



Capital at the point of impact.

Pennsylvania Fresh Food Financing Initiative

Department of Community Economic Development Final Report

The Pennsylvania Fresh Food Financing Initiative (FFFI) is a statewide financing program designed to attract supermarkets and grocery stores to underserved urban and rural communities.

The objectives of the program are to:

- reduce the high incidence of diet-related diseases by providing healthy food;
- stimulate investment of private capital in low-wealth communities;
- remove financing obstacles and lower operating barriers for supermarkets in poor communities;
- create living wage jobs; and
- prepare and retain a qualified workforce.



Developed as a public-private partnership, FFFI serves the financing needs of operators located or locating in communities where infrastructure costs and credit needs are not met by conventional financial institutions. The initiative uses market analysis, leveraged capital, and public policy to stimulate supermarket development and increase the availability of fresh food in low-income neighborhoods.

FFFI is a partnership between the Commonwealth of Pennsylvania and:

- The Reinvestment Fund (TRF), a community development financial institution;
- The Food Trust, an organization that advocates for and oversees the provision of nutritious foods in underserved communities; and
- Urban Affairs Coalition (UAC), an organization that creates opportunities for minority workers.

The advocacy of The Food Trust and the support of State Representatives Dwight Evans, Frank Oliver and Jake Wheatley led to the allocation of \$10 million to create FFFI in 2004. The State subsequently allocated an additional \$20 million to the initiative. TRF is leveraging these funds with private resources to create a comprehensive, multi-faceted \$120 million financing program for grocery stores and supermarkets.

As of June 2010, TRF has matched the State's \$30 million grant with \$146 million in additional investment.

FFFI has attracted 206 applications from across Pennsylvania, with 93 applications approved for funding as of June 2010. In total, more than \$73.2 million in loans and \$11.9 million in grants have been approved. Projects approved for financing are expected to bring 5,023 jobs and 1.66 million square feet of commercial space. Included in the 88 applicants receiving FFFI assistance are: 10 non-traditional fresh food retailers (e.g., farmers markets, food coops, a CSA, and a public market), 3 grants to technical assistance providers and 3 predevelopment grants for early stage, conceptual projects that did not result in a store opening.

The success of FFFI has been facilitated by its streamlined programmatic structure and flexible financing. The program's flexibility combined with TRF's lending expertise has enabled us to determine the optimal financing structures for specific projects in a timely manner. Moreover, TRF has been able to innovate the financing program over time, introducing new capital sources or adjusting existing ones to best respond to operators' needs.



As the development finance intermediary for FFFI, TRF has been able to aggregate private capital, use local market knowledge to build a successful portfolio, underwrite and service projects, and work effectively with public, private and civic stakeholders. FFFI has become a model for the national Healthy Food Financing, and has been recognized for its successes by Harvard's Innovations in American Government Award, numerous media outlets, philanthropy, and state and local governments.

Partners

TRF manages FFFI's financing and grant program, which involves underwriting, documenting, servicing and ongoing asset management for all investments. TRF also provides technical assistance to its borrowers and grantees, and conducts economic impact assessments for the initiative.

The Food Trust works with supermarket developers and communities throughout Pennsylvania to determine how they can best use the resources available through FFFI. The Food Trust also markets and promotes the initiative statewide and conducts analyses to identify untapped markets.

UAC enhances contracting opportunities for disadvantaged, minority and women-owned businesses interested in becoming supermarket developers or subcontractors through the initiative. These three organizations work in partnership with the Pennsylvania Department of Community and Economic Development. The supermarket industry, local economic development organizations, community organizations, and universities have also been supporters of the initiative.

Funding and Leverage

To attract and stimulate private capital investment into underserved urban and rural communities, TRF pledged to match the Commonwealth's \$30 million grant into FFFI by a ratio of 3:1, to create a \$120 million program. The program has four components: a bank-syndicated supermarket loan fund, the federal New Markets Tax Credit (NMTTC) program, TRF's own Core Loan Fund, and direct grants to operators/developers. Each of these components offers unique benefits and flexibility, and TRF works with applicants to determine which source of funds best fits a project's needs.

The State's \$30 million grant was allocated over six years as follows:

- \$13.1 million for loan capital and credit loss reserves;
- \$12 million as direct grants to store operators;
- \$3.1 million to support NMTTC financing; and
- \$1.8 million for program administration.

To date, TRF has matched these allocations as follows:

- \$13.1 million matched with \$32.4 million in a bank-syndicated loan fund and \$1.4 million from TRF's Core Loan Fund.
- \$12 million in direct grants to operators/developers matched with \$40 million in contributions from store operators/developers.
- \$3.1 million into NMTTC fund matched with \$65.1 million in private resources.
- \$8.4 million raised as match from federal, local and philanthropic resources.

Program Financing Structure

FFFI provides grants and loans to qualified supermarkets and fresh food retailers for predevelopment, acquisition, equipment and construction costs, as well as for start-up costs such as employee recruitment and training.

FFFI Grant Products

To qualify for an FFFI grant, a supermarket must be located in a low- to moderate-income census tract and in a trade area that is underserved. The Food Trust uses current grocery store listings to determine the number of stores within the applying store's trade area, which is roughly 0.5 mile in inner-city areas, 1.0 mile in urban areas, and 2 or more miles in suburban and rural areas. If a store is not located in a low- or moderate-income census tract but more than 50% of the customer base is from a low-income census tract, the store may still qualify for FFFI resources.

These eligibility requirements are designed to provide maximum support for stores in areas with both lower-incomes and underserved residents (eligible for both grant and loan funds) as well as to provide adequate support for stores in lower income areas that are not necessarily underserved (eligible for loan funds only). The two types of grants available are:

1. Standard Grants: up to \$250,000 per store and \$750,000 in total for one supermarket operator; and
2. Extraordinary Grants: up to \$1 million for a project showing high potential to:
 - Maximize debt and equity financing potential to demonstrate efficient use of grant resources
 - Create a significant number of high-quality jobs
 - Have substantial economic impact in line with broader neighborhood development plans
 - Address a lack of fresh food outlets in very low income communities.

Eligible uses for grants include:

- Pre-development grants for early costs associated with project feasibility including professional fees, market studies, appraisals, and deposits on land and buildings and other holding costs;
- Land assembly and capital grants for relocation, demolition, environmental remediation, infrastructure improvements and energy-efficiency investments;
- Soft costs and other preopening costs for training costs, security and other preopening expenses; and
- Construction grants for general conditions, builder overhead and profit, labor, materials and contingency funding.

FFFI Loan Products

TRF carefully assesses which capital source best matches a particular project's features and needs. The bank-syndicated loan fund is a \$40.5 million loan pool dedicated exclusively to financing supermarkets. The pool comprises a \$32.4 million

syndicated bank partnership led by JPMorgan Chase Bank, with investments from Wachovia, PNC Bank, Merrill Lynch CDC, HSBC, and Citizens Bank; it is credit-enhanced by \$8 million from the Commonwealth of Pennsylvania. The most prescriptive of the financing vehicles, this fund offers 5- and 7-year loan products, and has been used to finance equipment, acquisition, construction, renovation, leasehold improvements and energy-efficiency measures.

TRF's Core Loan Fund, which TRF has grown and managed for more than 20 years, encompasses investments from individual, religious, institutional and financial investors, to be used in support of TRF's mission. With flexible terms and products, the Core Loan Fund has provided an attractive alternative funding source to those projects for which the bank-syndicated loan fund does not fit (e.g., very small projects or those requiring shorter or uncertain terms).

To date, TRF has received three New Market Tax Credit (NMTC) allocations totaling \$278.5 million, and has identified supermarkets as one of three priority project-types for this financing. Though the NMTC program has complex structural and reporting requirements, its flexible terms and long-term tax advantages have enabled TRF to provide attractive financing, including equity, to several larger store projects. TRF has used almost \$69.2 million in NMTC for supermarkets to date.

FFFI grant and market-priced loan amounts are relatively small. The program does not attempt to subsidize supermarkets that are otherwise economically infeasible, but rather provides an incentive that encourages viable supermarket operators and developers to select sites in underserved areas.

FFFI Results

FFFI has been hailed for its flexibility and ability to serve a diverse constituency. Projects financed through FFFI have ranged in size from large, full-service supermarkets in urban neighborhoods to small grocery stores in rural areas.

Approved urban stores have typically ranged from 17,000 to 65,000 square feet, with full-service supermarkets employing 150 to 200 full- and part-time employees and having weekly sales of \$200,000 to \$300,000. Many urban stores are managed by independent operators that own several stores.

Approved stores in rural areas tend to be family-owned businesses ranging in size from 12,000 to 22,000 square feet, with 10 to 84 full- and part-time employees.

Sample Stores Receiving FFFI Resources

Shop 'N' Save, Ambridge

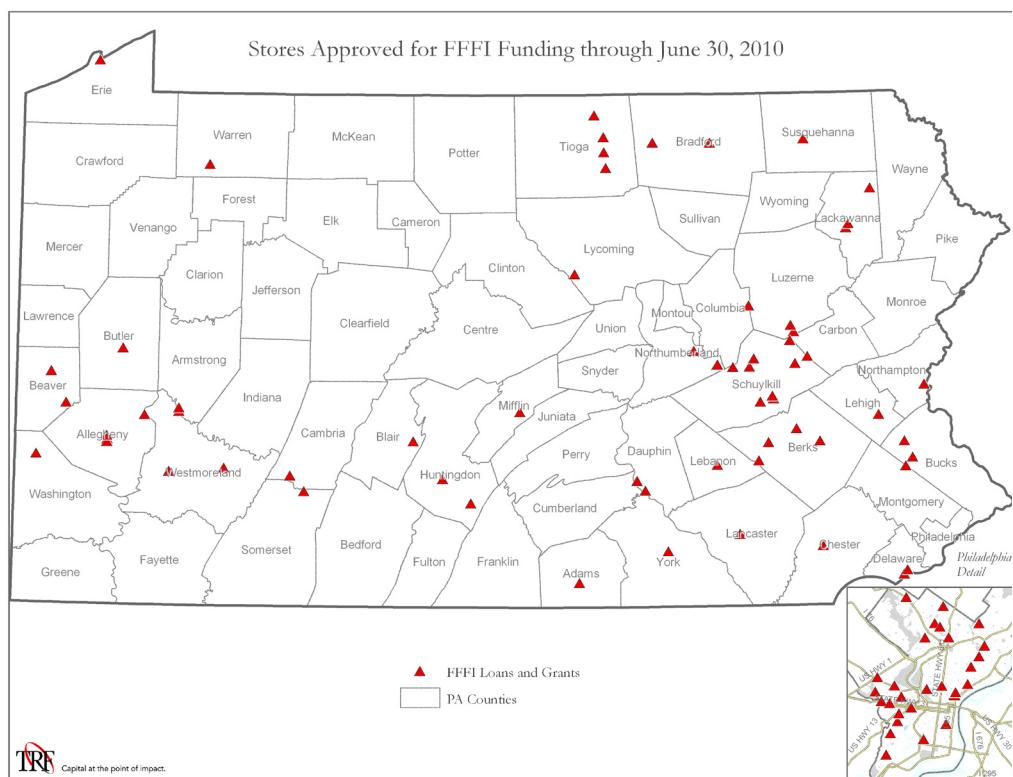
At the end of May 2009, the family-owned Ambridge Shop 'N' Save, broke ground on its expansion project, made possible through a (\$250,000) grant from the Pennsylvania Fresh Food Financing Initiative. The supermarket, the only full-service market in Ambridge, is conveniently located in a residential neighborhood and provides a free Saturday shuttle from downtown Ambridge. Shop 'N' Save will expand its fresh produce, dairy and meat offerings by 35 percent through this effort. The grant will also allow the supermarket to invest in up-to-date equipment, upgrade customer parking options and create 40 new jobs. The expansion is schedule to be completed in the Fall of 2009.

Boyer's Family Market, Orwigsburg

Boyer's Family Market (BFM) is a 17-store supermarket chain with headquarters in Orwigsburg located in Schuylkill County. The 17 stores range in size from 9,500 square feet to 32,000 square feet, and are located in seven central and northeastern counties. Founded in 1950, this family owned and operated business employs more than 950 people.

The company has grown by buying single or multi-store independent operators who have deferred needed investment in physical plant and equipment. BFM's growth plan focuses on remodeling these stores and creating or expanding value-added products (organic and fresh produce, prepared foods to go, fresh seafood and meats); providing education and training to employees to better assist customers; and creating more customer-friendly layouts.

BFM received \$2.75 million from the bank-syndicated loan fund, \$1 million from TRF's Energy funds, and a \$500,000 FFFI grant. The FFFI funds were used to purchase energy-efficient supermarket equipment, furniture and fixtures, leasehold and tenant improvements, and to support employee training.



Ha Ha's Market, Philadelphia

The 900-square-foot Ha Ha's Market, located in the Logan section of Philadelphia, carries fresh produce, fresh fish and spices. The store was established in November of 1989 by the Has, a Korean immigrant family.

FFFI provided Ha Ha's Market with \$25,000 in grant funding and \$30,000 in loan funding. FFFI financing enabled the Has to renovate their refrigeration units, repair HVAC equipment, purchase a much-needed new ice machine, replace the store windows, and expand their space, increasing the fresh food options available. Sales at Ha Ha's market have increased substantially since these improvements were made in 2005.

ShopRite of Island Avenue, Philadelphia

Brown's ShopRite of Island Avenue was the first store to receive financing through FFFI. In 2005, the store received \$5 million in NMTC financing for construction and renovation of the store and \$250,000 in FFFI grant funding to help with workforce development training costs.



This 57,000 square-foot supermarket, located in the Eastwick section of Philadelphia, boasts fresh and affordable foods as well as a strong connection to the community. The Island Avenue ShopRite has created a dedicated community meeting

room and offers prepared foods by Philadelphia's own Delilah's Southern Cuisine. The supermarket has created 258 quality jobs in the community, most of which qualify for employee benefits.

Impact Assessment

TRF is committed to understanding the impacts of its work throughout its entire portfolio. To inform both the current program and any replication efforts, four evaluations are currently underway or have been completed for FFFI.

1. TRF contracted with Econsult, an economic analysis consulting firm, to conduct an econometric analysis of supermarket impacts using an FFFI-funded store as one of the study subjects. The study examined the supermarket's impacts on economic activity, employment, earnings, tax revenue and real estate values.^I
2. In September 2007, the U.S. Department of Treasury's CDFI Fund awarded TRF a grant to evaluate the efficiency and impact of FFFI. In this study, TRF examined the significant difference in operating costs of supermarkets in distressed and non-distressed areas, and evaluated the impact of FFFI financing on reducing or removing these higher costs. The study also evaluated subsidy programs designed to promote economic development and compared their effectiveness to FFFI.^{II}
3. Researchers from Penn State University, University of Michigan, University of London, and The Food Trust are in the midst of a multi-year study funded by the National Institutes of Health. The project compares consumption patterns and other health measures in a neighborhood surrounding a new grocery store versus a control population, to examine impacts on overweight and obesity levels.
4. FFFI was selected by the U.S. Centers for Disease Control and Prevention, in partnership with the Robert Wood Johnson Foundation, to undergo a program assessment. The goal of the assessment is to determine if the program has the components necessary to allow for a quantitative evaluation and to consider it as a best practice in community health.

Econsult Study Highlights

To assess the impact of the selected supermarkets, Econsult looked at three commonly suggested benefits of developing supermarkets in areas served by only small grocers, convenience stores or pharmacies with food departments:

1. Improved Real Estate: Supermarket development could improve the overall attractiveness of a community, helping

to attract or retain more residents in the area. In turn, those residents would attract other retail businesses into the community and economic activity would increase in all sectors.

2. New Investment: Supermarket investment could increase economic activity in the community and surrounding region, increase the number and quality of jobs and generate additional tax revenues for state and local governments.
3. Lower Prices: Supermarkets could potentially improve access to higher-quality food products at lower costs to the consumer.

The two supermarkets examined in this study are located in Philadelphia and in a nearby suburb. The impacts were quantified in terms of increases in regional economic activity, employment and wages. Using models developed by Econsult, the fiscal impacts on local governments were also computed.

The analysis revealed that smaller food stores were more likely to dominate the market areas surrounding both supermarkets. As a result, consumers in these market areas were less likely to receive the benefits commonly associated with supermarkets, such as lower food prices and a better selection of fresh foods. Thus many consumers, especially in the urban store's market area, were also likely to travel outside their neighborhood in search of these benefits.

Analysis of the urban store's investment impact showed significant impacts on employment and earnings at the county level. Employment was estimated to increase by 660 jobs, and county earnings by \$12,466,000.

The strongest impact of a supermarket development appeared to be on real estate prices. The study found that the introduction of a new supermarket gives an immediate boost to the value of nearby homes – worth approximately \$1,500 to the typical low-income Philadelphia homeowner living in a \$50,000-home within 0.25-0.5 miles of the new supermarket. In low-income communities, the opening of a supermarket also appears to largely mitigate any real downward trends in local property values.

CDFI Study Highlights

Understanding the nature of supermarket operators' costs in urban and suburban locations is important to creating effective public policy. In this study, TRF observed that its approach to supermarket financing, which taps different funding streams depending on a project's need, consistently helps compensate supermarket operators for the additional start-up costs associated with locating stores in economically

distressed communities. While the financing that TRF offers can help a store operator overcome location-dependent start-up costs, it is not intended to ensure long-term profitability in the face of unsustainable operating expenses. TRF considers this to be smart subsidy, whereby subsidy acts as a catalyst for economic development as opposed to a long-term source of operating support that perpetuates unsustainable markets.

TRF explored the extent of urban/suburban cost differences, the effectiveness of subsidy programs, and the impact of supermarket development, in large part, by studying Brown's ShopRite (BSR). BSR is a chain of supermarkets in the Philadelphia area that shared with TRF information about its costs, employees and shoppers. Using these data to analyze the chain's five urban and five suburban stores, TRF found that there are location-specific cost differences that make creating and expanding supermarkets in urban areas more expensive than doing so in suburban locations.

Start-up costs for the chain's urban stores were considerably higher than for its suburban stores. BSR records showed that it costs nearly seven times more to train employees in urban stores than in suburban stores at time of start-up. Security costs also run higher: it costs approximately five times more per year to staff security-related positions in the urban stores than in the suburban stores because of the need for more security employees. Security equipment within the stores is also expensive. While all stores in the BSR chain have monitor-

ing equipment, BSR reported that it invests more heavily in equipment for its urban stores.

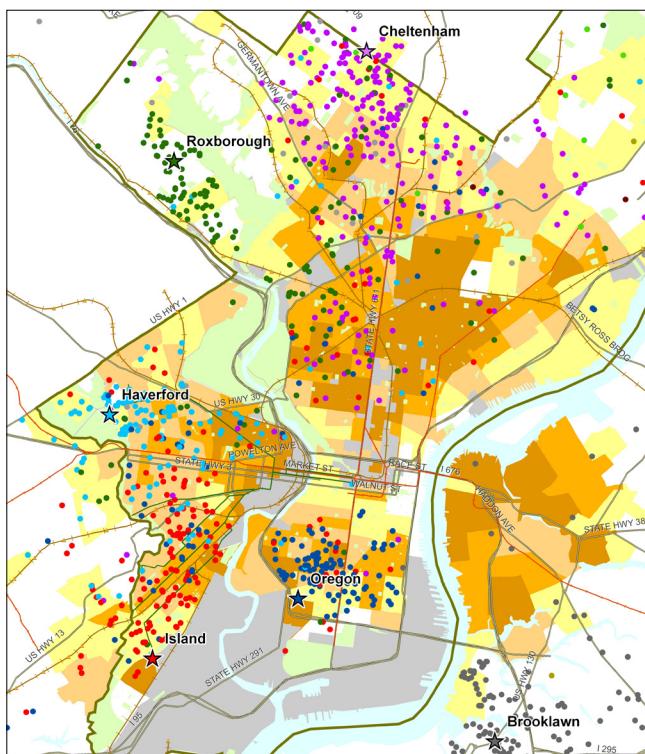
This study also found three statistically significant operating cost differences between BSR's urban and suburban stores: 1) ongoing staff training costs are higher for urban stores; 2) maintenance costs are higher for urban stores; and 3) real estate taxes are higher for suburban stores, likely due to Philadelphia's atypical approach to estimating the value of real estate.

These cost differences discourage supermarket development in inner-city communities. Consequently, residents of these areas have to travel outside their neighborhood to find affordable food options or they must shop at smaller, more expensive nearby stores. Shoppers who can easily travel to the suburbs do so, taking their grocery dollars outside of the city to neighboring municipalities, depriving the city of much-needed tax revenue. Moreover, the dollars they spend help support the creation and retention of jobs in suburban neighborhoods instead of in their own neighborhoods, where steady employment is often difficult to find.

Shoppers who cannot economize by traveling to the suburbs must spend a larger portion of their grocery budget to purchase the same amount of food from smaller stores, where both the selection and quality of goods is often inferior. If these shoppers cannot afford to shop at higher-priced nearby stores they may make the difficult choice to go without certain foods altogether.

Impacts of Supermarket Development: As part of the study, TRF studied the impacts of supermarket development by analyzing the characteristics of BSR and other supermarkets TRF financed throughout Pennsylvania. The study found that:

- TRF-financed supermarkets are located in economically distressed communities;
- BSR's frequent shoppers live in the communities in which they shop;
- TRF-financed supermarkets are located in areas with limited supermarket accessibility;
- BSR's urban-store employees live in distressed communities near the stores in which they work (See Map 1);
- BSR's urban supermarkets bring new job opportunities to residents in distressed communities;
- BSR's urban-store employees earn wages comparable to those of their suburban and industry peers;
- BSR's urban-store employees receive wage increases comparable to those of their suburban and industry peers; and
- TRF-financed supermarkets act as retail anchors in their communities.



Map 1. Residence of ShopRite Employees by Poverty Rate of Census Tract. Each star on the map represents a Brown's ShopRite store, with the residence of the store's employees illustrated by correspondingly colored dots.

FFFI Special Initiatives

In addition to supporting individual stores financially, FFFI resources have been used to seed broader innovation across industries. The Green Supermarkets Initiative and Food Access are two FFFI-supported programs that seek to expand opportunities for sustainable food retail development in non-traditional locations. Through the Corner Store Initiative, FFFI provided a grant to enable 29 Philadelphia corner grocery stores to carry fresh fruit.

Green Supermarkets Initiative

The Green Supermarkets Initiative was created by The Food Trust to inform the supermarket industry and real estate industry stakeholders of design, materials, and operational best practices for building sustainable stores. This initiative was supported by a \$20,000 grant from TRF and by The William Penn Foundation.

The project's lead architect, Re:Vision Architecture, developed conceptual prototypes of supermarkets that promote and support high levels of energy efficiency and environmentally friendly design, products and practices within urban supermarkets and grocery stores. Prototypes were developed for a range of store sizes, as well as for existing and new stores.

Green Supermarkets Initiative: Romano's Grocery Conversion

Romano's Grocery in Philadelphia was renovated extensively as an initial pilot that incorporates the principles of the Green Supermarkets Initiative. TRF provided a \$60,000 grant to Romano's Grocery in Philadelphia to convert the former corner store into a high-quality grocer. TRF's grant supported considerable energy-efficiency measures, including for demolition, predevelopment and operating expenses. The project also received support from The William Penn Foundation.



Once completed, the store was able to offer a mix of fresh, high-quality produce, which it previously was not able to do. Energy-efficient lighting, refrigerators that are 25% to 35% more efficient than standard ones, and a ductless HVAC system minimizes the additional energy costs associated with the refrigeration needed to stock fruits and vegetables. The converted store re-opened to great excitement from the community, which gained affordable healthy food options as well as a significant community asset.

The conversion of Romano's Grocery demonstrates how high-performing, sustainable products, equipment and materials can lower energy costs while providing an attractive, eco-friendly building solution for owners and underserved communities.

Infill Philadelphia: Food Access

The Community Design Collaborative (CDC) worked with TRF and The Food Trust to illustrate how to best incorporate new retail options for fresh food into the urban tapestry. Design practitioners and community development experts worked with store operators to develop options for:

1. Weaver's Way: retrofitting a corner grocery as a neighborhood food co-op;
2. Chester Co-op/Warehouse Conversion: transforming a vacant warehouse into a food co-op and retail anchor; and
3. Girard Avenue Coalition Supermarket: developing a supermarket on a challenging urban infill site.

TRF awarded design/predevelopment grants totaling \$45,000 to the CDC on behalf of these three retail sites. The design solutions were published in a widely distributed report; beyond the direct value for these projects, this initiative was designed to show developers and store operators the potential for food retail in non-traditional urban locations.^{III}

Infill Philadelphia: Weaver's Way Co-op, Philadelphia

Weaver's Way Cooperative Association was one of the projects that received assistance from the CDC. Founded in 1972, Weaver's Way is one of the oldest, continuously operated food co-ops in Philadelphia. The co-op's approach is to operate a grocery-based consumer organization that is owned and governed by its members, and to build community both within its membership and in the Northwest Philadelphia area. TRF approved a \$126,715 grant to help Weaver's Way open a second store in Philadelphia in the West Oak Lane section of Northwest Philadelphia. The store has become a celebrated part of the neighborhood, serving as a source of both fresh affordable foods and community engagement.

Corner Store Initiative

Corner stores typically struggle with space and infrastructure, limiting their ability to provide fresh produce. FFFI provided a \$15,175 grant to purchase space-efficient refrigeration units for 29 corner stores in Philadelphia. These units have enabled the stores to offer fresh-cut fruit at affordable prices. The funds also supported sidewalk signage to advertise the newly available produce. Store operators and community residents have responded very positively to this initiative, and demand for the fruit has exceeded expectations.

Notes:

I. Econsult Corporation, 2006. The Economic Impact of Supermarkets on Their Surrounding Communities. Summary Brief available at: <http://www.trfund.com/resource/downloads/policypubs/supermarkets.pdf>

II. The Reinvestment Fund, 2008. CDFI Financing of Supermarkets in Underserved Communities: A Case Study. Supported by the CDFI Fund. Available at: http://www.trfund.com/resource/downloads/policypubs/Supermarkets_Full_Study.pdf

III. The Food Trust and Re:Vision Architecture, 2008. Greening Grocery: Strategies for Sustainable Food Retailing. Available at: <http://www.thefoodtrust.org/pdf/Food%20Trust%20Green%20Grocery%20Store%20Strategy%20Report%20Final%20Draft%20080709.pdf>.



The Reinvestment Fund

Combining expert knowledge with innovation and determination, TRF identifies the point of impact where capital can deliver its greatest financial and social return. TRF's investments in homes, schools, and businesses reclaim and transform neighborhoods – driving economic growth and improving lives throughout the mid-Atlantic.

Since its inception in 1985, TRF has made \$1 billion in community investments. These investments have resulted in over 18,900 housing units, over 8.3 million square feet of commercial space, 46,235 jobs, 550 businesses, 29,200 charter school seats, and 3.1 million MWh of clean, renewable energy. For more information, visit www.trfund.com.



The Food Trust

The Food Trust is a nationally-recognized nonprofit working to ensure that every child has access to affordable nutritious food. The Food Trust manages urban farmers markets, conducts nutrition education classes in public schools, and works to improve the connection between local farms and urban communities. The Food Trust convenes the Food Marketing Task Force, an advisory group of leaders from the supermarket industry, city government, and the nonprofit sector, who developed ten policy recommendations for supporting new food retail in a report called Stimulating Supermarket Development: A New Day in Pennsylvania. For more information visit the The Food Trust's web site at www.thefoodtrust.org.



Urban Affairs Coalition

The Urban Affairs Coalition (UAC) works with supermarket developers, operators and other clients to enhance contracting opportunities for disadvantaged, minority and women-owned businesses. UAC also helps its clients successfully employ females, minorities and community residents. UAC's overall mission is to bring together business and community leaders to solve urban problems, operate programs, and support an array of government and private sector-sponsored initiatives to help the disadvantaged and working poor of the Metropolitan Philadelphia region. For more information visit the UAC web site at www.uac.org.

To learn more about FFFI, contact Patricia Smith at patricia.smith@trfund.com. More information about stores supported by FFFI and completed impact studies can be found on TRF's web site, www.trfund.com.