



Comptroller of the Currency  
Administrator of National Banks

US Department of the Treasury

# Community Developments *Investments*

September 2012



## Bank Financing of Healthy-Food Initiatives



# A Look Inside ...

Barry Wides, Deputy Comptroller, Community Affairs, OCC

This issue of *Community Developments Investments* takes a look at the growing effort and opportunities to change low-income communities lacking grocery stores into thriving markets and how banks can assist the process with the right financing tools. These investments not only expand food options but also create jobs, help revitalize distressed communities, and, importantly, open new markets for farmers to sell their products, which can provide an economic boost to rural America. This is a broad area with diverse lending and investing opportunities that can benefit low-income communities and may qualify for Community Reinvestment Act consideration. By better connecting producers and consumers, we can build stronger ties between cities and rural areas and help create new opportunities for farmers and ranchers.

In 2004, local nonprofit groups in Pennsylvania noted that many



PieLab

The PieLab, in Greensboro, Ala., which serves up homemade pies, conversation, and baker training, received a Healthy Food Fund loan from the Hale Empowerment and Revitalization Organization. The fund's loan pool initially was funded by Regions Bank.

low-income neighborhoods were underserved by grocery stores. Soon after, Pennsylvania's state leaders also began to recognize the needs of these neighborhoods. As a result, the legislature allocated \$20 million to establish the Pennsylvania Fresh Food Financing Initiative (FFFI) to improve the food landscape of such communities.

The FFFI was the first formal initiative created to increase food access by forming a public-private

partnership. As a statewide financing program, the FFFI was designed to attract supermarkets and grocery stores to underserved urban and rural communities. It served the financing needs of operators located in or considering outlets in communities where infrastructure costs and credit needs could not be met by conventional financial institutions. The initiative relied on market analysis, leveraged capital, and the momentum of public policy

## Community Developments

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### On the cover

Bus photos courtesy of The Reinvestment Fund

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to stimulate private investment that expands the availability of fresh food in low-income communities.

The scarcity of fresh produce, meats, and dairy products in some urban and rural communities is not unique to Pennsylvania. Recently, these areas have been identified as “food deserts,” and most are located in low-income areas. The 2008 Farm Bill describes a food desert as an “area in the United States with limited access to affordable and nutritious food, particularly such an area composed of predominantly lower income neighborhoods and communities” (title VI, sec. 7527). In addition to these areas’ lack of access to fresh produce and other nutritious products, the U.S. Department of Agriculture (USDA) has linked these locations to obesity and health problems among residents. In a paper titled “Can Low-Income Americans Afford a Healthy Diet?” (March 2009), Adam Drewnowski and Petra Eichelsdoerfer write that people eat foods that are readily available and affordable, even when that food is not healthy.

In urban areas, the lack of convenient food shopping and nutritious products is the result of multiple issues and barriers. The Reinvestment Fund (TRF) describes some of the barriers to bringing healthy-food outlets to urban food deserts in “Access to Supermarkets in Inner-City Communities” ([www.trfund.com/resource/downloads/policypubs/CDFIStudySummary.pdf](http://www.trfund.com/resource/downloads/policypubs/CDFIStudySummary.pdf)). Among the barriers are the increased costs for start-up, employee training, and security. In addition, assembling adequate property in densely populated areas is a challenge. You can read more about these barriers in “The Reinvestment Fund: A Healthy-Food Financing Leader” (see page 4).

In rural locations, food deserts seem to be the result of low population density, long distances, and limited transportation, all of which lead to limited demand and a lack of efficiencies of scale. To overcome the cost barriers, transit limitations, and long distances, the White House and Congress joined forces in 2010 to provide funding and encouragement

**In rural locations, food deserts seem to be the result of low population density, long distances, and limited transportation, all of which lead to limited demand and a lack of efficiencies of scale.**

that they hoped would prime the pump and stimulate private financing to support the expansion of fresh-food availability to food deserts. Based on the FFFI model, the federal Healthy Food Financing Initiative (HFFI) included \$400 million to encourage grocery stores and other healthy-food retailers to move into underserved urban and rural communities across America.

The U.S. Department of the Treasury, along with the U.S. Department of Health and Human Services (HHS) and USDA, also supports healthy-food efforts. All three agencies provide loans, grants, or technical assistance to reduce the number of food deserts (see “Federal Agencies Support Financing Efforts to Improve Access to Healthy Food” on page 9).

In 2011, the Treasury Department’s Community Development Financial Institutions Fund (CDFI Fund) received \$22 million through an HFFI appropriation. An additional HFFI appropriation of \$10 million went to the Community Economic Development Program at HHS. Both of these programs fund experienced CDFIs and nonprofit lenders and developers. In turn, the funded organizations offer banks opportunities to participate in healthy-food projects through new market tax credit (NMTC) projects and loan funds. By partnering with the recipients of CDFI and HHS funds, banks can invest in healthy-food initiatives and support the creation of jobs.

Helping retail food providers and produce suppliers reach food deserts requires flexible financing tools. NCB Capital Impact is a CDFI with three decades of experience in providing such tools. You can learn about its experience and innovative efforts in “The California FreshWorks Fund: Bringing Food to the Community” (see page 14), which describes the management of the California FreshWorks Fund.

From a bank’s perspective, TD Bank, NA, shares its experience in bringing healthy-food-related jobs to Newark, N.J., through NMTC financing (see page 18). TD Bank’s project illustrates both the challenges and the rewards that an investment in healthy-food financing can bring.

Finally, we bring you “This Just In” (see page 22), which describes new opportunities in the OCC’s districts, including several healthy-food opportunities.

# The Reinvestment Fund: A Healthy-Food Financing Leader

Patricia L. Smith, Senior Policy Advisor, The Reinvestment Fund

For an estimated 24.6 million Americans, access to full-service supermarkets is severely limited, according to a 2011 study ([www.trfund.com/resource/downloads/policypubs/SearchingForMarketsSummary.pdf](http://www.trfund.com/resource/downloads/policypubs/SearchingForMarketsSummary.pdf)) by The Reinvestment Fund (TRF). This deficit is particularly pronounced in low-income urban, rural, and minority communities. A lack of access to healthy food is preventing families from eating well and fueling the country's growing obesity problem and the high health costs that accompany it. Communities without full-service grocery retailers also lose out on steady jobs, decent wages, and other amenities these businesses can bring. TRF, a leader in neighborhood revitalization and a certified community development financial institution (CDFI), has been working to improve healthy-food access in underserved communities for much of the last decade.

## Financing Food Access

Beginning with the Pennsylvania Fresh Food Financing Initiative (FFFI) in 2004, TRF has developed a comprehensive approach to improving the food landscape in low-income, underserved communities. The FFFI was developed as a public-private partnership to serve the financing needs of supermarkets and grocery stores located in or considering operations in communities where infrastructure costs and credit needs could not be met by conventional financial institutions. The initiative relied on market analysis, leveraged



TRF

**A loan from TRF helped Greensgrow Farm, a nonprofit organization in the Kensington neighborhood of Philadelphia, Pa., expand from an urban farm into a commercial farm, a retail nursery, a food distribution business specializing in locally grown and produced products, and a shared-use commercial kitchen.**

capital, and the momentum of public policy to stimulate private investment that supports an increase in the availability of fresh food in low-income areas.

The FFFI was a partnership among the commonwealth of Pennsylvania; TRF; the Food Trust, a nonprofit that advocates for healthy-food access and good nutrition; and the Urban Affairs Coalition, a group of 75 organizations that work on a variety of community issues. As the development financing intermediary for the FFFI, TRF aggregated private capital (see “A Coalition of Capital” on page 7), used local market knowledge to build a successful portfolio, underwrote

and serviced projects, and worked effectively with public, private, and civic stakeholders. TRF leveraged \$30 million in seed funds from the commonwealth with nearly \$150 million in private and public resources for grocery stores and supermarkets. Recognized for its successes by Harvard University's Innovations in American Government Award, philanthropies, and federal, state, and local governments, the FFFI is a model for supermarket financing programs in underserved communities nationwide.

Healthy-food retail financing is now one of TRF's core lending activities. To date, TRF has made \$11.8 million

in grants and \$104.4 million in loans to 103 projects across the mid-Atlantic region. Project development costs exceed \$260 million, and these projects have created or retained more than 5,819 jobs and 1.85 million square feet of healthy-food retail space. TRF is also the manager of a food-access program launched by the New Jersey Economic Development Authority for which TRF recently secured a \$12 million investment from the Robert Wood Johnson Foundation.

TRF's supermarket customers are primarily developers and healthy-food project operators who need financing help to overcome some of the higher start-up costs associated with locating in low-income, underserved neighborhoods. TRF offers these customers access to credit at the early stages of predevelopment and site acquisition, flexible construction lending standards, and longer amortization schedules for term debt, among other flexible debt terms. Rather than attempting to subsidize projects that are otherwise economically infeasible, TRF financing provides an incentive to encourage viable operators and developers to select sites in underserved areas. Food projects can also access TRF financing at lower interest rates for the energy-efficiency components of their development projects.

## Creating National Momentum

Among CDFIs nationwide, there is a growing interest in launching initiatives modeled on the FFFI. In 2010, the CDFI Fund and the Opportunity Finance Network selected TRF and others to develop a curriculum, prepare training

materials, and conduct workshops and webinars for their Financing Healthy Food Options initiative. The initiative is designed to build the CDFI industry's capacity to finance projects that increase healthy-food options in underserved communities. More than 100 CDFIs have participated in TRF's training workshops so far. TRF has also advised peer organizations working on statewide or local healthy-food retail financing initiatives in Arizona, California, Colorado, Georgia, Louisiana, Maine, Massachusetts, Missouri, New York,

North Carolina, Ohio, South Carolina, and Texas.

TRF is working with policymakers and advocates pushing for a smart, sustainable way to invest in healthy food and good jobs in low-income neighborhoods. In early 2009, TRF started collaborating with the Food Trust and PolicyLink, a national research and action institute dedicated to advancing economic and social equity, to raise awareness of limited food access in communities across America. Together with national advocacy, TRF's financing successes

## A Coalition of Capital

The primary source of capital for Fresh Food Financing Initiative (FFFI) loans to Pennsylvania supermarket operators and developers was a bank-syndicated loan fund. The bank loan pool, which was dedicated exclusively to financing supermarkets, was led by JPMorgan Chase, with investments from Wachovia (now Wells Fargo), PNC Bank, Merrill Lynch CDC, HSBC, and Citizens Bank. The loan fund offered five- and seven-year loan products, which The Reinvestment Fund (TRF) used to finance equipment, acquisition, construction, renovation, leasehold improvements, and energy-efficiency measures. The loan pool also was available to finance real estate projects with multi-tenant uses beyond a supermarket anchor. The banks provided \$32.4 million, supported by a loan loss reserve funded by an FFFI grant totaling approximately 20 percent of the pool. TRF closed 20 loans using \$9.8 million of the \$32.4 million pool.

The terms presented below are typical of TRF's lending through this pool. These terms may have varied according to specific project and borrower circumstances.

<b>Uses</b>	Equipment, acquisition, construction/renovation, leasehold improvements, energy-efficiency measures
<b>Rates</b>	Variable rates indexed to LIBOR rates Fixed rates indexed to U.S. Treasury rates
<b>Term</b>	Operator loan: 5- or 7-year term, 5- or 7-year amortization Real estate loan: 5- or 7-year term, 10/15/20-year amortization
<b>Collateral</b>	Operator loan: leasehold mortgage, priority lien on accounts, receivables, fixtures and equipment, assignment of leases, and real property Real estate loan: all of the above and first mortgage

in Pennsylvania helped fuel the Obama administration's launch of the Healthy Food Financing Initiative (HFFI). Additionally, First Lady Michelle Obama launched the Let's Move campaign in February 2010 as part of a national public-awareness effort to tackle the problem of childhood obesity. One of the four pillars named in the campaign is improving access to healthy, affordable food.

The HFFI is a shared effort among the U.S. Departments of the Treasury, Agriculture (USDA), and Health and Human Services (HHS) to provide financing for developing and equipping grocery stores, small retailers (see "Financing Helps Rural Towns Keep Healthy Food, Community Pride" on page 7), corner stores, and farmers markets that sell healthy food in underserved areas. The federal fiscal year 2012 budget approved \$32 million for the HFFI through Treasury (\$22 million) and HHS (\$10 million). Additionally, there are programs at the USDA that integrate healthy-food access, including Rural Development, the Farmers Market Promotion Program, Community Food Projects, and programs within the Food and Nutrition Service. In fiscal year 2011, the three agencies also used a variety of existing programs, including new market tax credits (NMTC), to bring healthier foods to underserved communities.

In November 2011, a bipartisan coalition in the U.S. House of Representatives and the U.S. Senate introduced legislation (HR 3525, S 1926) that will authorize the HFFI as a program within the USDA and appropriate \$125 million in federal funds to improve access to healthy food. The legislation calls for a

Community Development Financial Institution, selected through a competitive process, to serve as a national fund manager that would be responsible for raising private money to create a national HFFI fund and support the efforts of local public-private partnerships.

TRF's national effort continues to gain momentum through federal support, financing, and community involvement. To date, more than 90 organizations representing a diverse set of stakeholders have voiced their support for a national solution to the lack of access to healthy food. They include the Food Marketing Institute, the National Grocers Association, the Local Initiatives Support Corporation, the Opportunity Finance Network, the Children's Defense Fund, the National Urban League, the Food Research & Action Center, the Community Food Security Coalition, the American Public Health Association, and the United Food and Commercial Workers International Union.

## Supporting Financing With Analytical Tools

As TRF continues to work on improving access to supermarkets in underserved communities, significant resources have been devoted to understanding such access.

In 2012, with support from the CDFI Fund, TRF completed a nationwide Limited Supermarket Access (LSA) analysis ([www.trfund.com/resource/downloads/policypubs/SearchingForMarketsSummary.pdf](http://www.trfund.com/resource/downloads/policypubs/SearchingForMarketsSummary.pdf)) identifying communities across the nation with unmet demand for healthy-food retail options. Whereas many analytical efforts to identify underserved areas are based primarily on distance measures, TRF's

methodology also factors in an area's population density and car-ownership rate, both of which significantly influence how far households can be expected to travel to shop for food. TRF's analysis identifies 1,519 LSA areas in the continental United States where there are no supermarkets. In approximately half of these LSA areas, the unmet demand within the communities is large enough to support a full-service grocery store.

The LSA analysis helps CDFIs and other stakeholders around the United States consider demand and market viability when determining the type of projects to finance in their respective markets. TRF's analyses are available free on PolicyMap ([www.policymap.com/LandingPages/all-data.html?gclid=CL\\_ZkbKly64CFYne4Aod-WrXAQ](http://www.policymap.com/LandingPages/all-data.html?gclid=CL_ZkbKly64CFYne4Aod-WrXAQ)), TRF's online data and mapping tool. Users can identify communities with inadequate access to full-service supermarkets and estimate the percentage of grocery retail expenditure leakage from the area. These data, when combined with health and socioeconomic data and local market knowledge, can help point CDFIs, supermarket developers and operators, and local government officials to viable areas for opening and expanding supermarkets. In New Jersey, TRF is using LSA analytics to help determine whether a project is located in an eligible area.

TRF contracted with the Econsult Corporation to conduct an econometric analysis of the effects of supermarkets using an HFFI-funded store as one of the study subjects. The study ([www.trfund.com/resource/downloads/policypubs/supermarkets.pdf](http://www.trfund.com/resource/downloads/policypubs/supermarkets.pdf)) examined the effects on economic activity, employment, earnings, tax revenue, and real estate

## Financing Helps Rural Towns Keep Healthy Food, Community Pride

Sprankle's is a small chain of grocery stores serving rural communities in Armstrong, Westmoreland, and Cambria counties in western Pennsylvania. With financing from The Reinvestment Fund (TRF), owners Randy and Brenda Sprankle were able to add two new stores to the three they already owned: an 8,500-square-foot store in Vandergrift and a 10,000-square-foot store in Apollo. The Vandergrift store is the only grocery in town; the Apollo store has been in the community for more than 40 years.

The Sprankles had become business associates and personal friends of the Olivers, a husband-and-wife team who owned and operated two supermarkets near two of the Sprankles' stores. In 2007, the Olivers decided to retire and offered their two stores to the Sprankles. The concern, however, was that a Walmart was going to open near these stores.

The Sprankles hesitated because they had already felt the impact of a Walmart at one of their stores, in Portage Township: Sales decreased by 3.6 percent the year the megastore opened. But the Sprankles wanted to prevent the Olivers' family-owned business from closing. As the



TRF

**With financing from The Reinvestment Fund, Brenda, Douglas, and Randy Sprankle were able to add two stores that were in danger of closing to their Pennsylvania grocery chain, allowing two small communities to maintain their access to fresh food.**

only grocery in town, the Vandergrift store was an important community hub. Similarly, the Apollo store had served the area for generations.

As much as the Sprankles wanted to help, they simply did not have the money to purchase the Olivers' stores. Even by mortgaging their home, which the couple considered, they would not have been able to make payments. Fortunately, the Sprankles had heard about TRF's Pennsylvania Fresh Food Financing Initiative (FFFI) through one of their suppliers. The Sprankles applied for financing through the program and qualified for a \$1.2 million FFFI loan and a \$248,000 grant to purchase the Olivers' two stores.

The benefits of small, family-owned grocery stores range from the tangible, such as jobs, to the more intangible, such as community pride, neighborhood spirit, and providing residents with a

place to meet. In addition to the 25 jobs each of the Sprankle's stores provides, both the Vandergrift and Apollo stores, community institutions for generations, provide a sense of connection to the small towns' storied histories.

values. The supermarket's strongest impact appeared to be on real estate prices. According to the study, the introduction of a new supermarket immediately boosts the value of nearby homes. For example, a typical low-income Philadelphia homeowner living in a \$50,000 home within 0.25 to 0.5 miles of a new supermarket can

expect to see a home-value increase of approximately \$1,500. In low-income communities, the opening of a supermarket also appears to largely mitigate any downward trends in local property values.

In 2007, with support from the CDFI Fund, TRF explored the extent of urban-suburban cost differences, the

effectiveness of subsidy programs, and the impact of supermarket development on communities. 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. For urban stores, start-up costs can be

considerably higher, and the cost of training new employees can be nearly seven times higher than in the suburbs. Higher costs discourage supermarket development in inner-city communities, so residents of these areas have to travel to other neighborhoods to find affordable food options, or they must shop at smaller, more expensive stores nearby. Shoppers who can easily travel to the suburbs do so, taking their grocery dollars to neighboring municipalities and depriving the city of much-needed tax revenue. Moreover, the money they spend helps support the creation and retention of jobs in suburban neighborhoods instead of in their own neighborhoods, where steady employment is often difficult to find.

## Looking Ahead

TRF is identifying more opportunities to work with food cooperatives, community-supported agriculture (CSA) programs, and food hubs. These nontraditional food retail enterprises are a growing segment of local food systems, contributing billions of dollars to regional economies. For example, TRF provided financing to Mariposa, a food cooperative in a low-income neighborhood in Philadelphia, to acquire and renovate its new facility. Despite double-digit sales growth in recent years, Mariposa's small space limited its ability to expand. With TRF financing, the co-op has relocated just blocks from its former location. Construction began in early July 2011; the doors opened on March 17, 2012. As a member-owned operation, Mariposa sells healthy, locally grown fresh produce and sustainably produced products while educating consumers on the benefits of healthy eating.

TRF is also developing strategies to broaden its successful food-retailing investment program into a diversified sustainable agriculture and local food system initiative. After examining the landscape of food production, processing, and distribution in southeastern Pennsylvania and southern and central New Jersey, TRF in 2012 provided debt capital to

## **These nontraditional food retail enterprises are a growing segment of local food systems, contributing billions of dollars to regional economies.**

support the expansion of Chesapeake Gardens, a food manufacturer that purchases local produce and poultry from area farms and makes wholesome soups, stocks, and sauces for wholesale. These items are then used in school lunches for charter schools throughout the region. Chesapeake Gardens also produces individually frozen meals for retail sales in grocery stores. TRF's loan helped Chesapeake move into a larger space and purchase new equipment to fill larger orders for its customers. In addition to providing financing, TRF analyzes the requirements for supporting emerging food systems development with an emphasis on sustainability. Through this work, TRF identifies critical problem areas and expansion opportunities and successfully executes progressive investments in local food systems.

Banks can play an instrumental role in bringing healthier food options to communities that have lost their

grocery stores or are struggling to keep them. Banks can use the Small Business Administration (SBA) 7(a) and USDA Business and Industry Guaranteed Loan (B&I) programs to finance healthy-food retailers and supply-chain businesses. The SBA 7(a) program offers a guaranty for the majority portion of small business loans, typically term loans for equipment, working capital, and other fixed assets. The B&I program guarantees loans for economic development or environmental projects in rural communities.

The Partnership for a Healthier America, an important HFFI stakeholder, is working with major financial institutions and has secured several important commitments. In 2011, the U.S. Bancorp Community Development Corporation and JPMorgan Chase announced plans ([www.progressivegrocer.com/top-stories/headlines/corporate-responsibility/id32984/banks-expanding-access-to-healthy-foods](http://www.progressivegrocer.com/top-stories/headlines/corporate-responsibility/id32984/banks-expanding-access-to-healthy-foods)) to use a significant portion of their NMTC allocations for projects that increase healthy, affordable food availability in low-income areas. Finally, national and regional banks also can offer NMTCs and low-cost debt facilities and grants to the growing number of CDFIs that are managing local initiatives dedicated to improving access to healthier foods in their communities. TRF's successes in Pennsylvania can be attributed to the breadth of capital sources (grants, loans, NMTCs) that enabled the FFFI to offer a broad range of financial products to its customers.

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# Federal Agencies Support Financing Efforts to Improve Access to Healthy Food

Mark Kudlowitz, Associate Program Manager, Community Development Financial Institutions Fund, U.S. Department of the Treasury

The U.S. Department of the Treasury, through the Community Development Financial Institutions Fund (CDFI Fund), is part of a coordinated federal effort to increase access to healthy, affordable food in low-income communities that lack healthy food options. The U.S. Departments of Health and Human Services (HHS) and Agriculture (USDA), which have programs to improve public health and open new markets for farmers to sell their products, are partners in the effort.

These programs also can help create jobs and revitalize distressed communities through investments in anchor institutions, and each program brings a unique approach for accessing healthy foods. The programs utilize a full range of financing tools—grants, loan guarantees, tax credits, and technical assistance. The CDFI Fund’s programs also will leverage public-private partnerships, with banks playing a key role. (For more information about HHS and USDA programs, see “Taking Care of Business and Health” on page 10 and “USDA Support for Healthy-Food Access” on page 12.)

## Treasury Department

The CDFI Fund leads Treasury’s Healthy Food Financing Initiative (HFFI). Established in 1994, the CDFI Fund’s mission is to increase economic opportunity and promote community development investments



USDA

Produce baskets at the 2012 farmers market at the U.S. Department of Agriculture in Washington, D.C., display the types of healthy foods that many low-income communities lack.

for underserved populations and in distressed communities in the United States. It makes financial and technical assistance awards to Community Development Financial Institutions (CDFIs) and administers the New Markets Tax Credit (NMTC) Program. The NMTC Program provides tax incentives for investors to finance businesses and real estate projects in low-income communities. The CDFI Fund’s initiative focuses on

- providing training to CDFIs to establish or expand their healthy-food financing programs;
- awarding grants to CDFIs to directly support healthy-food investments; and

- encouraging private sector investments, including tax credit investments, in healthy-food projects.

## Expanding the Capacity of CDFIs

The CDFI Fund’s Capacity Building Initiative ([www.cdfifund.gov/what\\_we\\_do/FinancingHealthyFoodOptions.asp?programID=13](http://www.cdfifund.gov/what_we_do/FinancingHealthyFoodOptions.asp?programID=13)) provides training and technical assistance to CDFIs undertaking healthy-food financing activities. The training is centered on a series of eight workshops, held in different locations across the country in fiscal year 2011 and fiscal year 2012. The last workshop was held at the end of June in Seattle. The series features three approaches to

healthy-food financing: (1) farms and food production, (2) mid-food chain enterprises (such as food aggregation, food processing, and food distribution), and (3) food retailers.

At each session, trainers with practical experience and expertise taught participants the specifics of the fundraising, underwriting, and loan management required for successful healthy-food projects. This training was developed and managed by the Opportunity Finance Network (OFN), under contract with the CDFI Fund. OFN is a national association

representing a nationwide network of CDFI Loan Funds.

## Providing Capital for CDFIs

In September 2011, the CDFI Fund awarded grants totaling \$25 million to 12 CDFIs for healthy-food financing programs. Awards ranged from \$500,000 to \$3 million, and each recipient has a unique approach to healthy-food financing.

The 12 recipients are pursuing various strategies in their efforts to finance

healthy-food projects. Six recipients will serve major urban areas; four will serve minor urban areas; and two will serve rural communities. Some of the CDFIs will focus mostly on supermarkets, while others will focus on food co-ops, community-owned stores, and other, smaller retailers. The recipients intend to offer several financial products, including predevelopment loans, subordinated debt, bridge loans, and grants. All will provide technical assistance in conjunction with their lending.

A list of the 12 recipients, profiles

## Taking Care of Business and Health

The U.S. Department of Health and Human Services (HHS) has pursued its Healthy Food Financing Initiative (HFFI) through the Community Economic Development (CED) Program operated by the Administration for Children and Families. This annual discretionary program funds projects that work to address the economic needs of low-income individuals and families through the creation of employment and business opportunities. For fiscal year 2011, the CED program focused on projects that created jobs and were designed to improve access to healthy, affordable food for people living in food deserts, particularly because local grocery stores often serve as anchor institutions in commercial centers.

In 2011, the CED program provided \$16 million in grants to 25 community development corporations across the country. Of these, 16 recipients in 11 states received \$10 million to develop grocery stores, small retailers, corner stores, farmers markets, and other initiatives, including produce distribution hubs, cafes, and community kitchens, to help revitalize communities and increase access to healthy, affordable food.

### Spotlight on CED Fund Recipients

The Reinvestment Fund (TRF), a community development corporation and community development financial institution (CDFI) in Philadelphia that has projects in the mid-Atlantic area, is using a \$759,374 CED grant to create a ShopRite supermarket in the Howard Park area of Baltimore, Md. (see “The Reinvestment Fund: A Healthy-Food Financing Leader” on page 4).

This project supports the development of a supermarket, the construction of a commercial kitchen for community use within the supermarket, the enhancement of the Howard Park Farmers Market, and various community outreach and nutrition education programs.

Klein’s Family Markets and Brown’s Super Stores have formed a partnership to build and operate a 67,000-square-foot supermarket under the ShopRite banner in Howard Park. This project will create 80 full-time and 200 part-time jobs for the community and eliminate a food desert. TRF will lend \$460,000 to the developers, Liberty Heights Shopping Center and Liberty Heights ShopRite, which will use the money to fund the predevelopment costs of the \$18.5 million grocery store, including architectural and engineering soft costs. The jobs that TRF is creating include dairy clerks, meatcutters, cashiers, baggers, runners, and grocery managers. The ShopRite in Howard Park is scheduled to open in early 2013.

The Economic and Community Development Institute (ECDI), a nonprofit community development corporation and CDFI in Columbus, Ohio, is using its \$759,370 in CED funding to implement the Food Desert Community Outreach and Jobs Creation Program. ECDI is using a three-pronged approach for this program, which ultimately will create 60 full-time jobs for low-income individuals in the Columbus area. First, ECDI is creating a revolving loan fund, which will help expand several successful food-related businesses. Using lending and financing, ECDI is creating jobs through a stable group of first-tier partners consisting of established for-profit and nonprofit

of their HFFI strategies, and organizational contact information can be found on the CDFI Fund's Web site ([www.cdfifund.gov/news\\_events/CDFI-2011-18-CDFI-Fund-Announces-\\$25-Million-in-Healthy-Food-Financing-Initiative-Awards.asp](http://www.cdfifund.gov/news_events/CDFI-2011-18-CDFI-Fund-Announces-$25-Million-in-Healthy-Food-Financing-Initiative-Awards.asp)).

No matter what the CDFIs' approach or market needs are, they will be looking to traditional lenders, particularly banks, for support. Bank support can take several forms, including credit enhancements, capital for a revolving loan pool,

first-lien financing in conjunction with the CDFI's subordinated debt product, and take-out financing for construction loans.

### **Supporting Private Sector Investments Through the NMTC Program**

The NMTC Program attracts investment capital to low-income communities by permitting investors to receive a tax credit against their federal income tax return in exchange for making equity investments in specialized financial

institutions called Community Development Entities (CDEs). A CDE is an organization certified by the CDFI Fund that acts as a financial intermediary through which investment capital flows from investors to qualified businesses and real estate projects located in low-income communities. The CDFI Fund allocates tax credits to CDEs through an annual competitive application process and awarded \$3.6 billion during its 2011 allocation round.

In support of the HFFI, the CDFI Fund made changes to its 2011

businesses that know how to buy, process, distribute, and deliver fresh, local foods.

The second piece of the program is the development of the FCI Plaza Market grocery store. When completed, this establishment will help ease the food desert of Columbus while creating critically needed jobs for the community. In addition to selling fresh, local, and healthy foods, the FCI Plaza Market grocery store is partnering with the Cooking Matters program, a national nonprofit that gives families the skills, knowledge, and confidence to prepare healthy and affordable meals, which will offer healthy cooking and eating classes.

The final part of the ECDI program is the expansion of ECDI's Food Commissary, an incubator for food-based businesses and the base for community-wide fresh-food distribution. The Food Commissary originally was funded by a CED grant of \$765,838 in 2009. The expansion will allow the commissary to support ECDI's Growing Entrepreneurs Initiative. A major part of this initiative involves a food-cart commissary that will enable emerging entrepreneurs to test the market with food-cart rental and leasing options and will create jobs in the fields of warehousing, food preparation, food delivery, customer relations, consumer education, and grocery store distribution.

The CEN-TEX Certified Development Corporation (CEN-TEX), a community development corporation and CDFI in Austin, Texas, is using a \$341,718 CED grant to create 18 full-time jobs in the olive oil industry. CEN-TEX has part-

nered with Jim Henry, owner of the Texas Olive Ranch, and Karen Lee, owner of Cowgirl Brands, to expand a "special label" olive oil bottling operation.

This new olive oil corporation will be called Salud Texas. The 18 new jobs range from line workers to salespeople to bookkeepers. Using CED money, CEN-TEX will make an equity investment in Salud Texas to purchase highly mechanized equipment and offer state-of-the-art milling services to olive growers throughout Texas. Currently, there are no other commercial olive oil processing and servicing facilities in Texas. According to market share analysis and crop futures, Salud Texas anticipates having a 95 percent share of the olive milling and bottling market in Texas.

In addition to the olive oil business, CEN-TEX is working with local food banks serving rural Texas to promote nutrition education and emphasize the important role that olive oil can play in a healthy and well-balanced diet.

*For more information, see the CED Web site ([www.acf.hhs.gov/programs/ocs/ced/index.html](http://www.acf.hhs.gov/programs/ocs/ced/index.html)) or contact Karen Harris, Office of Community Services, Administration for Children and Families, Department of Health and Human Services, at [karen.harris@acf.hhs.gov](mailto:karen.harris@acf.hhs.gov) or (202) 205-2674.*

NMTC application materials to encourage discussion of healthy-food projects, to identify the applicants that intend to engage in these types of activities, and to identify the amount of healthy-food investment that will likely be made by each recipient. By changing the materials, the CDFI Fund hoped to identify CDEs around the country that intended to invest significantly in HFFI activities through their

2011 NMTC awards. The awards were announced on February 23, 2012, and a complete list of all the CDE awardees ([www.cdfifund.gov/docs/2011/nmtc/2011%20NMTC%20Award%20List.pdf](http://www.cdfifund.gov/docs/2011/nmtc/2011%20NMTC%20Award%20List.pdf)) is available on the CDFI Fund's Web site so that banks and other NMTC investors can readily identify the CDEs that may be interested in partnering in such transactions in their service areas.

## Together

Treasury's CDFI Fund programs, HHS's Community Economic Development Program, and the USDA's Rural Development ([www.rurdev.usda.gov/Business.html](http://www.rurdev.usda.gov/Business.html)) and Agricultural Marketing Service Programs ([www.ams.usda.gov/AMSV1.0/FMPP](http://www.ams.usda.gov/AMSV1.0/FMPP)) can offer assistance at key points along the food supply chain. As well-respected state and local healthy-food efforts have shown

## USDA Support for Healthy-Food Access

The U.S. Department of Agriculture (USDA) is working with the U.S. Department of the Treasury and the U.S. Department of Health and Human Services (HHS) to expand the availability of nutritious food through the establishment of healthy-food retail outlets. The USDA has supported healthy-food retail outlets such as farmers markets, mobile markets, community kitchens, food hubs, and grocery stores. It has also funded infrastructure systems such as trucks, food hubs, and storage facilities to facilitate the distribution of healthy food to underserved communities. The USDA supports education and outreach initiatives that help small towns and big cities across the country obtain healthy food for their communities. Increasing access to nutritious food can promote our country's health, improve the connection between producers and consumers, build stronger ties between cities and rural communities, and foster economic opportunities in rural America.

### USDA Rural Development

The USDA's Rural Development (RD) mission includes several programs and funding opportunities that support efforts to expand access to healthy food. These programs include:

#### **Business and Industry Guaranteed Loan Program (B&I):**

This loan guarantee program ([www.rurdev.usda.gov/BCP\\_gar.html](http://www.rurdev.usda.gov/BCP_gar.html)) is administered by the Rural Business-Cooperative Service and is designed to help new and existing businesses in rural areas gain access to affordable capital. Through fiscal year 2012, in accordance with its statutory authorities, USDA reserved (until April 1 of each year) at least 5 percent of the funds made available to the program for entities that establish and facilitate the processing, distribution, aggregation, storing, and marketing of locally or regionally pro-

duced agricultural food products. The program also requires that funding priority within this set-aside be given to "underserved communities," defined as an urban, rural, or Indian tribal community with limited access to affordable, healthy foods and with high rates of food insecurity or poverty. Over the last three fiscal years, the B&I program has awarded \$77.2 million to 44 local and regional food projects.

For example, in November 2011, RD issued \$5 million in B&I loan guarantees to help a grocer expand his facilities into an underserved area of Winnsboro, La. An 80 percent loan note guarantee was issued to Centric Federal Credit Union, and the financing is being used to construct a new 19,500-square-foot grocery store. The store will provide rural areas in northeast Louisiana with access to fresh produce, including navel oranges, strawberries, and sweet potatoes grown in nearby communities.

In New Haven, Conn., where one in four people lives in poverty, a 2011 B&I guaranteed loan from the USDA helped support construction of the Elm City Market, the first full-service grocery store in the inner city. Webster Bank, NA, in New Haven, the lender for the market, received an 80 percent loan note guarantee. Elm City Market created 100 new jobs for local residents, with pay starting at twice the minimum wage, and the market is obtaining more than half of its products from rural farms within 200 miles of the city. The store reports brisk business and serves residents who previously lacked access to products grown just miles away.

**Community Facilities Grant, Direct Loan, and Guaranteed Loan Programs:** These programs ([www.rurdev.usda.gov/HCF\\_CF.html](http://www.rurdev.usda.gov/HCF_CF.html)) support rural communities by providing loans, loan guarantees, and grants for the construction, acquisition,

in recent years, federal programs are often most effective when federal agencies leverage their resources and capabilities.

Coordination at the federal level and among community organizations, businesses, and state and local governments is essential in reaching underserved communities. Because federal programs target different types of recipients, coordination is critical if eligible recipients are to be reached. All three federal agencies

want intermediary organizations to establish successful partnerships and deliver broad-based solutions that address food-access problems in underserved communities.

Capable intermediaries have a unique understanding of their markets, have solid relationships with private lenders and philanthropic organizations, have strong project pipelines, and are adept at leveraging federal funding from various programs to advance their mission. It

is through these partnerships that the full array of financing can be made available to address the specific food-access needs of a community.

*For more information on the CDFI Fund's HFFI efforts, please see the CDFI Fund's Web site ([www.cdfifund.gov](http://www.cdfifund.gov)). Mark Kudlowitz, Associate Program Manager for the CDFI Program at the CDFI Fund, can be reached at [kudlowitzm@cdfi.treas.gov](mailto:kudlowitzm@cdfi.treas.gov) or (202) 927-9910.*

or renovation of community facilities, or for the purchase of equipment for community projects. The Community Facilities (CF) program has funded 115 local and regional food projects, ranging from food banks to farmers markets, since 2009. The projects served 2.9 million rural residents and were funded with more than \$22 million in loans and \$5.6 million in grants. The CF program can assist in financing local food systems in rural areas with populations of fewer than 20,000 people.

CF loans have been used for a wide range of projects, including the purchase of buildings (for farmers markets, greenhouses, or food banks), walk-in refrigerators, commercial-grade freezers, and refrigerated trucks. The program also has provided funding to schools, school districts, and boys and girls clubs to purchase and install cold-food storage units, renovate cafeteria kitchens, and expand the ability to prepare nutritious meals and snacks onsite. The CF program has also financed refrigerated delivery trucks for food banks, enabling them to include fresh produce from local farmers in their food deliveries.

### **USDA Agricultural Marketing Service**

**Farmers Market Promotion Program grants (FMPP):** The USDA's FMPP grants ([www.ams.usda.gov/AMSV1.0/FMPP](http://www.ams.usda.gov/AMSV1.0/FMPP)) help improve and expand market opportunities for farmers while increasing access to healthy food. On April 5, 2012, the USDA opened a request for proposals for approximately \$10 million in FMPP grants for direct producer-to-consumer marketing operations, including farmers markets, community-supported agriculture, mobile markets, and roadside stands. The grants, which are administered by the USDA's Agricultural Marketing Service, are available through a competitive application process. Project awards increase access to local foods

for low-income consumers, expand opportunities for farmers and growers to market their products directly to consumers, and raise customer awareness of local farm products through promotion and outreach. Nearly 150 farm-to-consumer marketing projects received funding under the program in 2011, representing a \$9.2 million investment to support direct marketing and to increase consumer access to healthy food. Increasing access to fresh produce in underserved communities—especially by extending the ability to use the Supplemental Nutrition Assistance Program (SNAP, which was formerly known as food stamps) in farmers markets—was a priority for last year's awards and is a priority again for the 2012 cycle. More than 40 percent of the projects funded by the FMPP in 2011 are based in one or more underserved communities, and another 20 percent of the projects are being implemented in areas with a poverty rate of 20 percent or higher. Additionally, improvements in transportation and delivery methods, the purchase of refrigeration equipment, and improvements to packaging and storage that facilitate food access make up nearly a third of the projects funded.

**USDA's additional programs with broad mandates:** The USDA has several other programs (<http://apps.ams.usda.gov/fooddeserts/grantOpportunities.aspx>) that can provide funding for projects that increase access to healthy food. Although these programs have mandates that are broader than healthy-food access, they can provide critical support to improving such access. These programs also support key missions of the USDA, including improving economic opportunities for rural communities and farmers.

# The California FreshWorks Fund: Bringing Food to the Community

Scott Sparte, Chief Lending Officer, and Catherine Howard, Senior Program Manager, NCB Capital Impact

In some parts of the United States, healthy food is hard to find. In many low-income neighborhoods, families confront a daily challenge of buying fresh, healthy food close to home. This is a growing national concern, and it is creating dietary and health risks for too many American youths. Urban neighborhoods, rural communities, and older suburbs are most likely to have limited access to healthy foods, with low-income neighborhoods and communities of color being particularly affected. A 2009 study by the U.S. Department of Agriculture ([www.ers.usda.gov/media/242654/ap036\\_reportssummary\\_1\\_.pdf](http://www.ers.usda.gov/media/242654/ap036_reportssummary_1_.pdf)) showed that 23.5 million people in low-income communities have no supermarket or large grocery store within a mile of their homes. This lack of easy access to healthy foods has consequences: A study published by the American Medical Association (<http://jama.jamanetwork.com/article.aspx?articleid=1028638>) shows that children from poor families are twice as likely to be overweight as those from higher-income families.

Yet getting healthy food to more Americans is difficult, especially in low-income urban and rural communities. As described in “A Look Inside” (see page 2) and “The Reinvestment Fund: A Healthy-Food Financing Leader” (see page 4), supermarkets and other healthy-food retailers have believed that these communities are challenging markets with high barriers to entry. Flexible



California FreshWorks Fund/NCB Capital Impact

**The Northgate Gonzalez Market brings fresh produce to a largely Hispanic community in the City Heights neighborhood of San Diego, Calif. Along with fresh fruits, vegetables, and meats, the store provides Spanish-language labeling and specialty items such as cactus that meet customer needs.**

financing tools that help grocers overcome obstacles and support innovative approaches to food retail can aid in changing that mindset.

NCB Capital Impact (Capital Impact) has financed healthy-food retail establishments throughout its nearly 30-year history, lending to dozens of independent grocers and natural food cooperatives throughout the country. As a national nonprofit organization and a certified community development financial institution (CDFI), Capital Impact improves access to high-quality health and elder care, healthy

foods, housing, and education in low-income communities. Capital Impact’s experience working with food retailers indicates that a lack of flexible financing is one of the greatest obstacles to the creation of healthy-food retail outlets in underserved communities. Since being named administrator of the California FreshWorks Fund in late 2010, Capital Impact has focused on developing a multifaceted loan and grant fund to provide a variety of financing tools to support the development of healthy-food projects.

Take, for example, the City Heights neighborhood of San Diego, Calif., a low- to moderate-income area with a mixed racial-ethnic population and few grocery retailers. It is estimated that the residents of City Heights spend 89 percent of their grocery budgets at stores outside of the immediate neighborhood. Yet, because City Heights is a fully built-out, established urban neighborhood, opportunities for land assembly and new construction there are very limited. Northgate Gonzalez, an independent grocery that operates 33 markets in Southern California, however, identified the potential for the adaptive reuse of a big-box shell that was partially vacant. An innovative deal has been arranged through the California FreshWorks Fund: a \$264 million loan and grant fund conceived by the California Endowment and managed by Capital Impact. The innovations allowed Northgate to finance the build-out and

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start-up costs of a 42,625-square-foot, full-service supermarket on a major commercial thoroughfare.

This is just one example of how banks, nonprofit organizations, and mission-driven investors are helping to bring healthy food to low-access communities, with the goal of improving food choices and health, and spurring economic development through new investment and job creation.

### **The Challenge: Accessing Healthy Food**

Transportation inequities exacerbate food access challenges. For more than a million people in California, access to fresh produce is more than a 20-minute drive from home, and lower-income households have lower car-ownership rates than higher-income households. To buy fresh foods, many low-income people must use multiple forms of transportation or take taxis, increasing both the cost of food and the time it takes to shop. Studies have shown that transportation costs can account for as much as 20 percent of a low-income household's grocery budget. Residents of low-income communities in the San Francisco Bay Area who use public transit to shop at a grocery store report spending on average about an hour commuting to and from the store. These circumstances are similar in rural areas, where public transit is scarce and access to fresh foods is limited.

With many communities unable to access healthy foods, the costs associated with preventable, diet-related chronic diseases continue to climb. Improving food access is one step toward reversing these

sobering health trends. Supporting the development of supermarkets, healthy-food retailers, and farmers markets and increasing the healthy-food offerings of corner stores and other small neighborhood markets in underserved neighborhoods will improve choices for families striving to eat healthily in their communities.

**To buy fresh foods, many low-income people must use multiple forms of transportation or take taxis, increasing both the cost of food and the time it takes to shop.**

### **Financing as a Tool to Improve Food Access**

Inspired by the success of the Pennsylvania Fresh Food Financing Initiative, the California Endowment committed \$33 million to create a financing program to support the development of healthy-food retail in low-access neighborhoods throughout the state. The California FreshWorks Fund launched in July 2011 with a goal of funding at least 10 supermarket or other retail projects in its first year. Capital Impact was selected to develop and administer the program.

Leveraging the California Endowment's \$33 million commitment, Capital Impact has attracted more than \$220 million in public and private investment to

the program. To date, the California FreshWorks Fund has provided more than \$8.7 million in funding to six projects throughout the state and has an active pipeline of more than \$50 million. A \$125 million syndicated loan pool accounts for almost half of the fund's assets (see "How the California FreshWorks Fund Loan Pool Is Structured" on page 16), with investments from banks that are interested in working in the healthy-food arena, as well as private, mission-driven investors from the health-care and community development fields. The pool is led by JPMorgan Chase, with senior investments committed by Bank of America, Morgan Stanley, Capital Impact, Citibank, Charles Schwab Bank, and MetLife; and subordinate investments from the California Endowment, Catholic Healthcare West, Capital Impact, the Opportunity Finance Network, and the Calvert Foundation. A grant from the CDFI Fund's Healthy Food Financing Initiative (HFFI) anchors a credit enhancement pool. Inventory, equipment, property acquisition, and all stages of project development can be financed through the loan pool, with loans of up to \$8 million.

By building the pool with senior capital from banks and supporting that capital with subordinate investments from unregulated, mission-driven investors, Capital Impact was able to expand underwriting standards beyond those offered by the traditional capital market. In doing so, it addressed the needs of healthy-food retailers that are considering opening locations in underserved communities by offering loan terms that include high loan-to-value ratios, low debt service

coverage ratio requirements, and competitive market pricing.

The California FreshWorks Fund also offers small grants funded by Kaiser Permanente and the California Endowment. Because grocery retail projects in underserved urban neighborhoods typically have higher predevelopment costs than new markets in suburban settings, grant funds can be accessed during predevelopment to pay for items such as appraisals, environmental reports, or market analyses. In support of the fund's goal to spur economic

development and job creation, grants also can be used to pay for costs related to local hiring, such as partnering with local workforce development programs or job training for inexperienced local hires. Grant funds also can be used to support innovative ideas beyond supermarket development that increase access to fresh foods, such as healthy corner store conversions, farmers markets, mobile food vendors, and food distribution hubs.

Finally, the fund offers large project financing through the New Markets Tax Credit (NMTC) Program.

Working with allocations received by Capital Impact and other partners, NMTCs can provide low-cost financing with an equity return that makes large new supermarket projects in high-cost areas economically feasible for developers and operators. Capital Impact has obtained commitments from JPMorgan Chase and the U.S. Bancorp Community Development Corporation for NMTC equity for grocery projects and anticipates working with investors in the loan pool to obtain leveraged loans.

## How the California FreshWorks Fund Loan Pool Is Structured

Limits on financing often can act as a barrier for grocery store operators considering entry into an underserved market. Typically, a grocer looking to purchase or build a new store can obtain acquisition and construction financing totaling no more than 60 percent of the building's value. In high-cost urban markets, this 40 percent equity requirement frequently makes new stores financially unattractive or infeasible. By structuring its loan pool with a loan loss reserve and a subordinate debt tranche, the California FreshWorks Fund can offer a grocery project loans up to 90 percent of the project's value, while providing adequate security to its bank investors.

A \$125 million loan pool is the primary lending vehicle for the California FreshWorks Fund. The loan pool is structured with three sources of capital: a senior debt primarily comprising investments from regulated banks and thrifts; a subordinate debt composed of investments from unregulated, mission-driven investors; and a loan loss reserve, funded with



California FreshWorks Fund/NCB Capital Impact

**The Northgate Gonzalez Market, funded by the California FreshWorks Fund, includes handmade tortillas among its healthy-food choices. The market provides affordable fresh food to a former "food desert" in San Diego, Calif.**

grants raised by NCB Capital Impact (Capital Impact) to anchor the pool. The syndicated pool structure creates an attractive investment opportunity that allows both regulated and unregulated entities to participate in the financing of healthy-food projects by leveraging small amounts of risk-based capital with larger commitments of senior debt and offers flexible financing to food retailers.

A \$7.5 million loan loss reserve gives the senior investors a cushion that lowers the risk of loss from each transaction. The loss reserve was capitalized with grants from the JPMorgan Chase Foundation, the California Endowment, and the Healthy Food Financing Initiative of the U.S. Department of the Treasury's Community Development Financial Institutions Fund. This reserve serves as a first stop-loss for any individual transaction. If there is a loan default, the loss reserve absorbs the full loss related to the loan.

Unregulated, mission-driven investors, including foundations, health-care systems, Capital Impact, and community development organizations, agreed to invest in a subordinate tranche of the pool. The subordinate tranche represents 20 percent of each transaction. In the event of a loan default, losses exceeding the \$7.5 million loan loss reserve would be absorbed by the subordinate investors. The subordinate investors agreed to take on this risk position



## Early Successes

In City Heights, Capital Impact has provided \$8.19 million in NMTC financing through the fund, and JPMorgan Chase provided tax credit equity for the transaction. NMTC financing gives Northgate a low-cost loan during the tax-credit compliance period, while the equity benefits of the transaction at the end of the compliance period make the City Heights location an attractive market opportunity for Northgate, despite a higher-than-typical lease cost. With the store's opening, residents of City Heights now have access to a full-

service grocery store and the fresh fruits, vegetables, dairy products, and meat that compose a more nutritious diet. Furthermore, the store created 122 new jobs and will bring additional economic growth to the neighborhood.

## Conclusion

Although access to healthy and affordable foods is a significant challenge for many people in the United States, there are solutions. Banks and other private sector investors can collaborate to create flexible financing tools that help bring

grocery retailers and other fresh-food options to neighborhoods in the greatest need of access to healthy foods, particularly low-income urban and rural communities. In doing so, we can help build healthier families and neighborhoods—and ultimately help improve the health of the whole nation.

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because they are unregulated and have mission-driven motivations for their investments.

The combination of the loan loss reserve and the subordinate tranche allowed Capital Impact to expand underwriting standards for the fund beyond those offered by traditional capital markets, including high loan-to-value ratio requirements and below-market debt service coverage ratios, while still providing security for the regulated investors.

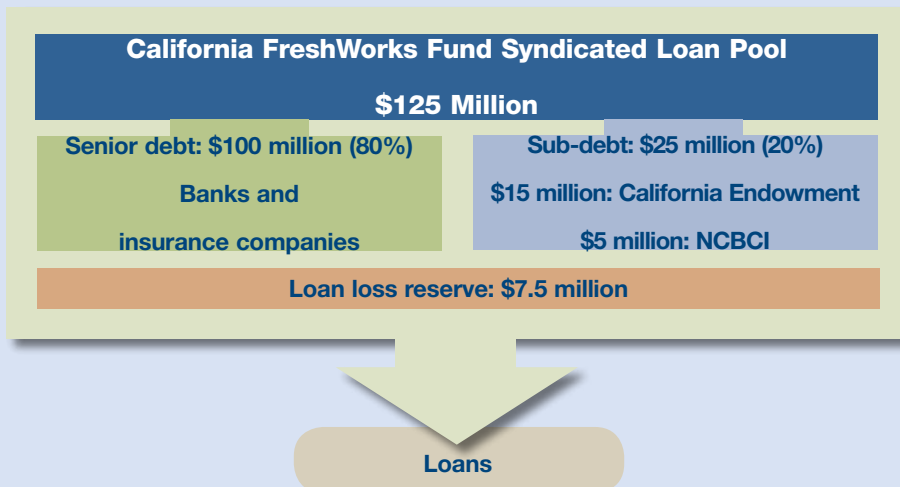
Capital from banks and the California Endowment makes up the senior tranche of the loan pool, which represents 80 percent of each transaction. Senior investors take comfort in a structure that creates a cushion against losses from the combination of loan loss reserve and subordinate investors, while spreading the remaining loan risk among several senior investors.

The loan pool is administered by JPMorgan Chase, which served in a similar role for the highly suc-

cessful Pennsylvania Fresh Food Financing Initiative. As the pool administrator, Chase is responsible for funding each FreshWorks Fund loan, placing capital calls to the investors, and providing loan administration services.

There has been strong bank interest in participating in the FreshWorks Fund loan pool because the fund's structure controls risk for senior investors while providing an opportunity to finance important community development work throughout California.

"The California FreshWorks Fund allows bank investors to put their capital to work in low-income communities, creating fresh-food retailers and improving health outcomes," said Dudley Benoit, Senior Vice President at JPMorgan Chase. "The fund structure allows Capital Impact to offer flexible loan products that can help grocers enter markets that have traditionally been underserved, while also giving regulated investors the comfort they need to participate in the fund."



# New Markets Tax Credit Transaction Brings Food Jobs to Newark

Phyllis Reich, Tax Credit Investment Officer, Community Capital Group, TD Bank

The Healthy Food Financing Initiative (HFFI) is most recognized for bringing fresh food to underserved neighborhoods, commonly known as “food deserts.” (For more about food deserts, see “A Look Inside ...” on page 2.) The HFFI is praised for the expansion and support of new grocery stores, improved corner stores, and the establishment of farmers markets. Retail suppliers, however, are only part of the story of bringing better food to the table. The packaging, warehousing, and distribution of produce and fresh meats and fish to the retailers also play roles.

The city of Newark, N.J., is supporting the HFFI and creating local jobs by participating in a partnership financing arrangement that will store and distribute food, including fresh produce.

## The Project

In 2010, TD Bank was approached by the owners of Newark Farmers Market and the Wakefern Food Corporation to finance and build a new refrigerated warehouse and food distribution facility in Newark. This 180,000-square-foot, temperature-controlled facility will have the capacity to accept 40 million packages of fresh produce annually for distribution to ShopRite supermarkets throughout the Northeast. Wakefern, the largest retailer-owned cooperative in the United States, will use the new



TD Bank

**Forklift driver is one of 250 jobs that are expected to be available at a new cold-storage facility owned by the Newark Farmers Market and the Wakefern Food Corporation in Newark, N.J.**

facility to support the development of 27 to 30 new grocery stores in the Northeast corridor of the United States and create 250 permanent jobs in the Newark area alone.

This transaction involved collaboration among five entities:

- TD Bank: the leveraged lender and investor in the new markets tax credit (NMTC) financing.
- Newark Farmers Market LLC: part of an established wholesale fruit distribution business owned by the same company since 1980.
- Wakefern Food Corporation: the largest supermarket cooperative in

the United States, providing food to 217 ShopRite stores (28 corporately owned by Wakefern) and 50 PriceRite stores (a wholly owned subsidiary of Wakefern). Wakefern has been in business for 64 years.

- The Reinvestment Fund (TRF) and Consortium America: the NMTC allocates that provided more than \$34.3 million in NMTC funds to finance the construction of the facility.

## The Background

The warehouse is located at 2-44 Cornelia Street on a site owned

by the Newark Farmers Market, in the eastern part of Newark's Ironbound neighborhood, which got its name because of the many forges, foundries, and railroads surrounding it in the nineteenth century. It has historically been one of the most stable and viable neighborhoods in the city. Today, local factories, warehouses, and industrial lots continue to operate in the Ironbound section alongside a vibrant and lively residential neighborhood known for its fine Portuguese cuisine.

The area, however, is also in an economically distressed census tract with a median income of \$35,507, which is approximately 50 percent of the statewide median income, according to the U.S. Census Bureau. The proportion of Newark residents living below the poverty line between 2005 and 2009 was 24.3 percent, or almost three times the poverty rate for the state of New Jersey, according to Census.

Newark, New Jersey's largest city by population and one of the most densely populated cities in the nation, is located in an old, established industrial and commercial region. Its proximity to the waterfront and to booming East Coast cities such as New York and Boston influenced its development into a significant industrial center during the late nineteenth and early twentieth centuries. This changed in the 1950s as Americans moved from the cities to the suburbs. The flight of wealth and residents was followed by businesses that thrived on meeting the needs of those transplanted consumers and workers. As businesses left the center-city

neighborhoods, they took the jobs and left behind empty facilities.

In 2005, a forward-looking master plan established several new objectives for future development in Newark. The plan identified a strategy to increase the percentage of port and port-related jobs for Newark residents. The strategy specifically encouraged the application of new business models for the industrial business district, including modern production, warehouse, and distribution centers.

### **In 2005, a forward-looking master plan established several new objectives for future development in Newark.**

#### **Importance of Healthy-Food Financial Development**

Recent studies indicate that many low-income city neighborhoods lack access to outlets that carry fresh, affordable food. To improve fresh-food access, the U.S. Department of the Treasury, the U.S. Department of Agriculture (USDA), and the U.S. Department of Health and Human Services (HHS), along with many private foundations, have united to provide capital to bring supermarkets and other fresh-food venues, such as farmers markets, green carts, and small supermarkets, back to the nation's cities. The Newark Farmers Market project demonstrates that a large distribution center located in an

urban port area can provide economic benefits and help support the expansion of new healthy-food outlets by taking advantage of economies of scale in procurement and packaging, and using state-of-the-art information technologies to deliver affordable fresh food to urban communities.

This project also reflects the strategy outlined in the Newark master plan. Because of its natural proximity to the Port of Newark, interstate highways, and rail lines, the Newark Farmers Market is ideally situated to provide cold-storage facilities. The new warehouse and distribution center can handle the large volumes of perishable goods that arrive through the seaport and can be shipped up and down the Northeast corridor.

The warehouse and cold-storage facility is leased entirely to Wakefern, which owns one of the Northeast's largest trucking fleets. The facility will be used primarily for the receipt, storage, packaging, and distribution of various fruits, and it includes specially constructed banana ripening rooms. The 30 planned banana rooms are expected to store, ripen, and ship approximately 3.5 million cases of bananas annually for supermarkets throughout the Northeast.

Packaged and precut vegetables and fruits are occupying more shelf space in the produce department of supermarkets. More produce is being shipped directly from growers and shippers to large retailers who operate their own distribution centers, resulting in greater variety and favorable pricing for the end consumer. By locating this facility in Newark, Wakefern is bringing

healthy, more affordable produce closer to urban neighborhoods.

## Tax Credit Financing Structure

The financing was structured as a “leveraged model” NMTC transaction. The NMTC allocation was provided by TRF and Consortium America. A total of \$35.7 million, comprising \$9.4 million in equity and a \$26.3 million leveraged loan from TD Bank, was capitalized in an investment fund created for this transaction. After an initial payment of \$1.4 million in transaction fees, these combined funds were used to make Qualified Equity Investments (QEI) into two separate subsidiary Community Development Entities (sub-CDE) formed by TRF and Consortium.

After the payment of additional transaction fees and expenses, TRF and Consortium each made two Qualified Low Income Community Investment loans (QLICI) totaling \$33.4 million to the Newark Farmers Market (a Qualified Active Low Income Business or QALIB) for construction of the refrigerated

warehouse. The following table illustrates the project costs.

TRF and Consortium America are both certified Community Development Entities (CDE), and together they provided the NMTC allocation for this project. TRF is a community development financial institution that finances housing, community facilities, and commercial projects. It receives its capital from a diverse group of investors that includes individuals, banks, foundations, corporations, civic organizations, and government. TRF also provides financing for community development initiatives through dedicated loan funds such as the Pennsylvania Fresh Food Financing Initiative and the TRF Growth Fund. (See “The Reinvestment Fund: A Healthy-Food Financing Leader” on page 4.)

Consortium America is a subsidiary of the Trammell Crow Company. It received a total of \$80 million in NMTC allocation authority in 2009. Consortium America makes debt and equity investments in large-scale new construction and redevelopment projects that have the potential to serve as “anchors” or transformational

projects in low-income communities. It focuses its resources on the most distressed NMTC-eligible census tracts.

## Flow Chart

The flow chart (opposite page) illustrates the structure of the transaction. The loans and equity from TD Bank flowed into the investment fund. The investment fund paid fees to the CDEs (TRF and Consortium America) and made two QEIs into two sub-CDEs established for the purpose of this transaction. These sub-CDEs made QLICI Loans to the borrower.

The borrower repays the loans to the sub-CDEs with income from its business operations. The sub-CDEs make distributions to the investment fund, which in turn repays the TD Bank loans. The equity investor (TD Bank) also receives NMTC tax credits generated by the QEIs for the seven-year term of the investment.

## Next Steps

The Newark Farmers Market is expected to hire new workers whom Wakefern will train. Employees will be members of the Teamsters Union Local 863, which presently represents workers at the Wakefern supermarkets. In addition, Wakefern will be able to significantly increase the production and distribution of fresh fruit throughout its network of supermarkets because of the increased storage capacity and value-added packaging.

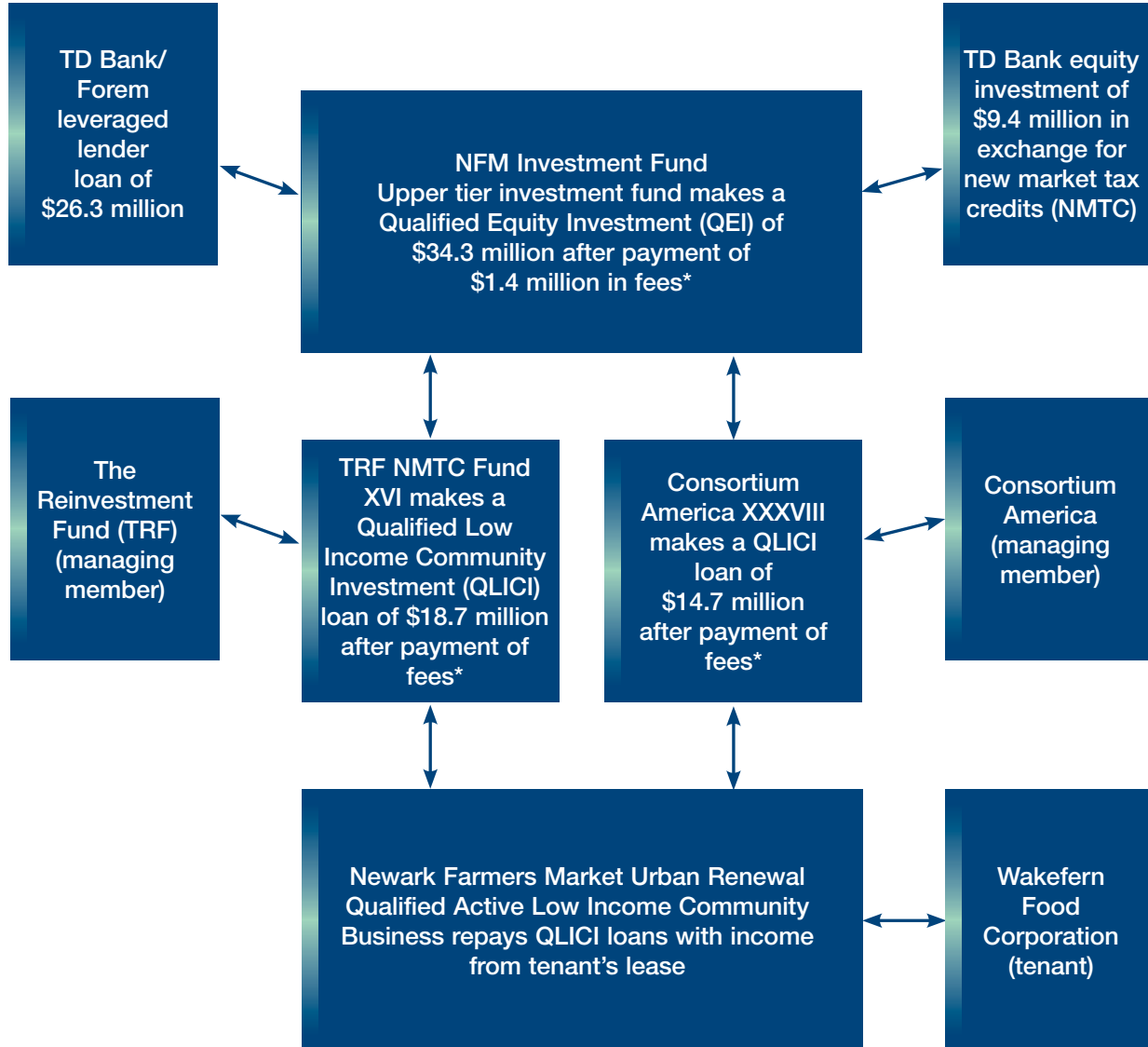
*For further information, contact Phyllis Reich at [phyllis.reich@td.com](mailto:phyllis.reich@td.com) or call (201) 574-4859.*

### The Wakefern Project: Sources and Uses (in Millions)

Sources		Uses	
TD equity	\$ 9.4	Construction costs	\$18.0
TD loans	\$26.3	Soft costs	\$ 2.9
		Equipment	\$12.5
		NMTC transaction fees	\$ 2.3
<b>Total sources</b>	<b>\$35.7</b>	<b>Total uses</b>	<b>\$35.7</b>

Source: TD Bank

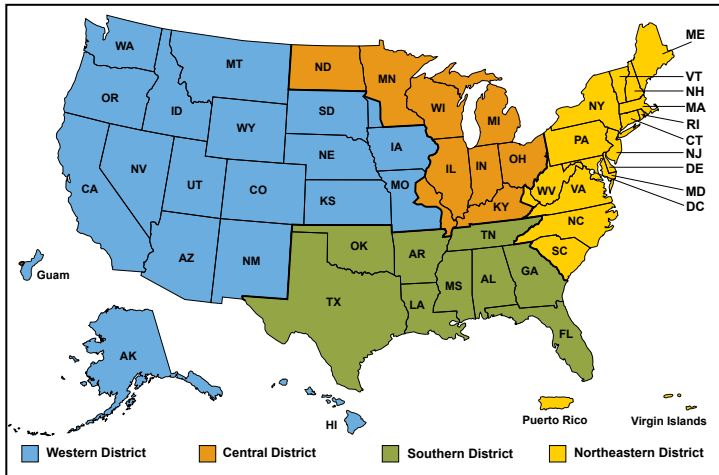
## New Markets Tax Credits: The Wakefern Project, Newark, N.J.



\*A total of \$2.3 million in transaction fees and reserves are paid to Consortium America and TRF.

Source: TD Bank

# This Just In ... OCC's Four Districts Report on New Opportunities for Banks



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## The Corporation for Supportive Housing—Los Angeles: A Fund for Stalled Real Estate

The Corporation for Supportive Housing—Los Angeles (CSHLA) is an affiliate of the Corporation for Supportive Housing (CSH). CSH is a community development financial institution with a mission to provide permanent housing, with support services, to prevent and end homelessness (see “Corporation for Supportive Housing: Helping the Homeless Live With Dignity,” in the February 2012 edition of *Community Developments Investments*, [www.occ.gov/publications/publications-by-type/other-publications-reports/cdi-newsletter/feb-2012/homeless-ezine-article-3-csh.html](http://www.occ.gov/publications/publications-by-type/other-publications-reports/cdi-newsletter/feb-2012/homeless-ezine-article-3-csh.html)). CSH views permanent housing as the most viable means of eliminating homelessness. Affiliates have access to funding for programs from the national organization.

The Los Angeles program has been successful during the last several years with the establishment of three loan funds and the creation of 500 units of supportive housing and 200 units of affordable housing. The most recently established fund, the Los Angeles Supportive Housing Recovery Initiative, has four partners, including the Los Angeles Community Redevelopment Agency, and is targeted at projects that have been stalled as a result of the real estate collapse and reductions in public funding resources. It has been used to reinvigorate more than \$8 million in loans for multifamily supportive housing developments and is a model for reviving a frozen market. The fund, however, still needs more investors.

For more information regarding the fund and other CSHLA programs, contact Neil McGuffin, Senior Program Manager, at [neil.mcguffin@csh.org](mailto:neil.mcguffin@csh.org).

## Community Services Unlimited: Bringing Quality Food to Los Angeles at Affordable Prices

Community Services Unlimited (CSU) is a community-based nonprofit organization that serves South Central Los Angeles with several programs that promote equitable, healthful, sustainable, and self-reliant communi-

ties. One of CSU's most successful programs is the Village Market Place. Much of South Central Los Angeles is considered to be a “food desert” with limited sources of fresh food and an overabundance of fast-food operations. CSU conducted a community food assessment in 2003 that found that the primary obstacles to healthy food habits in the area are high cost and limited transportation. The organization then set out to implement a distribution program that would provide high-quality food at affordable prices locally. The result of CSU's efforts is the Village Market Place.

The Village Market Place, which sells and distributes healthy food grown on its urban mini-farms or by local farmers, comprises two Community Farm Stands and the Farm Fresh Produce Bag program. The Produce Bag program provides bags of food at affordable prices to residents and others who subscribe and pay in advance for fresh fruit and vegetables weekly. Subscribers pick up their bags at the Farm Stands or at other designated locations each Thursday.

CSU also provides classes in gardening at its urban farm sites for residents and local schools. In addition, it offers internship programs for local at-risk youth at the secondary and post-secondary levels, providing management and financial education skills along with its core healthy-food curriculum. CSU recently expanded the Village Market Place to two new locations, a county hospital and a large health clinic. The expansion allowed the organization to reach even more residents.

CSU is now soliciting support for the purchase of electronic benefits transfer machines to enable low-income customers to make purchases with Supplemental Nutrition Assistance Program debit cards.

For more information regarding CSU, contact Executive Director Neelam Sharma at [neelam@csuinc.org](mailto:neelam@csuinc.org).



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## Healthy Food Financing Initiative Announced in the Alabama Black Belt

The Hale Empowerment and Revitalization Organization (HERO) announced a new tool to assist in the creation of entrepreneurial small-business opportunities for community-driven artisan foods in “food deserts.” The Healthy Food Fund provides a nontraditional source of financing for women and minority entrepreneurs who focus on hunger relief and healthy food options in rural areas. The loan fund provides below-market-rate loans ranging from \$5,000 to \$80,000 with flexible repayment terms.

The fund is intended to support ongoing economic development efforts and to create or preserve jobs. The fund is also helping to make the Alabama Black Belt a stronger market for entrepreneurs who are creating healthy-food products, to expand the number of food outlets, and to better equip corner stores and farmers markets that bring produce and less-processed foods to rural towns. The new fund does not compete with existing funding sources but is designed to enhance the financial services already available to small businesses.

The initial funding pool of \$220,000 was supplied by HERO and Regions Bank. HERO's loan fund is actively seeking additional loan capital. The fund is managed by HERO, a local, grass-roots nonprofit group that is a HUD Certified Comprehensive Housing Counseling Agency, a HUD Certified Nonprofit, and a Community Housing Development Corporation.

For more information, contact Pamela Dorr at (334) 624-0842 or pam@herohousing.org.



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### **Butterfly Foundation Receives Healthy Food Financing Initiative Grant**

The Butterfly Foundation, a 501(c)(3) nonprofit organization in Spartanburg, S.C., was awarded funding under the fiscal year 2011 Community Economic Development Healthy Food Financing Initiative. The foundation partnered with the Hub City Farmer's Market, the city of Spartanburg, the Spartanburg Development Corporation, and the Mary Black Foundation to create the Northside Healthy Food Hub. The hub is a hybrid business that will help create jobs, contribute to economic growth in the Northside community, and provide access to healthy foods and groceries in a community lacking healthy food options. Funds will be used to create a permanent home for the Hub City Farmer's Market, a catering and teaching kitchen, and retail space where vendors can sell produce and other goods throughout the year. There also will be space for classrooms, a community garden, and a café. The project is expected to be self-sustaining within five years and to create 23 jobs for the community.

The Butterfly Foundation also partnered with the city of Spartanburg and the Mary Black Foundation to implement the Culinary Job Training Program, which is designed to help prepare unemployed and underemployed adults for careers in the food industry.

For more information about the Butterfly Foundation's programs and services, contact Liberty Canzater, Executive Director, at the Butterfly Foundation at 185 S. Liberty St., Spartanburg, SC 29306; Liberty@butterfly-sc.com; or (864) 582-4146.



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### **HFFI Serves Up Community Development Opportunities in the Midwest**

IFF, a nonprofit lender and real estate consultant in Chicago, Ill., was among the recipients of funding from the Healthy Food Financing Initiative (HFFI) in September 2011. IFF received a \$3 million grant and is using the award to leverage more than \$25 million in additional capital. The

lender will invest the combined funds in food-related projects in Illinois, Indiana, Iowa, Missouri, and Wisconsin. The initial emphasis will be on full-service, for-profit grocery stores in "food deserts" in the metropolitan areas of Chicago; Milwaukee, Wis.; Dubuque and Des Moines, Iowa; St. Louis, Mo.; and East St. Louis, Ill., where IFF has developed a pipeline of potential projects. Over time, IFF will finance and, where appropriate, directly develop a range of both for-profit and nonprofit retail food outlets as well as other types of food-related businesses, including rural business models.

IFF intends to work with one or more national community development financial institution (CDFI) partners to establish a fund for grocery-store lending across the Midwest. To share risk and stretch its capital further, IFF will seek the participation of other CDFIs, community banks, its regional and national bank partners, and foundations. Banks and foundations will be able to invest in the fund, and local or regional investors will be able to target funds geographically.

If you are interested in learning more about the fund, please contact Trinita Logue at (312) 596-5117 or tlogue@iff.org.

### **Michigan Statewide CDFI Expanding Its Reach**

The Opportunity Resource Fund (ORF) is a 26-year-old nonprofit community development financial institution that provides loans and technical support to nonprofit organizations and small businesses throughout Michigan. Loans to nonprofits are for affordable housing, community facilities, and working capital. Loans to small businesses range from \$10,000 to \$200,000 and may be used for fixed assets or working capital. Formerly known as the Michigan McGehee Interfaith Loan Fund, ORF has provided more than \$30 million in financing that has helped to develop more than 2,400 units of affordable housing, create or retain more than 500 jobs, and provide child-care facilities for 125 children. Investors in ORF include banks, several Roman Catholic religious orders, and many individuals. The Michigan State Housing Development Authority recently contributed \$3 million to ORF as permanent capital.

ORF is implementing a three-year strategic plan to double its total assets to \$20 million by the end of 2013. ORF is raising funds from investors to finance a large pipeline of affordable housing and small business projects. In addition, ORF is creating a new initiative to make 30-year, fixed-rate loans to people with damaged credit histories for the purchase of homes in Michigan neighborhoods targeted for Neighborhood Stabilization Program funds. Banks can invest in ORF, refer prospective borrowers who do not meet conventional credit criteria, structure ORF into financing packages in which the bank would like to participate, and provide grants and in-kind donations.

For more information, see ORF's Web site (<http://oppfund.org>) or contact President/CEO Christine Coady Narayanan at (517) 372-6001 in Lansing or (313) 964-7300 in Detroit.



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