colorado fresh food financing fund

CO4F Program Guidelines

COLORADO FRESH FOOD
FINANCING FUND

Statement of Purpose

The Colorado Fresh Food Financing Fund (CO4F) has been developed based on a recommendation from the Denver Food Access Task Force. The task force, a community-wide group, was convened in 2010 by the City and County of Denver in conjunction with The Food Trust and the Colorado Health Foundation to address lack of access to healthy food in areas of Denver and Colorado.

Modeled after successful financing initiatives in other states, CO4F's purpose is to help remove financial obstacles from the construction, expansion, and renovation of grocery stores and supermarkets in underserved areas. This statewide program is also intended to attract food delivery systems to rural areas in the state. Although construction and expansion of full-service grocery stores and supermarkets is a priority of the program, other specialized healthy food providers are also eligible for financing. CO4F will collaborate with other financing sources, including local CDFIs and commercial banks, and contract with a Food Access Organization to meet its goals.

The primary intended outcome of the program is to expand the availability of affordable and healthy food in underserved areas of our state. We believe that increased access to healthy food will increase the well-being and health of Coloradoans living in underserved areas. A secondary goal of the program is to boost economic development in Colorado through job creation and retention.

Program Eligibility

In general, applicants and projects should meet the following minimum requirements in order to obtain a loan or grant from the fund. It is acknowledged that some requirements may be waived or altered in special project circumstances.

- Applicant must be a private or public entity or individual with the ability to incur debt, who can demonstrate at least three years of retail grocery business experience or other applicable business experience, or can otherwise demonstrate experience and capacity to successfully implement and carry out a viable business enterprise (i.e., operate without long-term subsidies).

- Eligible projects operate on a self-service basis, primarily selling groceries, produce, meat, baked goods, and dairy products. Priority will be given to supermarkets, grocery stores, and food delivery systems that impact underserved areas. However, innovative methods including, but not limited to, farmers markets, farm stands, mobile processing and delivery units, co-ops, buying clubs, convenience stores and food kiosks, and other food delivery systems, may be eligible for financing depending on funding availability.

A: 1981 Blake St. Denver, CO 80202, 800.877.2432 or 303.297.2432

- Eligible applicant must utilize at least 50% of retail floor area for the sale of a general line of food products, such as dairy, canned and frozen foods, fresh fruits and vegetables, fresh and prepared meats, fish, poultry, and baked goods. Such retail space, utilized for the sale of a general line of food products, shall be distributed as follows:
    - At least 50% of food retail space shall be utilized for the sale of non-prepared foods, or food products intended for home preparation and consumption; and
    - At least 15% of food retail space shall be utilized for the sale of perishable foods, which may include dairy, fresh produce, fresh meats, poultry, fish, and frozen foods.
- Eligible applicants must demonstrate that the proposed project will benefit an underserved area. This is generally defined as a low- or moderate-income census tract with below average supermarket density. Eligible projects may also include store locations where the majority of a potential customer base live in a low- or moderate-income census tract or areas with significant food access limitations. Eligibility will be determined or confirmed by the fund's food access organization, a nonprofit advisory group specializing in food access and nutrition policy issues.
- Eligible projects must be located in an 1) underserved area that 2) primarily serves a low- to moderate-income (LMI) community. A food access organization, a nonprofit advisory group specializing in food access and nutrition policy issues, will pre-approve applications that meet these criteria, which are defined below.
    - Underserved eligibility is obtained by locating (or renovating a store) at a site without comparable grocery retail in the applicant's trade area. Trade area for retailers should be defined in consultation with industry partners, and may differ in urban and rural areas.
    - Low- to moderate-income eligibility is obtained by: 1) locating in an LMI census tract or 2) demonstrating that more than half of an applicant's customers will come from LMI areas.
- Applicant should demonstrate that the project will result in job creation or retention in the community.
- Generally, loans are intended to provide financing that is not available from conventional commercial lenders. The borrower may be required to provide substantiation that an eligible project would not be viable without a loan from the fund.
- Borrower should not have defaulted on any state or federal loan and any loan insured by the state or federal government.
- Borrower may be an operating company or individual owner(s) of an operating company or a non-operating company, such as a real estate holding company or project sponsor. If the borrowing entity and the operating company have common ownership, the operating company must guaranty the project loan.
- Loan proceeds must be used for projects located in the state of Colorado.

- All supermarkets and grocery stores financed through CO4F must accept SNAP (Supplemental Nutrition Assistance Program) benefits. Applicants must also accept—or in the case of new stores, develop a plan to accept—WIC (Women, Infants, & Children) benefits.

Eligible Activities/Uses

Loans

- Loans from the program will finance costs associated with land acquisition, pre-development, construction or rehabilitation, equipment, inventory and other working capital needs, and interior tenant improvements. Loans will be made in instances where conventional financial institutions either do not offer financing, or the conventional financing offered is insufficient or on terms that are a detriment to the feasibility of the project/business. Business operators and site developers will be required to have cash equity at risk in addition to the financing offered in this program.

- All loans will be secured and include full recourse to the borrower.

- Working capital may be an eligible use of loan proceeds in extraordinary circumstances, but may not exceed 20% of total loan amount.

Grants

In addition to meeting all project eligibility requirements, applicants must demonstrate sufficient need for a grant subsidy to the project.

Grants may not exceed a maximum of $100,000 per project, except in extraordinary, high impact cases.

- Predevelopment grants may be used to pay for the early costs associated with project feasibility including professional fees, market studies, appraisals, deposits on land and buildings, and other holding costs.

- Land assembly and other capital grants may be used to pay for relocation, demolition, environmental remediation, unstable foundations, and soil conditions. These grants may also be used for other project costs related to land assembly and infrastructure improvement.

- Soft costs and other pre-operating grants may be used to cover training costs, security, or other pre-opening expenses. These costs will be considered on a project-by-project basis.

- Construction grants may be used for general conditions, builder overhead and profit, labor, materials, and contingency funding

- Projects involving innovative methods of healthy food access may be eligible for grants for various uses on a flexible basis.

Ineligible Activities

Ineligible applicants include the following:

- Department stores that specialize in many different types of goods of which groceries are but one department, including restaurants, cafes, businesses with alcohol or tobacco retail sales as primary source of revenue, and convenience stores.

- Multi-tenant projects where less than 50% of the aggregate commercial space is used for healthy food retail. This does not exclude financing for individual businesses providing retail healthy food as tenants in a larger commercial development.

- Multi-tenant projects may not lease any space to businesses involved in the following: religion, entertainment of a purient sexual nature, gambling, illegal activity, [the sale or consumption of marijuana], or pyramid sales.

General Terms and Conditions

Loan Size	Minimum of $100,000.* Maximum loan size(s) is $1,500,000 per project
Interest Rate	Determined by loan committee; fixed for life of loan
Loan Terms	Construction, pre-development, or acquisition loans up to 24 months; term loans up to 60 months with a maximum 240-month amortization; longer terms considered on a case-by-case basis.
Collateral	All loans will have sufficient collateral. Generally, the loan will be secured by a first or second deed of trust on project real estate or a first security lien on project assets. In certain circumstances, CO4F may require additional collateral beyond project assets being financed to ensure that the loan-to-value ratio is met.
Loan-to-value	Maximum 90%
Equity Contribution	Borrower must contribute the minimum required equity, typically no less than 10%, towards the project costs. Equity contribution generally takes the form of cash or land equity.
Debt Service Coverage Ratio	Borrower must demonstrate the ability to achieve a minimum coverage of 1.10x debt service upon stabilized operation.
Personal Guarantees	May be required for loan transactions
Repayment	Construction loans may have monthly, quarterly, semi-annual, or annual interest-only payment terms; term loans require monthly principal and interest payment sufficient to repay the loan over the amortization period. An initial period of interest-only payments may be allowable.
Prepayment	Unless otherwise indicated, loans may be prepaid in whole or in part at any time without penalty.
Reporting	Financial and program impact reporting will be required as defined by the loan agreement.
Guarantees	Personal and/or corporate guarantees may be required.
Leverage	In most cases, borrowers will be required to obtain additional sources of financing for the project.
Competitive Analysis	The project’s impact on existing potential competitors will be analyzed.
Other	This is not intended to be a complete list of terms and conditions.

Loan Underwriting and Due Diligence

Program loan decisions will be based primarily on the borrower's ability to repay the proposed loan over its term. The primary source of repayment will be the cash flow generated by the project and/or the historical and existing cash flow of an operating entity or project sponsor. Financial strength of one or more guarantors may be considered to offset financial weakness.

An analysis of the project, borrower, and/or operating company financial will be performed by the program administrator based on the following information supplied by the applicant.

- In the case of an existing business or an operating company expansion, underwriting will include review of the following:
    - Revenue and profitability trends
    - Cash flow
    - Balance sheet strength
    - Management experience
    - Supplier relationship and credit terms
    - Industry analysis and economic trends
    - Guarantor financial strength
- In the case of a to-be-built grocery store or supermarket project, underwriting will also include the following:
    - Operating projections
      Projections will be reviewed for reasonableness and completeness and must demonstrate adequate cash flow to service the proposed loan. Projections must also demonstrate sufficient working capital resources to fund cash flow shortfalls until internal cash flow is sufficient. This may be satisfied with evidence that a grant will be obtained for that purpose.
    - Development budget
    - Market study
    - Project sources and uses
    - New management capacity
      Review of relevant industry experience of borrower's operating management team

Other underwriting and closing due diligence items to be required and subject to approval by the Fund Administrator in its sole discretion include, but are not limited to:

- Personal credit history of guarantors and individual borrower/owners
- Real estate and personal property collateral valuation and requirements
- Environmental assessment (transaction screen, Phase I)
- Insurance requirements (hazard, liability, flood)
- Borrower equity [cash, land value, grant, personal property, amount (for- profit versus nonprofit)]
- Survey for all real estate loans
- Credit reports may be obtained on personal guarantors and/or individual borrowers

Application, Evaluation, and Approval Process

Application forms for loan and/or grant financing may be obtained by contacting the fund administrator or the food access organization. Applications are accepted and considered on a rolling basis as long as program funds remain available.

A pre-application will be reviewed by the designated food access organization to determine basic program eligibility (see Program Eligibility above) and, in the case of a loan application, basic financial feasibility. If eligibility and financial feasibility are determined to have been met, a financing application will be submitted to the fund administrator. A list of required items constituting a complete application for financing is contained on the Financing Application (Attachment B).

The fund administrator will perform a thorough analysis of the project and present an application package reflecting the transaction to the fund's loan committee for consideration and vote. The loan committee may approve a transaction in its presented form or with changes, decline a transaction, or table a transaction until additional requested information is presented. Decisions of the loan committee are final.

Loan committee decisions will be communicated to the applicant by the fund administrator. If a loan and/or grant application is approved by the loan committee, the fund administrator will deliver a formal loan commitment and/or grant agreement to the applicant. The loan commitment and/or grant agreement must be returned to the fund administrator along with any applicable fees. Approved funding amounts, terms, and conditions outlined in the loan commitment and/or grant agreement may differ somewhat from the application request if the Board determines these changes are advisable to strengthen the transaction or mitigate risk.

Closing and Post-closing Process

Upon acceptance of the loan commitment and/or grant agreement, the fund administrator will work closely with the applicant to facilitate the closing and funding process. Closing requirements and associated documentation will differ depending on the nature and complexity of the transaction.

The applicant will enter into a loan agreement and/or grant agreement that will outline reporting and record-keeping requirements.

All loans will be serviced by the fund administrator.

Program Exceptions

Although it is expected that all approved projects will adhere to these program guidelines, exceptions may be granted on a case-by-case basis.

Contact Information

Fund Administrator	Colorado Housing and Finance Authority c/o Tim Dolan 1981 Blake Street Denver, CO 80202 303.297.7318 tdolan@chfainfo.com
Food Access Organization	PUMA c/o Erin Lyng 720.519.0535 co4f@pumaworldhq.com