

El Paso County Fresh Food Financing Initiative

Program Guidelines

SECTION I: INTRODUCTION

Statement of Purpose

The El Paso Fresh Food Financing Initiative (EP FFFI) is an innovative new financing program created by the County of El Paso to increase the number of supermarkets, grocery stores, and other fresh food markets in low-income, underserved communities across the county. The intent of the program is to enable operators to open, renovate, or expand retail outlets that sell fresh fruits and vegetables. PeopleFund and The Food Trust are partners in administering this countywide 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 County has provided \$500,000 which will be matched and leveraged further by PeopleFund. Under the EPC HFFI program, PeopleFund 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 their impacts on food access.

The initiative was created in response to the difficulty many county residents face in obtaining healthy and affordable foods as well as the growing evidence that grocery access reduces the risk of developing diet-related diseases such as obesity, heart disease, and diabetes. The EPC HFFI will directly benefit low- and moderate-income residents in El Paso by providing healthy food access, creating jobs, and revitalizing neighborhoods.

One of the keys to creating and maintaining vibrant neighborhoods is understanding where and how to invest resources. PeopleFund provides small business loans as well as business assistance and education to people with otherwise limited access to such resources. Since being founded in east Austin in 1994 as Austin Community Development Corporation, PeopleFund's financial and educational assistance has helped create thousands of jobs and empowered an even greater number of Texans on a path to financial stability and independence. PeopleFund is a Community Development Financial Institution (CDFI) and operates as a non-profit 501(c)(3) serving all of Texas.

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: regional grocery chain, national grocery chain, singular grocery retail outlet, food hubs, farmer's markets, mobile markets, and other food retail models that provide high quality affordable and healthy produce.

Purpose

To be eligible to participate in EPC HFFI, 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
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 EP FFFI award to focus only on the grocery retail tenant portion.

Location

The applicant's business must be located:

- within the County of El Paso
- 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 it 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 County, Reinvestment Fund, 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 EPC HFFI 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.

C. Application Process and Evaluation

To determine eligibility, the applicant must complete an EPC HFFI Eligibility Application. 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 County of El Paso 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 Reinvestment Fund. 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 EP FFI 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 PeopleFund. Applicants will be evaluated by PeopleFund’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.

To be eligible to receive financing under the EPC FFI 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 \$_____ 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
 - a. 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 EPC HFFI program. If the applicant is found not to be in line with the goals and objectives of the EPC HFFI 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 EPC HFFI Program will be risk based adjusted and determined by PeopleFund during the underwriting and Reinvestment credit approval process. Generally, however, interest rates for EPC HFFI 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 EP FFFI Program funds awarded for forgivable and interest-bearing loans combined may not exceed \$_____ per store.
2. Applicants will be required to provide a minimum of 10% cash equity.
3. To the extent practicable, EP FFFI Program funds will be disbursed on a pro rata basis with other leveraged finances provided to the project being spent first or before EP FFFI Program funds.
4. Default covenants are required for selling the business, selling or diluting majority ownership, or selling assets purchased with EP FFFI 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 Reinvestment Fund. Applications will be approved on an as-needed basis until all funds are committed to projects. Applicants will be evaluated by Reinvestment Fund'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.

Reinvestment Fund Credit Committee / County of El Paso 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 Reinvestment Fund.

All EPC HFFI Program loans require Reinvestment Fund lending approval. Reinvestment Fund 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 Reinvestment Fund, the County of El Paso will review recommendations and approve, request modification of, or may deny applications for funding.

E. Loan Closing

Upon approval of an application by Reinvestment Fund, 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

PeopleFund will enter into a loan agreement with all borrowers. Loan proceeds are subject to audit by PeopleFund. Borrowers will be responsible for complying with all applicable regulations for funds from the Office of Economic Development and for complying with the County's Disadvantaged Business Enterprise (DBE) program. Borrowers will be expected to provide PeopleFund with evidence of compliance with 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 VI: PROGRAM INQUIRIES

Visit www.reinvestment.com for program information and to download the Eligibility Application. All program inquiries should be addressed directly to El Paso County Economic Development Department.

Contact information:

El Paso County Economic Development
500 San Antonio, Suite 312
El Paso, TX 79901
Tel. 915 546-2177