

# SAGINAW FOOD CO-OP FEASIBILITY STUDY

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## ABOUT THE STUDY

This report provides an initial assessment of the feasibility of a brick-and-mortar grocery store to improve the food landscape in Saginaw. The study kept its focus within the scope of a brick-and-mortar grocery because this aligns with the City Council's request for a feasibility study of a co-op grocery store and with the City's goals to use funding to rehabilitate a vacant or blighted building to attract a grocery retailer.

The study provides initial observations on the feasibility of several grocery store business models:

- **Food co-op:** A member-owned grocery store that is established and collaboratively governed by members of the community.
- **For-profit grocery store:** A privately owned grocery store that operates for a profit. This could include chain grocery stores (Meijer, Kroger), or independent grocers. Also considered is a low-profit limited liability model that operates as a community-benefit corporation. In this report, we focus on the Argus Farm Stop model, which is intended to support local farmers and increase consumer access to local produce.
- **Nonprofit grocery store:** In this report, we are focusing on a member-based (but not member-owned), charitable grocery store model—a food club, where families with low-income pay a monthly fee and receive points with which to purchase the food.

The recommendations in this report were informed by:

- **A review of existing reports** including food-related proposals from the community that provided ideas for spending the Local Fiscal Recovery Fund (LFRF) dollars, as well as the *Funding Recommendations to City Council* report from the City of Saginaw ARPA Committee.<sup>1</sup>
- **Conversations with individuals** experienced in food assistance, food clubs, and grocery and food co-op development, and local community leaders such as members of the Food Access Collaboration Team of Saginaw (FACTS).

## BACKGROUND

In March 2021, the United States Congress enacted the \$1.9 trillion American Rescue Plan Act (ARPA) of 2021, a stimulus package designed to alleviate the social and economic impacts of the COVID-19 pandemic. One component of this package was the LFRF, which designated \$350 billion for “eligible state, local, territorial, and tribal governments to respond to the COVID-19



*Among the grocery retail options assessed, a food club model is the only approach that has a committed lead organization or operator in place and has the greatest potential to reduce food insecurity.*

emergency and bring back jobs.” The LFRF was launched on April 1, 2022,<sup>ii</sup> and \$52 million in LFRF funds were designated for the City of Saginaw, of which the City allocated \$2 million to address food insecurity.<sup>iii</sup>

To ensure an appropriate use of these funds, the City of Saginaw contracted with Guidehouse to manage the decision-making process and verify that all allocated projects met ARPA funding requirements.<sup>iv</sup> A component of this work is a feasibility study for a grocery store.<sup>v</sup> In particular, the City wanted to explore the possibility of using the funds to rehabilitate an existing, publicly owned building for use as a food co-op. The goals of the funding are to reduce food insecurity, increase food access, and support healthy eating behaviors for people in the City of Saginaw.

The City, with support from Guidehouse, gathered initial input on how to spend ARPA funds by collecting project ideas from the community. Through this process, several food retail ideas were proposed. The concept of a food co-op was not among the ideas proposed. However, a member-based nonprofit grocery store (food club) was suggested.<sup>vi</sup> During follow-up conversations conducted by Public Policy Associates, feedback from representatives from community-based organizations communicated a desire for a full-service grocery store within the City limits (not necessarily a co-op model).

## FINDINGS

It is feasible to attract new grocery retail in the City of Saginaw with the City’s support. Should the City fund the rehabilitation of a vacant or blighted structure, it would reduce the overall funds a business would need to obtain for the build-out of the store. For nonprofit businesses, this may result in less grant or charitable funding required for the start-up. For the for-profit grocers, (including community-benefit corporations), the City’s initial investment may reduce the need for a loan and related interest payments that may hamper profitability of the business.

Within this overarching finding, specific operational models vary greatly in their probable feasibility. These are discussed below.

### **A food co-op—a member-owned grocery retail—is least likely to be feasible.**

The timeline required to commit and spend ARPA funds makes establishment of a co-op very difficult. There has not been any concerted movement toward building a co-op, and the co-op process and decision-making tend to take more time relative to other options, given the co-op’s collaborative governance structure. A co-op typically starts with organizing a core group of people that want to work collaboratively to bring the concept to fruition. Perhaps more than any of the models, it is essential to have the community engaged and bought-in, literally, to the co-op. Building a shared vision, engaging the community, and recruiting members are essential and have a long time-horizon. Given these complexities, it is unlikely that a co-op can be established within the ARPA grant timeline.

*Furthermore, a food co-op model may not fully align with the City’s goals around reducing food insecurity; see Table 1 at the end of this paper for details.*

### **A food club—a member-based nonprofit grocery retail—is most likely to be feasible.**

A food club is a member-based, charitable grocery store where families with low income pay a small monthly fee and receive points that are used to purchase food. This option is rated highly because there is a group of partners committed to its success, and they have already begun to raise start-up funds. In addition, the current location of interest has access to public transportation. However, there are many unknowns about long-term sustainability,

which will likely depend on charitable giving, donations, grants, and volunteer labor. Furthermore, the community at-large has only been minimally engaged around the idea of a food club, so their support of the model is not known. However, given the extent of food insecurity in the city, it is likely that a store that provides food at a low price would be welcomed. *A food club (or similar nonprofit grocery retail model) is also the option most likely to align with City goals for the use of the ARPA funds to increase food security, food access, and healthy eating.*

Other nonprofit, member-based models also may be feasible, such as The Bridge—a nonprofit, member-based, volunteer-run grocery store, based in Midland, where members pay the wholesale price of goods plus five cents.<sup>vii</sup>

### **A for-profit grocery has medium-feasibility with many remaining unknowns.**

Full-service chain grocery stores (Kroger) were previously located in the City of Saginaw. It is unclear exactly why they closed—possibly due to challenges with making a profit. Since the stores closed, the population in Saginaw has continued to decline. A smaller population may make it harder for a store to turn a profit unless the community can support (i.e., will shop at) a store with a smaller footprint. Stores with smaller footprints tend to have higher prices because they do not benefit from the economies of scale of buying in bulk to the same extent as the larger grocery stores. *The relatively higher prices of a small store and the profit motive of a private retailer do not align with the City’s goals for increasing food security, although accepting Bridge cards (i.e., food stamps) may help with affordability concerns.*

More information is needed to determine whether a chain or independent grocery operator would be interested in reentering the city. No committed operator for a store within the city limits has been identified through this process.

A community-benefit corporation grocery, such as an Argus Farm Stop model,<sup>viii</sup> has medium-feasibility relative to the other options. A community-benefit grocery model may be more financially feasible than a “traditional” for-profit grocery as they are often mission driven and are not trying to turn a high profit. The Argus Farm Stop model was developed to support local farmers and increase community access to local produce but does carry other grocery (shelf-stable) items.

*An Argus Farm Stop model does not align with all of the City’s funding goals.* It is unlikely to broadly address food security as the prices that would support local farmers may not match up with what consumers with low income can afford. However, accepting Bridge cards (e.g., food stamps) and Double Up Food Bucks would help. This model is likely to increase healthy food access from a geographic standpoint (versus price point).

## **RECOMMENDATIONS**

Ultimately, the feasibility of any grocery retailer will require:

- Strong support from the community, especially the store’s expected customers or members.
- Strong commitments from operators/lead organization(s) to start up and run a store.

Furthermore, to meet the ARPA requirements and goals of the City, any grocery retailer should have the following characteristics:

- Geographic accessibility for the client base, especially those without automobile access
- Affordability, which could include subsidized food/membership and/or acceptance of Bridge cards and other public assistance
- Plans for supporting healthy eating such as carrying fresh produce, incentivizing the purchase of healthy food, and/or offering nutrition education classes
- Build-out/rehabilitation funded by the City complete by December 31, 2026
- Attention to racial and social equity in all aspects of operations, leadership, and management

## Conduct Community-Input Process Around Grocery Model

The community at-large has not been directly engaged in the development or decision-making around a particular grocery model. Therefore, we suggest the City conduct a community-input process that would inform the content and review of responses for a request for proposals (RFP) for the start-up and operation of a grocery store.

A community-input process will add further clarity and depth to the findings from this feasibility study. There are many ways a grocery retailer could be operated, and its success in Saginaw will depend on strong community support and organizational commitment. To ensure that both are in place, the community-input process should:

- **Reaffirm the goals of the project.** If the primary goal of the City is to address the “food desert,” or to increase access to healthy food for city residents, then a for-profit or nonprofit grocer could meet the City’s goals. If addressing food insecurity is the top concern, then the City should focus on a nonprofit grocery option that can provide free or subsidized food to consumers with low income. Another consideration is whether the City would consider funding more than one project. If so, does each project need to meet each goal?
- **Engage the community.** For any grocery store model to be sustainable in the long run, it needs to have the support of and meet the needs of the community. We suggest engaging the community directly to better understand the best operations decisions and location for a new grocery store—that are within the scope and goals of the project.
- **Put out a request for proposal (RFP) or conduct targeted conversations with potential operators/lead organizations.** There is an established group that has made concrete progress on conceptualizing and obtaining funding to develop a food club. If it was known that the City was willing to invest in the start-up/rehabilitation of the build-out costs of a grocer, there may be other operators or organizations interested in starting up and operating a grocery store, whether as a for-profit or nonprofit entity. The RFP could specify project requirements that meet the goals of the City and the needs of the community.

RFPs could be scored on how well they meet the goals of the City and the needs of the community as well as on feasibility elements, such as operations (facility design, location, hours, staffing, food procurement), experience and skill of operator/lead organization(s), business plan, local market demand, long-term sustainability plans, and plans for promoting equity and addressing disparities.

**Table 1. Preliminary Rating of Retail Options for Feasibility Elements and Alignment with Funding Goals**

| <b>Feasibility Criteria</b>  | <b>Food Co-Op (typically nonprofit)</b>     | <b>Grocery Store (for-profit)</b>                                    | <b>Argus Farm Stop (low-profit limited liability company)</b>                          | <b>Food Club (nonprofit)</b>  |
|--|---|--|--|---|
| <i>Short description</i>   | Member-owners decide how the store operates | Traditional chain such as a Kroger, Meijer, or an independent grocer | Argus Farm Stop is a public-benefit corporation oriented to supporting local producers | Member-based; families with low income pay monthly fee and make purchases with points |
| <b>Feasibility Elements</b>  |   |  |  |   |
| Lead organization or operator  | Low   | Unknown  | Medium   | High  |
| Partnership viability  | Low   | N/A  | Unknown  | Medium  |
| Sustainability   | Medium                                      | Low  | Medium   | Medium  |
| Timeline per ARPA funds  | Low   | High   | High   | High  |
| Existing model   | High  | High   | High   | High  |
| <b>Funding Goal</b>  |   |  |  |   |
| Reduction of food insecurity   | Medium                                      | Low  | Low  | High  |
| Increase healthy food access (variable by location, price, accepting Bridge cards) | High  | High   | High   | High  |
| Support healthy eating   | Medium                                      | Medium   | Medium   | High  |

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## End Notes

<sup>i</sup> David Sernick, Walter Aguilar, Sarah Kent, and Shubhum Giroti, *Funding Recommendations to City Council* (Saginaw, MI: City of Saginaw ARPA Committee, August 29, 2022).

<sup>ii</sup> Draft Memo to the City of Saginaw from Guidehouse, Re: ARPA SLFRF Funding – Saginaw Food Insecurity, November 16, 2022.

<sup>iii</sup> Sernick et al., *Funding Recommendations to City Council*.

<sup>iv</sup> Guidehouse draft memo to City of Saginaw.

<sup>v</sup> Ibid.

<sup>vi</sup> Guidehouse, *City of Saginaw ARPA Proposals Report* (Saginaw, MI: City of Saginaw, August 29, 2022).

<sup>vii</sup> For more information, see <https://www.thebridgeland.com/>.

<sup>viii</sup> For more information, see <https://www.argusfarmstop.com/learn>.