Pennsylvania Fresh Food Financing Initiative

What is the Fresh Food Financing Initiative?

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 program objectives 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, the 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.

The FFFI is a partnership between the Commonwealth of Pennsylvania, The Reinvestment Fund (TRF), and The Food Trust.

The Reinvestment Fund (TRF) is a community development financial institution (CDFI) that manages the 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 is an organization that advocates for and oversees the provision of nutritious foods in underserved communities. The Food Trust works with supermarket developers and communities throughout Pennsylvania to determine how they can best use the resources available through the FFFI. The Food Trust also markets and promotes the initiative statewide and conducts analyses to identify untapped markets.

These organizations work in partnership with the Pennsylvania Department of Community and Economic Development (DCED). The supermarket industry, local economic development organizations, community organizations, and universities have also been supporters of the initiative.

The FFFI began with the allocation of $10 million of state funds to create the program in 2004. The state subsequently allocated an additional $10 million to the initiative in 2005 and 2006, bringing the total state investment to $30 million. The state dollars were leveraged by TRF with private resources to create a comprehensive, multi-faceted $120 million financing pool for grocery stores and supermarkets.

The FFFI responds to the mounting evidence that supermarket accessibility reduces the risk of developing diet-related diseases such as obesity, heart disease and diabetes. Research on inner-city supermarkets indicates many inner-city areas, especially those that are economically distressed, lack stores that offer quality fresh foods at competitive prices.

As of December 2009, TRF has matched the State’s $30 million grant with $117.4 million in matching investment.

Research also indicates that the costs of operating grocery stores in urban areas are higher than the costs of doing so in suburban communities. Meanwhile, smaller operators in rural communities often struggle to obtain conventional financing. The FFFI is designed to help store operators and developers overcome these initial barriers.

The Fresh Food Financing Initiative’s Accomplishments

The FFFI has attracted 203 applications from across Pennsylvania, with 88 applications approved for funding as of December 2009. In total, TRF has approved more than $72.9 million in loans and $11.3 million in grants. Projects approved for financing are expected to create...
over 5,000 jobs and 1.6 million square feet of commercial space.

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 generating 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 ten to 84 full- and part-time employees.

The FFFI has been used to support grocery stores in the following counties: Adams, Allegheny, Armstrong, Beaver, Blair, Bradford, Berks, Bucks, Cambria, Carbon, Chester, Columbia, Dauphin, Delaware, Lackawanna, Lancaster, Lebanon, Lehigh, Luzerne, Northumberland, Philadelphia, Somerset, Schuylkill, Tioga, Washington, Westmoreland and York.

As the nation’s first statewide program aimed at supermarket development, the FFFI is a model for state programs in New York, New Jersey, Illinois, Louisiana and Colorado. The program has twice been named one of the nation’s premier public policy programs by Harvard University’s Kennedy School of Government; and often is cited as a model program by such organizations as the Robert Wood Johnson Foundation. The FFFI has also garnered public recognition from President Obama and the First Lady. Obama’s federal budget proposal includes $400 million in investments for new and expanded supermarkets, farmers markets and other food stores, creating a national-scale version of the successful Pennsylvania FFFI. The $400 million investment, split among the U.S. Department of Agriculture, U.S. Department of Health and Human Services and U.S. Department of the Treasury, includes $250 million in New Market Tax Credit allocations to spur private investment to underserved communities.

Funding and Leverage

To attract and stimulate private capital investment into underserved urban and rural communities, TRF pledged to match the state’s five-year $30 million grant into the FFFI by a ratio of 3:1 to create a $120 million program.

The State’s $30 million grant was allocated over five 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 the federal New Markets Tax Credit (NMTC) financing; and
- $1.8 million for program administration.

To date, TRF has matched state allocations as follows:

- $8.1 million in state funds matched with $32.4 million in TRF’s bank-syndicated loan fund;
- $5 million in state funds matched with $1.4 million from TRF’s Core Loan Fund;
- $12 million in state funds in direct grants to operators/developers matched with $26.1 million in contributions from store operators/developers;
- $3.1 million in state funds into the NMTC fund matched with $48.7 million in private resources; and
- $8.4 million was raised as a match for state funds from federal, local and philanthropic resources.

The Fresh Food Financing Initiative’s Tools

The FFFI provides funding opportunities to qualified supermarkets and fresh food retailers with:

1. Direct grants to operators/developers
2. A bank-syndicated supermarket loan fund TRF’s Core Loan Fund
3. The federal New Markets Tax Credit (NMTC) program

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. Funding may be used for predevelopment, acquisition, equipment and construction costs, as well as for start-up costs such as employee recruitment and training.

FFFI Grants

To qualify for a 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, an area that is roughly one-half mile in inner-city areas, one mile in other urban areas, and two 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 percent 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).

Two types of grants are available.

1. Standard Grants provide up to $250,000 per store and $750,000 in total for one supermarket operator.
2. Extraordinary Grants provide 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; or
   - Address a lack of fresh food outlets in very low income communities.

Eligible uses for grants include:

- Pre-development 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 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 for general conditions, builder overhead and profit, labor, materials and contingency funding.

**FFFI Loans**

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 is comprised of $32.4 million of loan capital from various banks. It is credit-enhanced by $8 million from the Commonwealth of Pennsylvania. This fund offers five- and seven-year loan products, and has been used to finance equipment, acquisition, construction, renovation, leasehold improvements and energy-efficiency measures.

TRF’s Core Loan Fund 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).

Based on the federal New Markets Tax Credit (NMTC), TRF has received allocations totaling $278.5 million for investments in low income communities. Supermarkets are one of three priority project-types eligible 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 $59.6 million in NMTC-related funds for supermarkets to date.

The 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.

**Fresh Food Financing Initiative Success Stories**

**Boyer’s Family Market, Orwigsburg**

Boyer’s Family Market (BFM) is a 17-store supermarket chain with headquarters in Orwigsburg, 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.
Right by Nature, Pittsburgh
TRF approved a $250,000 FFFI grant and $750,000 from TRF’s Core Loan Fund for the start-up of Right by Nature (RBN). RBN is a full-service natural foods store that specializes in fresh and affordable organic produce. This 22,000 square-foot store is located in the City of Pittsburgh’s Lawrenceville Enterprise Zone. FFFI financing was primarily used for equipment, inventory, working capital, pre-opening labor costs, and professional services for the project, which had a total cost of $3.2 million.

RBN emphasizes fresh organic produce available at everyday low prices. The store’s director, Robert Stone, has extensive contacts within Pennsylvania’s organic farming community and buys his produce directly from the farmers. The produce is picked up at the farms bi-weekly and delivered directly to the store. This “Field to Store” supply chain removes the middle man, thereby saving money for RBN and its customers. The store is a full-line grocer of all other natural foods.

ShopRite of Island Avenue, Philadelphia
Brown’s ShopRite of Island Avenue was the first store to receive financing through the 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.
Fresh Food Financing Initiative Pilot Programs

The FFFI was involved with several pilot programs in the Philadelphia region that have the potential for statewide expansion.

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.

- 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.
- Corner stores typically struggle with space and infrastructure, limiting their ability to provide fresh produce. Through the Corner Store Initiative, the FFFI provided a grant to enable 29 Philadelphia corner grocery stores to carry fresh produce.
- The Greater Philadelphia Urban Affairs Coalition (GPUAC) has partnered with the FFFI for the Fresh Grocer store projects. The GPUAC enhances contracting opportunities for disadvantaged, minority and women-owned businesses interested in becoming supermarket developers or subcontractors through the initiative.

Fresh Food Financing Initiative Update

The FFFI continues to receive tremendous interest in the program. As of January 2009, The Food Trust ceased outreach to supermarket operators, in anticipation of available FFFI funds being fully committed, but applications and dozens of inquiries have continued to arrive from across the state. The Food Trust has received applications from eight counties (including Allegheny, Beaver, Bedford, Elk, Fulton, Juniata, Philadelphia, and Westmoreland). Preliminary evaluations indicate the majority of these projects are located in communities that lack access to healthy foods and would qualify for both grant and loan funding under FFFI guidelines. Current state budget restraints reduce the likelihood of significant expansion of the program at this time. However, it is something to consider when state revenues improve.

QUESTIONS AND COMMENTS
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