Capital at the point of impact.

Written Testimony from Jeremy Nowak
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Innovations in Addressing Childhood Obesity
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Mr. Chairman and Distinguished Members of the Subcommittee on Health, thank you for inviting me to testify. My name is Jeremy Nowak. I am President of The Reinvestment Fund (TRF), a community development financial institution located in Philadelphia, with offices in Baltimore and Washington D.C. We manage assets of more than $600 million and are active in cities and towns through much of the Mid-Atlantic.

I bring an economic development lens to the issue of childhood obesity. A comprehensive approach to reducing childhood obesity and diet-related diseases must take into account the issue of access to high quality fresh food. While having a choice between healthy foods and unhealthy foods will not in and of itself solve the obesity problem, a lack of healthy food choices will certainly keep us from a solution.

TRF has provided a billion dollars in loans and investments into some of America's poorest communities; financing 18,000 housing units, 7 million square feet of commercial real estate, 28,000 thousand charter school seats, 10,000 child care slots, and hundreds of small businesses from retail to manufacturing firms. Among our borrowers are supermarket operators that have located within urban and rural communities that previously lacked this basic amenity that so many of us take for granted.

During the past five years we have managed the Pennsylvania Fresh Food Financing Initiative (FFFI) in collaboration with the Food Trust (a non-profit policy and advocacy organization) and the State of Pennsylvania. FFFI is the most successful economic development effort in the nation dedicated to ensuring that all communities have access to competitively priced, fresh food. FFFI is more than an economic development initiative; it is also a health and community

building program that creates local jobs, revitalizes neighborhoods, and demonstrates the widespread demand for quality food among working and low income families.

In my testimony today I want to explain why FFFI in Pennsylvania works and why a national fresh food financing initiative must be part of any effort to reduce childhood obesity. The most important thought that I want to leave you with is that this is a solvable problem from the perspective of access, but only if we focus economic and civic resources in the right way.

The Pennsylvania Fresh Food Financing Initiative: Pennsylvania FFFI is a collaboration of public, private, and civic sectors created through the initial organizing efforts of the Food Trust. The Food Trust brought together public officials, healthcare practitioners, consumer advocates, and retail operators to first shine a light on the problem through a data driven analysis and then advocate for a programmatic solution. The result was a public-private partnership where the state of Pennsylvania put up an initial $30 million grant that was matched with $90 million of private money raised by The Reinvestment Fund. The match came from a variety of sources including a bank-led debt syndication, investments through Federal New Market Tax Credits, and equity from the operators themselves.

Since 2004, the year of the FFFI launch, we have approved the financing of 81 stores from full-service 70,000 square foot supermarkets to 900 square foot shops; and from traditional entrepreneurs to co-ops and public markets. That has resulted in projects whose total development costs exceed $150 million, resulting in 1.5 million square feet of new development, approximately 4,800 full and part-time jobs, and fresh food access for more than 400,000 people. The financing efforts have created new stores on abandoned lots, refreshed stores that had previously closed, and led to significant store expansions with enhanced inventory selections. They are located in the inner city and in small town Pennsylvania.

There are six elements that account for our success:

1) **Smart Subsidy:** Based on our analysis of development cost obstacles, particularly in the inner city, we designed FFFI to provide both debt financing and small subsidy grants.

The grants were used to write down certain costs (predevelopment and fixed) that entrepreneurs could not reasonably incur. These costs included such things as work force training and land assembly. Higher fixed costs, in the form of insurance and public safety issues are also an issue.

2) **Flexible Financing:** FFFI provides a range of debt financing products from lease-hold improvements and equipment loans to acquisition and construction financing; for both short and term and permanent financing needs. The financing is shaped around the need of the customer and the requirements of other financing entities involved in the project. While access to capital was less of an issue five years ago when we began, it has become a more significant issue today, even for established, multi-store operators. Our ability to provide flexible financing is directly related to how the program was structured. We are under a performance-based contract with the State but are allowed to develop very flexible and context-driven financial products as long as we meet the production goals of the contract.
3) **Multiple Strategies:** FFFI does not assume that one size fits all but that a variety of approaches must be used depending again on the social and entrepreneurial context. In some situations we finance a new modern store and in other situations we work with grocers to expand and adapt their inventory. In one particularly exciting project, The Food Trust worked with small corner grocers to purchase refrigerated barrels to keep fresh fruit to be purchased by students on their way to and from school.
4) **Targeted Investments:** We use a high quality spatial database to make certain that investments are made in places that were without appropriate access. Moreover, we work with entrepreneurs to make certain that their previous business history, present business strategy, and actual product offerings lead to fresh food access. The industry expertise and marketing networks of the Food Trust are critical to this later effort.
5) **Market Expertise:** TRF is an experienced business and real estate finance underwriter. We approached FFFI as we would any business portfolio, and hence we have built a very strong (even in these times) track record of business sustainability. We use all of

the conventional analytics that any underwriter would use regarding management capacity, business operations, and competitive advantage. To date, we have suffered minimal capital write downs; better than industry averages, although we should note that this is a very young portfolio.

6) **Impact Transparency:** We carefully count what we finance in terms of traditional indicators including jobs, commercial space, and total development cost. We have also undertaken discrete studies on the implications of supermarkets on local housing values, the cost issues related to urban stores, and the location of employees that receive new retail jobs at the stores. We are happy to share those studies with this committee. One of the great things about doing these studies as we invest capital is that it sharpens our capacity to ask impact questions in the early stage of underwriting.

The Pennsylvania story can be replicated: The Pennsylvania Fresh Food Financing Initiative has been cited as an innovative model by the U.S. Centers for Disease Control and Prevention, the National Conference of State Legislatures, Harvard's Kennedy School of Government, and the National Governors Association. A national program can build on the demonstrated successes of this program for the benefit of the nation as a whole. Support for such a program comes from industry, civic organizations, and elected officials, including all of the major state and national grocer associations.

Today there are a variety of states - Louisiana, Illinois, New Jersey, and New York to name a few – that are already initiating similar programs. They are in various stages of development. In New Jersey, TRF is working with the State's Economic Development Administration, Living Cities (a national collaboration of philanthropies), and the Casino Reinvestment Corporation to lead the replication. We hope to announce new stores in Newark, Atlantic City, and Patterson in the very near future.

In partnership with the Food Trust and PolicyLink (a national policy group that specializes in the replication of proven initiatives), we are in discussions with the Obama Administration and members of Congress regarding the design and capitalization of a national fresh food

financing initiative. The idea of a national program is not meant to replace local initiatives, but rather to accelerate their development. Nor is it meant to crowd out private investment, but rather to facilitate its entry.

At a time when we are rightly concerned about jobs and the rising cost of health care, a national fresh food financing initiative makes for good public policy. The use of Federal grants, loan guarantees, and tax credits to match similar efforts at the state and regional level, as well as matching private sector investment, can have a dramatic effect on American communities.

TRF recently developed a spatial-statistical model that uses retail food data, a 'distance to store' analytic for grocers with annual sales of $2 million or more, and a real estate cluster model that we think conservatively estimates market viability for additional fresh food retailers. Based on this analysis our estimate is that there are approximately 23 million Americans living in communities without access to high quality fresh food, even though there is commercial viability for store location. Approximately 80% of those Americans live in low and moderate income communities.

Using metrics from the Pennsylvania experience we can model what the effect of a one billion dollar federal commitment might be, if it were matched by the private sector at a minimum dollar per dollar amount. It would result in the following:

- Improved access to healthy food for more than 15.3 million people living in low/moderate income census tracts
- The creation or improvement of more than 2100 stores
- The creation or rehabilitation of nearly 50 million square feet of retail space
- The creation and retention of 29,000 full-time and 119,000 part-time jobs

Whether the national effort – like the Pennsylvania one – is a matter of creatively responding to market failures caused by information gaps, local government failures that over time have generated cost of entry barriers, or conventional capital constraints caused

by the current debt crisis, these are solvable problems that ought to be viewed as market opportunities. It is at the intersection of social need and retail viability that we will solve the access issue.

On Friday, December 11th I attended the opening of a new store (The Fresh Grocer) at Progress Plaza in North Philadelphia. The store was financed with significant assistance from FFFI. It was on the site of the first African American owned shopping center, created by the late Rev. Leon Sullivan of Zion Baptist church. Just to give you a sense of the meaning of this store to the local community consider the following:

- It is a 46,000 square foot store on a formerly empty site
- Prior to the opening, the community had been without a grocer for ten years
- Over 270 jobs were created, with 75% of those hired living 2 miles from the store

These stories are being repeated throughout the State of Pennsylvania and ought to be happening throughout the nation.

A bridge between economic development and health impacts: This is a hearing on health, specifically childhood obesity. We recognize that there are no simple answers to the obesity epidemic. America's obesity problem is partially embedded within our current system of food production and food marketing. We are a fast food nation that has lost the habit of seeking out fresh food. Our schools too often distribute very poor quality food to our kids and an increasingly sedentary lifestyle subverts our biological need to move, exercise, and play. Moreover, old habits are hard to break, as too many children learn very poor eating habits from their parents and other adults. Inter-generational cycles are always difficult processes within which to intervene.

We know that the answer involves education; probably at the same level of commitment that we had when we targeted anti-smoking ads to young people several decades ago. We know that the answer involves more sustainable agricultural processes, which are rapidly emerging because there is increased customer demand for high quality and locally grown

food. We know that the efforts to foster exercise, open space, pedestrian friendly towns and cities are also part of the solution puzzle. *But surely the necessity for fresh food access must also be included in the tool box of solutions.*

While others that testify today have a more authoritative grasp of the health literature than I do, there is a growing and compelling literature that demonstrates the connection between access and health outcomes. The trend today is to view health in a less mechanistic and reductive sense than we did even a few decades ago. Health is an ecological and contextual issue, and not only the function of single or even multiple biological causes. There are place-based factors at work that often dictate or at least mediate health outcomes. Let's not forget those local effects as we tackle this problem and in doing so, let's create new economic opportunities for American business and workers.

Thank you again for inviting my testimony. I wish you the best as you grapple with the critical issue of childhood obesity, its links to disease, and the best intervention strategies.