects must obtain a minimum of 75% of outside funding and demonstrate the value of the project to the growth of base industry clusters. Exceptions to match requirements are possible as detailed in the Community Investment Fund Manual.
- iii) Grant Fund
- a) The Grant Fund provides grants for community projects. Non-profit organizations and government jurisdictions are eligible to apply for funding.
  - b) The Grant Fund is administered by the Headwaters Fund Board, with the Board of Supervisors having final authority.
  - c) Government jurisdictions and non-profit organizations are eligible to apply for funds.
- b) Headwaters Liquidity Fund
- i) The Humboldt County Treasurer’s Investment Pool acts as bank for the funds that are not committed to financing investments or grants in the Revolving Loan Fund, Community Investment Fund, and Grant Fund. Funds in this “Headwaters Liquidity Fund” are invested by the Treasurer/Tax Collector for safety, liquidity, and yield.
- c) Distinction between Headwaters Funds and County Funds
- i) Timber Yield Tax Payments: As stipulated by the Board of Supervisors, a one-time lump sum of \$4,013,243 will be deducted from the Headwaters Fund and deposited in a separate Treasurer/Tax Collector administered interest bearing trust account entitled “Headwaters Sale Timber Yield Tax Loss.” This lump sum is based on an estimate of the reduction of Timber Yield Tax Payments to the County General Fund resulting from the sale and preservation of the Headwaters Forest. The lump sum equates to an annual series of payments in the amount of \$308,711 per year for a 13 year period. These funds are unrestricted and may be used for general purpose County expenditures at the discretion of the Board of Supervisors.
  - ii) County Economic Development Division Payments: As stipulated by the Board of Supervisors, a one-time lump sum of \$1,800,000

will be deducted from the Headwaters Fund and deposited in a separate Treasurer/Tax Collector administered interest bearing trust account entitled “Headwaters Sale Economic Division Administrative Fund.” This lump sum is equivalent to an estimate of the annual administrative costs required by the County’s economic development program. The lump sum equates to an annual series of payments in the amount of \$90,000 per year for a 20 year period. These funds are restricted to the County’s economic development program. The Board of Supervisors approves expenditures from this fund through standard County budgeting procedures.

iii) Other than the two preceding exceptions, 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 on-going government operations. The funds are considered "un-available" to the County for general purpose spending or working capital, even during times of fiscal emergencies.

d) Variances to guidelines for the Revolving Loan Fund, Community Investment Fund, and Grant Fund can be granted for specific projects under select circumstances where it can be shown that the variance will further the ultimate goals of the Fund. To qualify for a funding criteria variance, a project must provide extraordinary benefits in line with the appropriate ranking criteria. Funding variance applications must fit under the “Exceptional Project Criteria” in the Community Investment Fund manual and shall be approved by the Board of Supervisors by a four-fifths super-majority vote. However, variances cannot include any use of Headwaters Fund monies for general County purposes.

### 3. Control and Oversight

a) Within the scope of powers outlined in this document, the Board of Supervisors has final authority on use of Headwaters Funds. A Headwaters Fund Board, County Economic Development Division staff and the Treasurer/Tax Collector implement the program. Applications for funding from local businesses, community groups and governmental organizations are brought to the Headwaters Fund Board or qualified financial institutions.

b) **The Board of Supervisors** has the final authority and accountability for the use of the funds, within the scope of powers outlined in this document. They appoint members to the Headwaters Fund Board and oversee County staff support. They review and approve Headwaters Fund Board funding recommendations. The Board also provides oversight of the process focusing on the following issues:

- i) Adherence to the Headwaters Fund Charter;
- ii) Review and approval of policies and annual budgets;
- iii) Public involvement and reporting;

- iv) Objective implementation of the grant approval process;
  - v) Approval of Grant and Community Investment Fund projects recommended by Headwaters Fund Board and staff;
  - vi) Proper financial management of the Liquidity Fund, Revolving Loan Funds, Community Investment Funds, and Grant Funds;
  - vii) Periodic updates and revisions to the Charter.
- c) **The Headwaters Fund Board (HFB)** consists of seven members of the community appointed by the Board of Supervisors. The role of the HFB is the following:
- i) Reviews and recommends to the Board of Supervisors the Grant and Community Investment Fund projects for funding according to Headwaters Fund guidelines;
  - ii) Recommends to the Board of Supervisors the annual budgets for loans, investments, grants and administration;
  - iii) Recommends to the Board of Supervisors the Headwaters Fund policies and funding criteria;
  - iv) Reviews portfolio management strategy in accordance with Charter goals;
  - v) Recommends to the Board of Supervisors updates, revisions and variances to the Headwaters Fund Charter;
  - vi) Issues annual Community Benefits Report on the overall Headwaters Fund portfolio. The Community Benefits Report will summarize chosen projects of the Headwaters Fund and their benefits to the community. The report will include a financial summary of fund balances, expenditures, and revenues and a profile of significant community outreach, public participation and application processing activities.
  - vii) The HFB will be provided with staff support and an annual budget for technical or financial consulting to assist in application analysis and review.
- d) **Treasurer/Tax Collector** manages the Headwaters Liquidity Fund. This fund contains the Headwaters Fund principal which shall be invested by the Treasurer-Tax Collector pursuant to the County of Humboldt Statement of Investment Policy, as approved by the Board of Supervisors. The Treasurer-Tax Collector is responsible for the stewardship of the Humboldt County Pooled Investment Funds, of which the Headwaters Liquidity Fund is a participant. To ensure that the Headwaters Liquidity Fund may be managed in perpetuity, the Treasurer-Tax Collector is authorized to segregate a portion of the Headwaters Liquidity Fund from the Pooled Investment Funds, in an amount to be determined and approved by the Board of Supervisors, for investments with maturities beyond five years to enhance the rate of return while conforming with the Statement of Investment Policy. The portion of the Headwaters Liquidity Fund to be segregated from the Pooled Investment Fund shall be designated the “Headwaters Investment Portfolio.”
- i) All investments made by the Treasurer-Tax Collector of the

- Headwaters Liquidity Fund and the Headwaters Investment Portfolio must be in conformance with the Humboldt County Statement of Investment Policy.
- ii) Quarterly the Treasurer-Tax Collector will provide to the Board of Supervisors a report on the Headwaters Liquidity Fund and Headwaters Investment Portfolio as is required in the Statement of Investment Policy. The Board of Supervisors, the Headwaters Fund Board, and/or the Headwaters Fund Staff may, at their discretion, request additional financial statements and accounting as necessary to ensure that the purpose and goals of the Headwaters Fund have been met.
  - iii) Disbursements are made from the Headwaters Liquidity Fund to the Revolving Loan Fund, Community Investment Fund and Grant Fund as funding applications are approved.
- e) **Headwaters Fund Staff** consists of the staff of the County Administrative Office and/or Economic Development Division. The role of the staff is the following:
- i) Implementation of the Headwaters Fund program from development and administration of systems, to program evaluation and reporting;
  - ii) Assists the public in preparing Grant and Community Investment Fund applications;
  - iii) Screens Grant and Community Investment Fund project applications;
  - iv) Monitors loan portfolio and financial institution performance;
  - v) Collects and compiles data on investment impacts and prepares annual draft of Community Benefits Report;
  - vi) Works jointly with Treasurer/Tax Collector on financial management and reporting;
  - vii) Maintains budgets, accounting and bookkeeping systems with the County Auditor and Controller;
  - viii) Provides public information, maintains program manuals and records, and provides legal support to HFB;
  - ix) Provides administrative support to HFB and Board of Supervisors.
  - x) Legal support is provided by the County Counsel. Staff will be ultimately responsible to the Board of Supervisors for meeting Headwaters Fund expectations.
- f) **Qualified Financial Institutions** package, underwrite, and service financing made through the Headwaters Revolving Loan Fund. A financial institution applies to the Headwaters Fund staff and HFB to become a qualified financial institution; the Board of Supervisors approves financial institution contracts for access to Headwaters Revolving Loan Funds. Loan products, terms, audit provision and reporting are specified by contract. Contract terms must be consistent with the Board of Supervisors adopted Revolving Loan Fund Administration Manual.

- i) Revolving Loan Fund applicants apply directly to these financial institutions for funding. The financial institutions evaluate and approve the financing according to their criteria, the Headwaters Fund criteria, and the specific covenants of their contracts with the County.
    - g) **Local Businesses, Community Groups and Governments** prepare loan and grant applications consistent with Headwaters Fund criteria and implement Headwaters Fund projects under contract with qualified financial institutions or the County.
- 4. Program Rules
  - a) The operations of the Headwaters Fund shall be governed by this Charter and the following Program Manuals:
    - i) Headwaters Fund Board Manual;
    - ii) Headwaters Revolving Loan Fund Manual;
    - iii) Headwaters Grant Fund Manual;
    - iv) Headwaters Community Investment Fund Manual;
    - v) Other manuals as needed.
  - b) The Board of Supervisors shall adopt the Charter by ordinance. The Program Manuals shall be adopted by resolution.
- 5. Revisions and Amendments
  - a) Sections 1 and 2 of this document (Name & Purpose, Fund Structure and Activities), can only be changed by Humboldt County voter approval in a simple majority referendum.
  - b) Changes in any other section of this document must be approved by the Board of Supervisors with a four-fifths vote. Under no circumstances, except those specifically outlined in section 2C of this document, will Headwaters Fund monies be accessible for general purpose County spending. The Charter shall be subject to a comprehensive review after the first full year of operation and once every three years thereafter.
  - c) Major modifications of the Program Manuals must also be approved by the Board of Supervisors by a majority vote. Minor modifications of the Program Manuals involving technical updates, correction of errors and editorial content or format can be completed by staff and approved by the Headwaters Fund Board. The Program Manuals shall be subject to a comprehensive review after the first full year of operation and once every three years thereafter.
  - d) The comprehensive reviews of the Charter and Program Manuals will include an evaluation of the Fund's effectiveness and recommendations for revisions or amendments. The public and participants in Fund activities will be given an opportunity to provide comment and participate in the drafting of the review. The review will be prepared by staff and incorporated in the annual Community Benefits Report. The report will be reviewed and approved by the Headwaters Fund Board and forwarded, with recommendations, to the Board of Supervisors.