

SECTION I: INTRODUCTION

Statement of Purpose

The Fresh Food Retailer Initiative (FFRI) is an innovative new financing program created by the City of New Orleans to increase the number of supermarkets, grocery stores, and other fresh food markets in low-income, underserved communities across Orleans Parish. The intent of the program is to enable operators to open, renovate, or expand retail outlets that sell fresh fruits and vegetables. Hope Enterprise Corporation (HOPE) and The Food Trust are partners in administering this citywide program, which meets the financing needs of food markets in communities where infrastructure costs and credit needs cannot be filled solely by conventional financial institutions. The City has provided \$7 million in Disaster Community Development Block Grant (D-CDBG) funds toward the program which will be matched 1:1 by HOPE. Under the FFRI program, HOPE will provide a combination of forgivable and interest-bearing loans for predevelopment, site assembly and improvement, construction and rehabilitation, equipment installation and upgrades, staff training, security, and inventory and working capital for start-up costs. The Food Trust will evaluate applications to determine eligibility for the program.

The initiative was created in response to the lack of fresh, healthy foods in many New Orleans neighborhoods, a problem exacerbated by Hurricane Katrina, and growing evidence that supermarket access reduces the risk of developing diet-related diseases such as obesity, heart disease and diabetes. The Fresh Food Retailer Initiative will directly benefit low and moderate income residents in New Orleans by providing healthy food access, creating jobs, and revitalizing neighborhoods.

Hope Enterprise Corporation (HOPE) is a Community Development Financial Institution (CDFI) dedicated to strengthening communities, building assets and improving lives in economically distressed areas of the Mid South by providing access to high-quality financial products and related services. Since 1994, HOPE has generated over \$1.4 billion in financing for entrepreneurs, homebuyers and community development projects and directly benefited more than 75,000 individuals. Founded in 1992, The Food Trust is a non-profit organization dedicated to making affordable, healthy food available to all. The Food Trust was a key partner of the Fresh Food Financing Initiative in Pennsylvania, a statewide program that has helped to open 88 stores in underserved areas.

SECTION II: ELIGIBILITY

A. Eligible Applicants

Types of Entities

An applicant may have a for-profit or non-profit status and may be, but is not limited to, one of the following: national chain, regional grocery chain, singular grocery retail outlet, and smaller neighborhood or cooperative food store.

Purpose

In order to be eligible to participate in FFRI, the applicant must demonstrate one of the following:

1) plan to open or renovate a self-service supermarket or other grocery retail outlet primarily selling affordable fresh produce, seafood, meat, dairy, and other groceries; or

Public Partner:



Loan Underwriter, Service and Compliance Partner:



Food Access Partner:



- 2) improve a store's ability to stock and sell a variety of fresh fruits and vegetables, where fresh produce carrying capacity had previously been limited or nonexistent; or
- 3) develop a real estate project that will lease space to a grocery retail tenant. In this case, the applicant must have a signed lease with a fresh food retail operator. Projects with multi-tenant uses may be eligible if the development project is funded proportionately to grocery retailer square footage, allowing the FFRI award to focus only on the grocery retail tenant portion.

Location

The applicant's business must be located:

- within Orleans Parish
- in a location that meets Low- or Moderate- Income (LMI) criteria (described below)

The applicant's business site will also be assessed to determine whether it is within an underserved area (defined as an area of below average supermarket density or below average grocery sales).

Low Moderate Income (LMI) Criterion

A project will be deemed to meet the LMI criterion if is within a census tract OR service area where at least 51% of persons or households are low to moderate income.

A project may also be eligible if it is satisfactorily shown to create or retain permanent jobs, at least 51 percent of which (computed on a full-time equivalent basis) will be made available to or held by LMI persons.

Dedicated Shelf Space

The applicant must demonstrate that significant shelf space (suggested minimum of either 15 percent of the current or future store shelf space or 24 linear feet of shelf space, whichever is greater) is dedicated to the sale of fresh fruit and vegetables. Such a standard establishes a meaningful commitment to sell fresh produce and other healthy foods.

Ineligible Applicants

- 1) Applicants that fail to demonstrate a commitment to offer fresh healthy foods in the judgment of the City, HOPE, and The Food Trust.
- 2) Large department stores that specialize in many different types of goods, of which groceries are only one department.
- 3) Restaurants, cafes, or bakeries.
- 4) Pharmacies with grocery sections.
- 5) Businesses with alcohol or tobacco retail sales as the primary source of revenue.
- 6) Public entities.

B. Eligible Activities

Fund Usage

Both FFRI forgivable loans and interest-bearing loans may be used for:

- 1) Pre-Development: to pay for the early costs associated with project feasibility including professional fees (e.g. architectural, engineering, etc.), market studies, appraisals, and deposits on land and buildings.
- 2) Site Assembly and Improvement: to pay for acquisition, demolition, environmental remediation, unstable foundations and soil conditions, and other costs associated with site and infrastructure improvement.
- 3) Construction and Rehabilitation: to construct, rehabilitate, or expand the interior and/or exterior of the retail space.

- 4) Equipment: to install or upgrade equipment, machinery, furnishings or interior fit-out, especially as necessary to increase the inventory and sale of fresh fruit and vegetables.
- 5) Staff Training: to pay for training new or existing staff, especially in such areas as safe food handling techniques, sanitation, and management of fresh fruits and vegetables.
- 6) Security: to pay for security staff, security training, and security related equipment and site design features to create a safe environment in a neighborhood setting.
- 7) Inventory and Working Capital: to cover first-time inventory or other working capital expenses necessary to the sale of fresh fruit and vegetables and the initial operations of the business.

Ineligible Activities

Borrowers may not use funds for:

- 1) The sole purpose of refinancing existing debt.
- 2) Payment of any tax arrearages, government fines or penalties.
- 3) Political or religious activities.
- 4) Buying out any stockholder or equity holder in the borrower's business.
- 5) Buying out or reimbursing any family member.
- 6) Purchasing instruments or investments for the sole purpose of a return on investment.
- 7) All other activities prohibited in the CDBG regulations Part 570.

C. Application Process and Evaluation

In order to determine eligibility, the applicant must complete a <u>FFRI Eligibility Application</u>. The Food Trust will review each eligibility application to determine whether the proposed project meets the criteria listed above. The Food Trust will additionally consider the following:

- 1) Degree of benefit to underserved populations: The project has a measureable impact on the level of affordable fresh foods provided to low- and moderate-income residents of the area that the project serves.
- 2) Promotion of fresh fruits and vegetables: The Applicant demonstrates a commitment to promoting the sale of fresh fruits and vegetables, e.g. the project details strategies to promote fresh produce sales beyond simple availability, such as product placement, marketing, providing recipes and demonstrations, and outreach.
- 3) Organizational experience and capacity: The Applicant demonstrates the capacity to implement and sustain the project, e.g. through a sound financial/business plan and relevant experience in fresh food retail.
- 4) *Project Need*: The project requires an investment of public funding to move forward, to create impact, or to be competitive with similar projects in the region.
- 5) *Community Support*: The project demonstrates community support and/or partnerships as evaluated by Letters of Support from community-based organizations and community groups.
- 6) Consistency with "Green Community" Objectives: The project incorporates environmentally responsible practices into the project plan, such as integrated design, site improvements, water conservation, energy efficiency, and use of materials beneficial to the environment.
- 7) *Market and Demographic Evaluation*: The Applicant will examine the quality and accessibility of any local competition, site geography, and demographic profile of the Census tract in which the site is located.
- 8) Consistency with Plans: The Applicant will coordinate with the City of New Orleans Master Plans, local community plans and community development programs.
- 9) Land Use and Urban Design: The project will adhere to sound land use and urban design principles.

If an applicant is deemed eligible, the applicant will receive confirmation along with an invitation to complete a business loan application from HOPE. See Section VI, Program Inquiries, for additional information.

SECTION III: FINANCING

A. Loan Purpose

Loans from the program will fund costs associated with pre-development, site assembly and improvement, construction and rehabilitation, equipment installation and upgrades, staff training, security, and inventory and working capital for initial start-up costs. Borrowers will be required to have a minimum of 10 percent cash equity at risk in addition to the financing offered in this program.

B. General Terms and Conditions

The total amount of D-CDBG FFRI funding awarded, for forgivable and interest-bearing loans combined, may not exceed \$1,000,000 per store. More funding may be supplied on a case-by-case basis in the form of market-rate interest bearing loans from private lenders or New Markets Tax Credits.

C. Financing Criteria

After the Applicant and the Applicant's business have been found to meet the minimum program eligibility criteria, the Applicant will be asked to submit a business loan application to HOPE. Applicants will be evaluated by HOPE's Credit Analysis Department to determine their ability to service their debt, implement their business plan, and repay the loan in accordance with program requirements.

In order to be eligible to receive financing under the FFRI Program, the Applicant and the Applicant's business must satisfy the following minimum standard underwriting criteria, unless mitigating circumstances are present and documented in the loan file:

- 1) Determination that the project meets general program eligibility criteria
- 2) Beacon credit score > 550 for all principals and guarantors
- 3) Projected debt coverage ratio of 1.2x (defined as EBITDA / (interest payments + current maturities)
- 4) Personal guarantee, where applicable.
- 5) No prior history of bankruptcy at anytime with the business nor recent (within the last seven years) for the principals
- 6) With security for the loan calculated at the lower of cost or market, no LTV ratios will be accepted at above 85%
- 7) Minimum combined grocery store management experience of the principals is to be 5 years, with a preference for 8 or more years

Forgivable Loans

Forgivable loans of up to \$500,000 per store may be awarded for designated project activities pursuant to the terms listed below:

- 1) Applicants must submit a narrative that demonstrates the need for a forgivable loan.
- 2) The project must meet both the income criterion and underserved criterion (as detailed in the Program Eligibility Criteria).
- 3) Forgivable loans will only be considered in the event the business's project cash flow with loan repayment using standard pricing and amortization would be expected to be below 1.2x. Exceptions will be made for businesses with projected cash flows that exceed 1.2x that demonstrate that their project has an exceptional opportunity for impact in an underserved area.
- 4) The forgivable loan can comprise no more than 20% of the total financing needs of the borrower.
- 5) Forgivable loans, if awarded, will be provided at a 0% rate of interest and forgiven over a period of five years, in an amount of one-fifth (1/5) of the forgivable loan amount per year.

Note: Applicants receiving a forgivable loan will be evaluated on a yearly basis to determine if the applicant is meeting the goals and objectives of the FFRI program. If the applicant is found not to be in line with the goals and objectives of the FFRI program (i.e., not providing fresh fruits and vegetables as outlined in the Program Eligibility Criteria), the remaining balance of the forgivable loan must be repaid.

Interest-bearing Loans

Interest rates for the FFRI Program will be risk based adjusted and determined by HOPE during the underwriting and HOPE Credit Committee approval process. Generally, however, interest rates for FFRI Program loans will range from the Wall Street Journal (WSJ) Prime Rate to the WSJ Prime Rate plus 3%. The length of the loan term will depend on the financing needs of the borrower (projected cash flow and activities/items being financed).

Other Financing Criteria

- 1) The total amount of CDBG FFRI Program funds awarded for forgivable and interest-bearing loans combined may not exceed \$1,000,000 per store.
- 2) Applicants will be required to provide a minimum of 10% cash equity.
- 3) To the extent practicable, FFRI Program funds will be disbursed on a pro rata basis with other leveraged finances provided to the project being spent first or before FFRI Program funds.
- 4) Default covenants are required for selling the business, selling or diluting majority ownership, or selling assets purchased with FFRI funds.
- 5) Applicants will be responsible for paying the legal and assessor fees (such as survey costs, appraisal fees, and filing fees) normally incurred with the underwriting and financing of commercial loans.

D. Application Evaluation and Approval Process

Business Loan Application

After an Applicant has completed the preliminary eligibility application stage, and after the Applicant and the Applicant's business have been found to meet the minimum program eligibility criteria, the Applicant will be asked to submit a business loan application to HOPE. The loan application is also available on www.hope-ec.org. Applications will be approved on an as-needed basis until all funds are committed to projects. Applicants will be evaluated by HOPE's Credit Analysis Department to determine their ability to service their debt, implement their business plan, and repay the loan in accordance with program requirements.

HOPE Credit Committee / City of New Orleans Review

Once the loan officer is satisfied that a loan request complies with general policy and the requirements for an acceptable loan, the loan has been structured properly, and all necessary credit information has been obtained, the loan must go through the formal approval process at HOPE.

All FFRI Program loans require HOPE Credit Committee or delegated lending approval. The HOPE Credit Committee is responsible for approval of credit terms, pricing, and credit rating, and any policy and/or documentation exceptions.

Additionally, following review by The Food Trust and HOPE, the City of New Orleans will review recommendations and approve, request modification of, or may deny applications for funding.

E. Loan Closing

Upon approval of an application by HOPE, a loan agreement and commitment letter will be issued to the applicant explaining the terms and conditions of the loan. The commitment letter must be signed and returned within 15 days of the date of the commitment letter or the offer may be withdrawn.

F. Reporting Requirements and Record Keeping and Nonperformance

HOPE will enter into a loan agreement with all borrowers. Loan proceeds are subject to audit by HOPE. Borrowers will be responsible for complying with all applicable Disaster Community Development Block Grant (D-CDBG) regulations and for complying with the City's Disadvantaged Business Enterprise (DBE) program. Borrowers will be expected to provide HOPE with evidence of compliance with CDBG regulations and the DBE program. Additionally, borrowers will be required to submit CPA-audited fiscal year-end financial statements, annual federal tax returns for the borrower and all guarantors, quarterly CPA prepared financial statements and annual personal financial statements for all guarantors. Additional financial and/or compliance documentation may be required.

SECTION IV: CDBG COMPLIANCE

A. Environmental Review

The FFRI program is partially funded by Disaster Community Development Block Grants (D-CDBG) granted to the City of New Orleans by the Department of Housing and Urban Development (HUD) and the State of Louisiana. Therefore, all projects being reviewed for funding through the FFRI program are subject to all NEPA regulations and thus must be environmentally reviewed and classified as Exempt, Categorically Excluded, in need of an Environmental Assessment (EA), or in need of an Environmental Impact Statement (EIS). In some cases, where contaminated soil is involved, further soil investigation is also required. Even if CDBG is funding only a portion of the project, the entire project is subject to comply with environmental regulations.

Before a loan agreement can be executed for FFRI funding, an environmental review must be completed. A change in your project scope may require a supplemental or new environmental review to be performed. The City of New Orleans will work closely with the FFRI program administrators so that when a loan application is approved for funding, the City will begin the environmental process. The length of time of this review can range from two weeks to several months depending on the activities associated with the project. A FFRI loan agreement can only be executed upon completion of the environmental review process.

B. Choice-Limiting Actions

Once an application for FFRI funding is submitted, a project is considered a federal undertaking, and therefore the applicant should be careful to avoid any choice-limiting actions that may hinder potential financing. Generally, choice-limiting actions consist of making project investments before all necessary environmental clearances are obtained. Choice-limiting actions are defined as any activity that would have an adverse environmental impact (e.g. demolition, dredging, filling, excavating) or limit the choice of reasonable alternatives, and include the execution of legally binding agreements (i.e. loan agreements, construction contracts, etc), acquisition, leasing, construction, demolition of buildings, or rehabilitation or reconstruction of buildings, regardless of funding source.

The concept of prohibiting "choice-limiting" actions is to prevent the developer from investing in a project before all necessary environmental clearances are obtained. Market studies, environmental studies, plan development, engineering or design costs, inspections and tests are not considered choice-limiting actions.

Failure to comply with the prohibition against committing funds or taking physical action (using either FFRI funds or non-FFRI funds) before the completion of the environmental review process could result in loss of FFRI assistance, cancellation of the project, reimbursement by the developer/owner to FFRI for the amount expended, or suspension of the disbursement of funds for the affected activity.

C. Section 504

All FFRI loan recipients' projects will be required to comply with Section 504 of the Rehabilitation Act of 1973. This law often is called simply "Section 504." Section 504 mandates that all federally funded programs provide equal access to, and full participation in the federally funded programs for individuals with disabilities.

All FFRI program participants receiving D-CDBG funds will be required to demonstrate that program activities will be operated, constructed or renovated in compliance with Section 504. Participants awarded FFRI funds for projects that that are not classified as new construction or do not otherwise involve construction that can demonstrate that making the physical improvements mandated by Section 504 will cause an undue financial burden may submit documentation demonstrating that such a burden exists. The City of New Orleans and State of Louisiana will ultimately determine whether or not evidence provided will qualify the FFRI program loan recipient for a waiver.

Regardless, all FFRI loan recipients are expected to present a plan for their business that demonstrates how the business will operationally accommodate persons with disabilities. Some operational aspects that a fresh food retail outlet may utilize include: phone orders and curbside pick-up, home delivery, etc. Before a loan agreement can be executed for FFRI funding, applicants will be required to demonstrate how their project will comply with Section 504 from both a physical and operational standpoint.

SECTION V: DISADVANTAGED BUSINESS ENTERPRISE (DBE) PROGRAM

The City of New Orleans maintains a listing of businesses that have been certified by the City as a Disadvantaged Business Enterprise (DBE), available at:

https://neworleans.dbesystem.com/FrontEnd/VendorSearchPublic.asp?TN=neworleans&XID=8965.

All borrowers must make a demonstrated best effort at utilizing certified DBEs in all subcontracts and procurements. For the purposes of the FFRI program, "demonstrated best efforts" is defined as soliciting, in writing, at least 3 bids or proposals from entities participating in the City's DBE Program. Documentation of this solicitation is required.

SECTION VI: PROGRAM INQUIRIES

Visit www.hope-ec.org for program information and to download the Eligibility Application. All program inquiries should be addressed directly to HOPE.

Contact information:

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