



# REINVESTMENT FUND

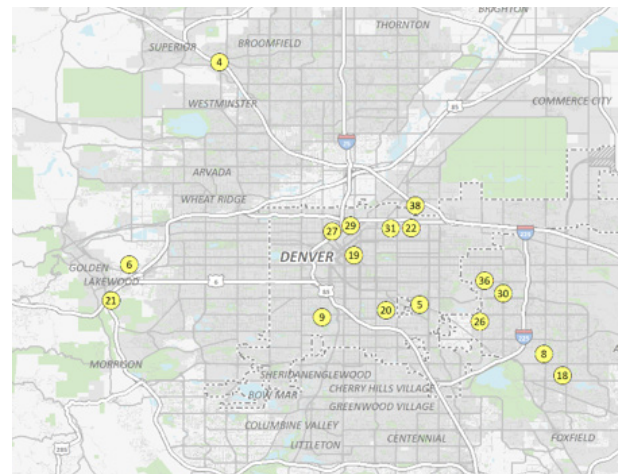


*Linking the Network:*

## *Colorado Enterprise Fund's Partnerships to Improve Colorado's Food System through Healthy Food Financing to Small Businesses*

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### RESEARCH CONDUCTED BY

Policy Solutions at Reinvestment Fund

Kevin Reeves, Research Analyst

Michael H. Norton, Chief Policy Analyst

## Introduction

Colorado Enterprise Fund (CEF) is a community development financial institution (CDFI) that supports small and emerging businesses through flexible financing and business-oriented technical assistance. In 2012, CEF launched a dedicated healthy food financing program with \$1,500,000 in grants from the newly created Colorado Fresh Food Financing Fund (CO4F) and the Healthy Food Financing Initiative (HFFI)—a collaboration between the US Department of Agriculture, the US Department of the Treasury, and the US Department of Health and Human Services designed to increase access to healthy food for underserved communities across the country.

Since 2012 CEF has been a partner in CO4F, making loans up to \$150,000 to support small and innovative fresh food concepts throughout the state. In 2014, CEF joined Reinvestment Fund's ReFresh Network, a national network of practitioners working to improve access to healthy food in urban and rural communities across the United States where long-standing barriers make it difficult for residents to live healthier, more stable lives. Support from JPMorgan Chase, provided through ReFresh, allowed CEF to hire its first staff person dedicated full-time to developing its healthy food portfolio.

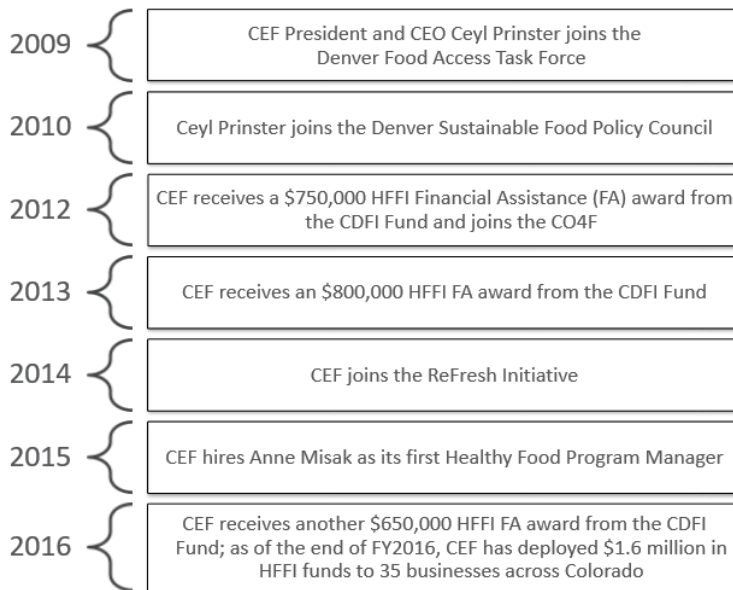
In 2016, CEF and Reinvestment Fund collaborated to take a closer look at CEF's Healthy Food Fund (HFF). As a small business CDFI, CEF has both distinct advantages and unique challenges in its healthy food financing program compared to larger CDFIs. This profile highlights CEF's experience building its HFF portfolio to provide insights for other CDFIs engaged in this work across the nation.

**Colorado Enterprise Fund (CEF)** was founded in 1976 as a non-profit lending source specializing in loans for small and emerging businesses unable to secure traditional bank financing. By offering flexible financing options, personalized customer service, one-on-one business advising, and access to entrepreneurial resources statewide, CEF has grown to offer loans up to \$500,000 to continue supporting the success of small businesses, the prosperity of local communities, and the growth of Colorado's diverse economy.

**Reinvestment Fund** is a catalyst for change in low-income communities. It integrates data, policy and strategic investments to improve the quality of life in low-income neighborhoods. Using analytical and financial tools, Reinvestment Fund brings high-quality grocery stores, affordable housing, schools, and health centers to the communities that need better access—creating anchors that attract investment over the long term and helping families lead healthier, more productive lives. As a federally certified CDFI, Reinvestment Fund manages \$950 million from over 865 investors.

**ReFresh** is a Reinvestment Fund national initiative designed to improve access to healthy food in urban and rural communities across the United States by building the capacity of CDFIs interested in healthy food financing. The goal of ReFresh is to share expertise and pursue opportunities that allow practitioners to finance more food access projects that benefit low-income communities, improve healthy food options, and contribute to economic revitalization.

**Figure I: A Timeline of CEF's Healthy Food Financing Efforts**



## CEF Is Uniquely Positioned to Support Healthy Food Financing in Colorado

Investments designed to expand access to healthy food are especially challenging for lenders. “It’s a risky industry. The margins are so thin, and the collateral is so weak—especially if you don’t have real estate. It’s usually old equipment, shelving, and food, so what’s there?” asks CEF’s President and CEO Ceyl Prinster, outlining the difficulties of financing small healthy food businesses.

CDFIs and other lenders across the country have found that the smallest stores (those with less than \$2 million in annual sales, referred to as superettes in the industry) are the most difficult to support with debt. However, while traditional lenders may balk at the effort needed to serve small food retailers, CEF sees superettes as an opportunity to leverage its experience as a small business lender. “We’re focused on making sure areas that don’t have full-service grocery stores have better options,” says CEF’s Healthy Food Program Manager Anne Misak. “Our small ethnic markets and corner stores don’t solve everything, but at least they provide options.”

CEF has deep connections with the small business community and experience providing the technical assistance small businesses need to sustainably take on debt. “We step up to the table and know everybody in every county office, so CEF has the ability to link the network,” says CEF’s Director of Finance and Administration Nick Massie. “We’re willing to put in dozens of hours to make a \$10,000 loan. We have that nurturing sense about us, and that’s a big part of our mission.” With an average HFFI loan size of \$40,500, CEF meets a need many other lenders cannot.

Due to its business model, CEF also plays a unique role in Colorado’s healthy food financing network. Tim Dolan, a Senior Community Development Loan Officer at the Colorado Housing Finance Authority (CHFA), which administers CO4F, highlighted the importance of having a CDFI as part of program from the beginning: *as a CDFI, CEF offers lower rates and more “patient” capital than traditional lenders, which is critical to helping small businesses in the food industry succeed.*

Thanks to operational support from the CDFI Fund and CO4F, CEF is able to offer lower rates for its healthy food retail loans while still covering overhead. CEF also provides longer terms to accommodate the unique cash flow patterns of small healthy food businesses. According to CEF’s Director of Lending Alan Ramirez, “As a CDFI that’s what you do. You try to be as flexible as you can, especially when you know these deals have good impact in these communities.”

### Investing at Multiple Points in the Food System to Support Sustainable Growth

One of the unique challenges in Colorado’s metro areas is that a small number of large grocery chains dominate the food retail market. Using a market structure analysis obtained through ReFresh, CEF identified considerable barriers to small operators developing food retail establishments. “[Those reports] helped me to understand some of the constraints on Colorado’s market,” says CEF’s Misak. “Many of our metro areas are saturated with the large chains, so there’s not much market space for smaller operators.”

Small food retailers like the ones CEF serves often lack access to producers and distributors. As a result, many small retailers must purchase their inventory from Costco, Sam’s Club, or Walmart. “Until the food system is corrected, these retailers in the Denver Metro will never have a reasonable margin because they’re already paying too much for this product,” explains CEF’s Ramirez.

With this in mind, CEF began to focus on the whole food system, not just retail, to support the development of a sustainable environment for small healthy food providers. CEF’s holistic focus helped generate new business even from CO4F applicants who did not meet the program’s underwriting guidelines. Progressive Urban Management

#### Summary of Reinvestment Fund’s Market Structure Analysis for Colorado

Reinvestment Fund’s Market Structure Analysis measures the concentration of market share within a region’s supermarket industry. In general, as the concentration of market share within the top few supermarket owners increases, competition within the region’s supermarket industry decreases. Market shares in Colorado’s supermarket industry vary by region but tend to be fairly concentrated in only a handful of owning entities, notably King Soopers, Safeway, and the Wal-Mart family of stores.

Even so, many parts of the state have relatively limited access to healthy food. In many cases, these Limited Supermarket Access (LSA) areas disproportionately affect low-income and minority residents. This is the case in the Boulder Metropolitan Area, the Colorado Springs Metropolitan Area, the Grand Junction Metropolitan Area, the Pueblo Metropolitan Area, Denver County, El Paso County, Elbert County, and Mesa County.

Knowledge of these regions’ market structures can help CEF tailor its policies and financing programs to accommodate the competitive climate within each region. Regions with tight oligopolies often make market penetration especially difficult for local and regional supermarket operators that are not members of the oligopoly. Conversely, loose oligopolies with less concentrated market share exhibit fewer barriers to entry for prospective supermarkets. Where mission-fit LSA areas exist in uncompetitive regions, CEF can focus on opportunities to preserve and expand existing small grocers as opposed to constructing new large stores that might struggle to compete with members of a tight oligopoly.

Associates (P.U.M.A.), which conducts the initial vetting of CO4F applicants, sees the partnership with CEF as a crucial resource for non-retail inquiries. According to P.U.M.A.'s Erin Lyng, "[CEF does] the full spectrum of food financing, and that's attractive to people. People like to hear that there's a place for them to go that's specifically interested in that and that's going to try hard to make that work for them."

As of December 2016, more than 60% of CEF's healthy food loans were to non-retail businesses, including producers, value-added production facilities, distributors, and restaurants. One of those non-retail businesses is Atlantic International Trading, a distributor of authentic Asian ingredients. CEF provided the company with \$30,050 in working capital to distribute fresh produce and other supplies to Denver restaurants and retailers. Atlantic International Trading had been successful for several years but struggled during the recent recession. A loan from CEF helped keep Atlantic International Trading's 14,000 square foot warehouse stocked with \$500,000 in paid inventory and enabled the company to continue serving its more than 150 loyal customers.

### Finding the Right Borrowers Takes Time and Energy

CEF's biggest challenge, one shared by CO4F overall, has been finding qualified borrowers. "Initially we thought, 'If we build it, they will come.' If we create this loan fund to meet this need, then all of a sudden we will have deals in the pipeline; grocery stores will find us and utilize this resource," says CEF's Misak. "But we haven't found that to be the case. We've had to do a lot more work to get the word out." Like many lenders new to food financing, CEF found early on that its existing sources of referrals—primarily small business development centers and banks—did not work with the types of businesses CEF hoped to serve. "Our deals did not come from our traditional referral partners," recalls CEF's Massie. "That was the biggest takeaway for me. Our standard process wasn't going to work." As a lean organization, CEF's existing staff did not have the capacity to forge the partnerships required to find qualified borrowers. Hiring a dedicated staff member with experience in the food sector was critical to expanding the organization's healthy food portfolio.

With an operational support grant from ReFresh, CEF hired Misak to focus on reaching out to those new referral partners. According to CEF's Massie, "Anne gave us access to parts of the market that we didn't understand well or didn't have visibility into. She was going to things like USDA conferences and rural co-op conferences, things that we probably would not have thought of as opportunities to build our pipeline." With a staff member dedicated full-time to food lending, CEF built relationships with a new network of referral partners like Denver's Healthy Corner Store Initiative, the Colorado Department of Agriculture, statewide producer networks, and start-up food co-ops.

As its network has grown, CEF has begun to emphasize outreach to operators outside the Denver metro area and to small retailers specialized in serving Asian, African, and Hispanic communities. One of those retailers is Aladdin Market in Aurora, which stocks food, staples, spices, and other hard-to-find ingredients from Morocco, Iraq, Sudan, Jordan, Saudi Arabia, Egypt, and beyond. In 2010, CEF provided a traditional small business loan to help the store add a new kitchen and bakery as well as hire new staff. Then, in 2015, CEF made a \$30,855 healthy food loan that enabled Aladdin Market to stock more produce.

## Challenges in Supporting Small Operators Need Not Be Barriers

Although CEF is well-positioned to support small businesses, small food retailers pose unique challenges. One of those challenges is working to ensure that the improved healthy food access CEF finances is permanent. Many of CEF's investments are designed to help existing small stores provide a greater variety of healthy products, but CEF's Massie worries that business pressures might ultimately force those small stores to abandon newly stocked healthy food and revert back to items like soda and chips.

Many consumers may not be used to purchasing food, particularly fresh produce, from small stores, and unhealthy items may be more profitable in the short term. "We're trying to tell business people to change because it's better for their neighborhood, but ultimately the bottom line gets harder and harder to manage, and the stuff that has the better margins starts to come back," says Massie. This was the case with CEF's investment in Franko Food Mart, which despite CEF's efforts to bring all parties together to find a solution now seems likely to be its first HFFI retail charge-off.

Specialized education and outreach may be necessary to change consumers' and businesses' attitudes and behaviors. CEF's Massie points to healthy food initiatives in Los Angeles and Detroit as evidence that the most successful projects combine improved access with enhanced education. "We know from what we're hearing out of Detroit that it was the education piece that was helping keep results a little more sustainable," says Massie. CEF's Misak also sees a need for more technical assistance specific to small healthy food retailers, including help developing cash flow projections and inventory plans.

## Opportunities Exist to Expand HFFI Lending in Urban and Rural Communities

In September 2016, the CDFI Fund announced another \$650,000 HFFI award for CEF. CEF's Prinster welcomes the challenge of mobilizing this new capital. "I didn't want to do all this work and finally have it take hold, and then we don't have any money."

Going forward, CEF is preparing to generate new business from its past successes. Some of CEF's customers are close to paying off their original loans and may soon be considering expansion or equipment upgrades. For those borrowers, CEF will have the capital and expertise to help. "There's a comfort level in underwriting. We now know what we're dealing with, what we're looking for in an operator, what the margins should be," says CEF's Ramirez. He also hopes to build on CEF's reputation in the ethnic communities it has served. "As word of mouth grows with what we're doing, we're building trust. There's momentum that we can build on."

CEF's new connections with stakeholders outside Denver are another source of future growth. "At this point, if someone in Metro Denver needs a loan, they should know about us," says Ramirez. "The rural side is a newer opportunity." Establishing a presence and building trust in those new markets will take time, but with dedicated staff and new referral relationships, CEF staff feel well-positioned to succeed.

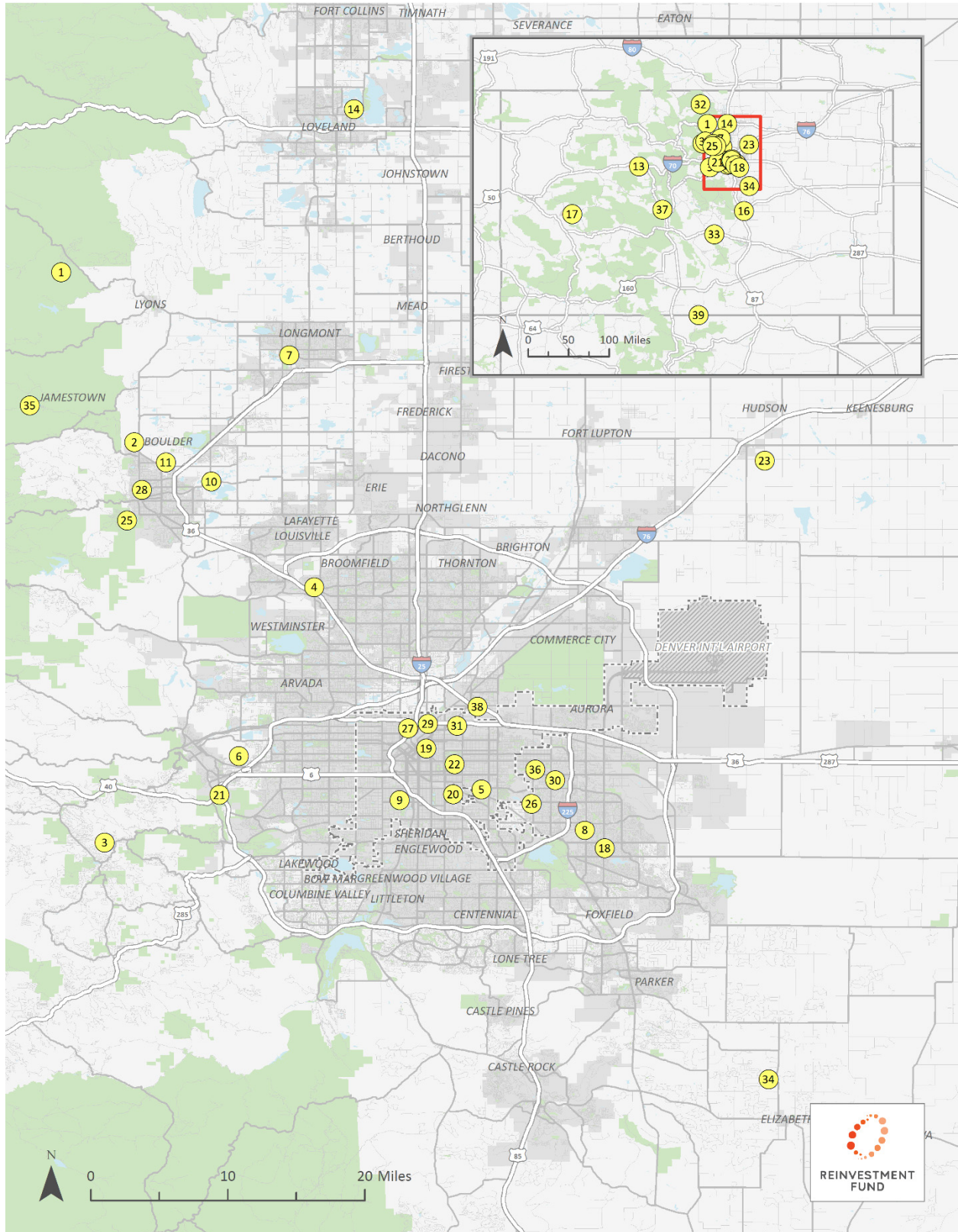
As CEF's healthy food portfolio continues to grow, the organization feels increasing pressure to be flexible with its allocation of scarce funding for healthy food. The market structure of Denver's broader

food system means that many of the most impactful opportunities for CEF lie beyond retail projects. “At every food and agriculture conference I attend, the discussion always comes back to distribution,” says CEF’s Misak. “We grow a lot of food in Colorado but only 1-2% of it is consumed in-state. Producers and food buyers are interested in more local purchasing, but the conversation breaks down around how to get food from farms in rural parts of the state to the urban population centers.” Hearing this from CEF and other members, ReFresh has played an important role in advocating to the CDFI Fund for more flexibility in what percentage of HFFI dollars can go toward non-retail projects.

For CDFIs just getting into healthy food financing, CEF’s Massie advises jumping in and taking some risks early on. “You know what the Holy Grail is. It’s going to be that market in the food desert. Go find it. Get out into the co-op meetings, the producer networks, the wholesalers, and don’t be afraid. Do a field trip, walk into a market somewhere, introduce yourself and proactively find out if the owner has ever had aspirations for growth or improvement or change. Expend whatever resources it takes to go find it so that then you immediately have your hands in a deal and you understand.”

CEF’s Prinster credits the best practices learned from others, particularly ReFresh members, for helping make possible the successes CEF has achieved so far, and she looks forward to contributing to that body of knowledge. “When it succeeds and starts getting some of these good projects going, Denver will be a model for other cities. I think we’ll be in conversation about national best practices.”

**Map1: CEF's HFFI Loans in Metro Denver (main map) and Colorado (inset)**





**Table 1: CEF's HFFI Loans**

	Business	Type	City	Loan Amount	Closing Date	Loan Purpose
1	Two Rivers Foods	Value Added Production	Lyons	\$25,682	12/14/2012	Inventory
2	The Tasterie	Food Truck	Boulder	\$20,635	2/22/2013	Equipment
3	Wildflower Cafe	Restaurant	Evergreen	\$51,025	3/18/2013	Working Capital
4	SOURCE Local Foods	Distribution	Broomfield	\$30,845	4/4/2013	Supplies
5	Big Kiwi's Gourmet Eats	Food Truck	Denver	\$47,000	4/8/2013	Equipment
6	Sosi's Healthy Pleasures	Value Added Production	Golden	\$15,400	5/24/2013	Inventory
7	Honey Bunchie	Value Added Production	Longmont	\$4,720	7/22/2013	Supplies
8	Higher Oats	Food Truck	Aurora	\$20,500	9/18/2013	Equipment
9	Atlantic International Trading	Distribution	Denver	\$36,050	12/30/2013	Working Capital
10	Simply Dara	Value Added Production	Boulder	\$51,375	3/12/2014	Working Capital
11	Blooming Beets Kitchen	Restaurant	Boulder	\$76,300	3/25/2014	Working Capital
12	Jumpin' Good Goat Dairy	Food Production	Buena Vista	\$36,200	4/2/2014	Working Capital
13	Root Foods	Value Added Production	Edwards	\$4,235	4/21/2014	Working Capital
14	Crunchy Grocer	Retail - Specialty	Loveland	\$153,400	5/2/2014	Equipment
15	The Kitchen Pantry	Commercial Kitchen and Retail - Superette	Canon City	\$40,995	5/5/2014	Supplies
16	Radiantly Raw Kitchen	Value Added Production	Colorado Springs	\$15,650	8/18/2014	Working Capital
17	Hardin's Natural Foods	Retail - Specialty	Hotchkiss	\$103,183	8/22/2014	Working Capital
18	MBZ Foods	Value Added Production	Centennial	\$33,945	9/19/2014	Equipment
19	CocoRidge	Value Added Production	Denver	\$15,538	9/25/2014	Working Capital
20	Yummari	Value Added Production	Louisville	\$51,225	11/13/2014	Working Capital
21	Sosi's Healthy Pleasures	Value Added Production	Golden	\$15,625	1/20/2015	Working Capital
22	Fairfax Market	Retail - Superette	Denver	\$15,680	3/17/2015	Working Capital
23	Lazy Bee Ranch	Food Production	Hudson	\$25,700	5/4/2015	Working Capital
24	Fort Market	Retail - Superette	Fort Garland	\$61,395	5/14/2015	Working Capital
25	Thrive	Restaurant and retail	Boulder	\$36,063	6/3/2015	Working Capital
26	Aladdin Market	Retail - Superette	Aurora	\$30,855	6/11/2015	Inventory
27	Morrow Ventures	Retail - Superette	Denver	\$97,215	6/18/2015	Working Capital
28	ReMarkable Foods	Value Added Production	Boulder	\$76,790	8/4/2015	Working Capital
29	The Local Butcher	Retail - Specialty	Denver	\$51,895	12/2/2015	Working Capital
30	Dia International Market	Retail - Superette	Aurora	\$20,825	1/8/2016	Working Capital
31	Franko Food Mart	Retail - Superette	Denver	\$56,385	2/10/2016	Working Capital
32	Noco Farms	Retail - Famers Market	Loveland	\$26,240	5/20/2016	Equipment
33	The Kitchen Pantry	Commercial Kitchen and Retail - Superette	Canon City	\$37,280	7/6/2016	Working Capital
34	Shadow Wings Ranch & Farm	Food Production	Elizabeth	\$51,750	7/29/2016	Working Capital
35	RollinGreens	Value Added Production	Boulder	\$20,825	8/16/2016	Working Capital
36	Accra Kumasi African Market	Retail - Superette	Aurora	\$36,275	8/25/2016	Working Capital
37	Jumpin' Good Goat Dairy	Food Production	Buena Vista	\$31,765	9/15/2016	Working Capital
38	Astec	Food Production	Denver	\$36,521	9/21/2016	Working Capital
39	Fort Market	Retail - Superette	Fort Garland	\$14,655	9/29/2016	Working Capital

Reinvestment Fund has published a range of reports related to food access and market impact. For details, please visit our Policy Publications site at:

[WWW.REINVESTMENT.COM/IMPACT/RESEARCH-PUBLICATIONS](http://WWW.REINVESTMENT.COM/IMPACT/RESEARCH-PUBLICATIONS)

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**PHILADELPHIA**

1700 Market Street, 19th floor  
Philadelphia, PA 19103  
TEL 215.574.5800 FAX 215.574.5900

**BALTIMORE**

1707 North Charles Street, Suite 200B  
Baltimore, MD 21201  
TEL 410.783.1110



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