Feasibility of Municipally-Owned Grocery

Final Report

April 2024

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Chicago's municipally-owned grocery model is rooted in an intention to **expand and ensure sustainable access to food** and ensure all residents can participate in a **just food ecosystem**.

Our study seeks to understand whether a municipally-owned model is necessary, feasible, and implementable. The goal of the model is to **expand and sustain** food access through grocery services, promote **sustainable, transparent pathways to community wealth building and local business growth** for neighborhoods across Chicago, with a focus on low-income Black, Indigenous, and other communities of color that struggle with regular food access.

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Previous efforts to introduce grocery to Chicago neighborhoods with inequitable food access have failed to ensure a sustainable grocery presence that meets community needs.

1. **Market Failure:** While private operators have opened stores in neighborhoods with inequitable food access, they struggle to sustain operations. As the grocery industry continues to consolidate nationally, store closures have become more prevalent.

2. **Community Misalignment:** Neighborhoods with inequitable food access have stores with limited and misaligned product offerings. After initial conversations with community members and groups, grocery operators stop marketing to and engaging residents to understand the products and services that residents want, need, and can afford.

3. **Lack of Operating Support:** While there are numerous external funding sources to support development and introduction of new grocery space, there are scant resources to support ongoing operations. Grocery operators have overcome upfront funding hurdles but struggle to sustain operations when early-stage support dries up.

4. **Historic Disinvestment:** Decades of disinvestment in South and West Side communities resulting in a lack of housing and resident density, disposable income, and neighborhood infrastructure has created the structural inequities that impact how residents access critical resources.

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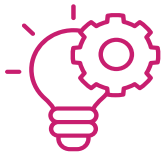
Given recent store closures, an uncertain future in the traditional grocery market, and growing political will, a municipal option could ensure sustainable service delivery for neighborhoods who are at-risk of losing their grocery provider.

Why Now

Wave of **recent grocery store closures** are negatively impacting already vulnerable communities



Consolidation among major grocery providers creates uncertainty in the market, prompting some closures, but also creates space for **new, innovative models** that can provide sustainable services to communities who could "lose out"

Progressive mayoral administration with mandate to deliver investment and improve quality of life—particularly in South and West Side communities—paired with **potential for state financial support**

Growing trend of **public options for delivering critical services** (e.g., banking, broadband, utilities)

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Chicago would be the first big city in the US to establish a municipally-owned grocery store. Smaller towns in Florida and Kansas have established city-owned grocers to alleviate chronic food inaccessibility.

Baldwin Market, Florida

- Established in 2018 **to address chronic grocery store closures and food insecurity in the rural area**
- The Town of Baldwin **owns the property, building, and business**
- **Supplies local produce and products** to build community wealth
- Became a pillar of support for the community during the COVID-19 pandemic

St. Paul Market, Kansas

- There had been **no grocery options in the town for over 2 decades**
- City **funded its opening in 2008**; owned the property and building
- City **bought the business in 2013** when family owners retired
- Total of 15 employees and **turns a 3% profit**

Sources: Economic Security Project Public Options Case Studies, Rural Grocery Initiative

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This study evaluates the feasibility of a municipally-owned grocery store in Chicago as a means to expand and sustain food access for neighborhoods across the City, with a specific focus on the South & West Sides.

Study Contents

1. Understand **current grocery market trends and conditions** and how those could inform operational success for a municipally-owned store.
2. Test the feasibility of illustrative scenarios to understand operational challenges and identify **opportunities for the public sector to support operational sustainability.**
3. Define and distinguish between different **models for municipally-led real estate and grocery ownership & operations**, highlighting opportunities to build community wealth.
4. Elevate operational **considerations and best practices.**
5. Provide recommendations that mitigate inherent risks and improve feasibility to **position a municipally-owned grocery store for success.**

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HR&A finds that a municipal-grocery model is necessary, feasible, and implementable.

Necessary

Over the last few years, several for-profit grocers across Chicago have closed, primarily in South and West Side neighborhoods, citing poor sales and increasing costs. Decades of structural racism, segregation, and disinvestment have led to diminished resident density, disposable income, and community infrastructure in neighborhoods already experience high levels of food insecurity, making it difficult to sustain grocery operations and attract new retailers to the neighborhood. Grocers are typically unwilling to take the market risk that these neighborhoods present. **In the absence of private sector action or commitment to provide sustainable grocery options, it is necessary for the City to play a role in creating and sustaining grocery services in neighborhoods that lack grocery access.**

Feasible

In this study, we explore illustrative grocery scenarios using revenue and cost assumptions sourced from industry experts and resources to inform our calculations. While our financial analysis does not evaluate specific store formats, footprints, products, or service offerings in particular locations across the City, it does draw from industry averages and rules of thumb to provide insights about overall grocery feasibility. **Our analysis suggests that there is potential for the City to lead a feasible grocery model that earns operating profit in neighborhoods that lack food access. While the City's optimal role may not be in serving as a store operator, it can play an effective role as a partner that can provide space, resources, and/or programming to support store operations.**

Implementable

As a partner, there are several actions the City can take to de-risk grocery for potential operating partners. The City can help secure capital financing, provide operating support, develop partnerships, facilitate training and workforce development, and convene grocery experts and leaders, among other supports that can insulate operators from market risk and contribute to lasting, sustainable services for residents that lack food access.

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For the City to more fully understand the viability of a municipal grocery model, it must deepen its analysis to consider grocery feasibility under more specific conditions.

Site Selection & Community Analysis

To fully project how a proposed store may perform requires an understanding of its specific location and the community it serves. The physical location of a store and the community it resides in informs spending potential, product preferences, corridor activity, foot traffic, and other conditions that can help grocery thrive. For the City to better understand what future store performance looks like, it needs to investigate different site opportunities such as, but not limited to:

- City-owned land and/or buildings
- Proposed development projects
- Existing community hubs

Community Engagement

To understand which sites may be most advantageous, which products and services are most sought after by residents, or even what may be affordable for residents, the City should conduct some community engagement in priority neighborhoods with low food access across Chicago to understand resident wants and needs.

Explore Convening, Partnership Opportunities, & Initial Business Planning

The City has already convened leaders in the food industry to inform its Food Equity Agenda and has relationships with grocers from across Chicago. The City should leverage these relationships to convene experts who can provide guidance on how to successfully implement this model. This could include establishing a formal Advisory Council of successful grocery leaders to provide insights, best practices, and resources to City leadership. The members of this council can also be potential partners in developing programs (such as an operator training program) and providing support to help implement the municipal grocery model and accomplish the City's objectives.

Market Scan

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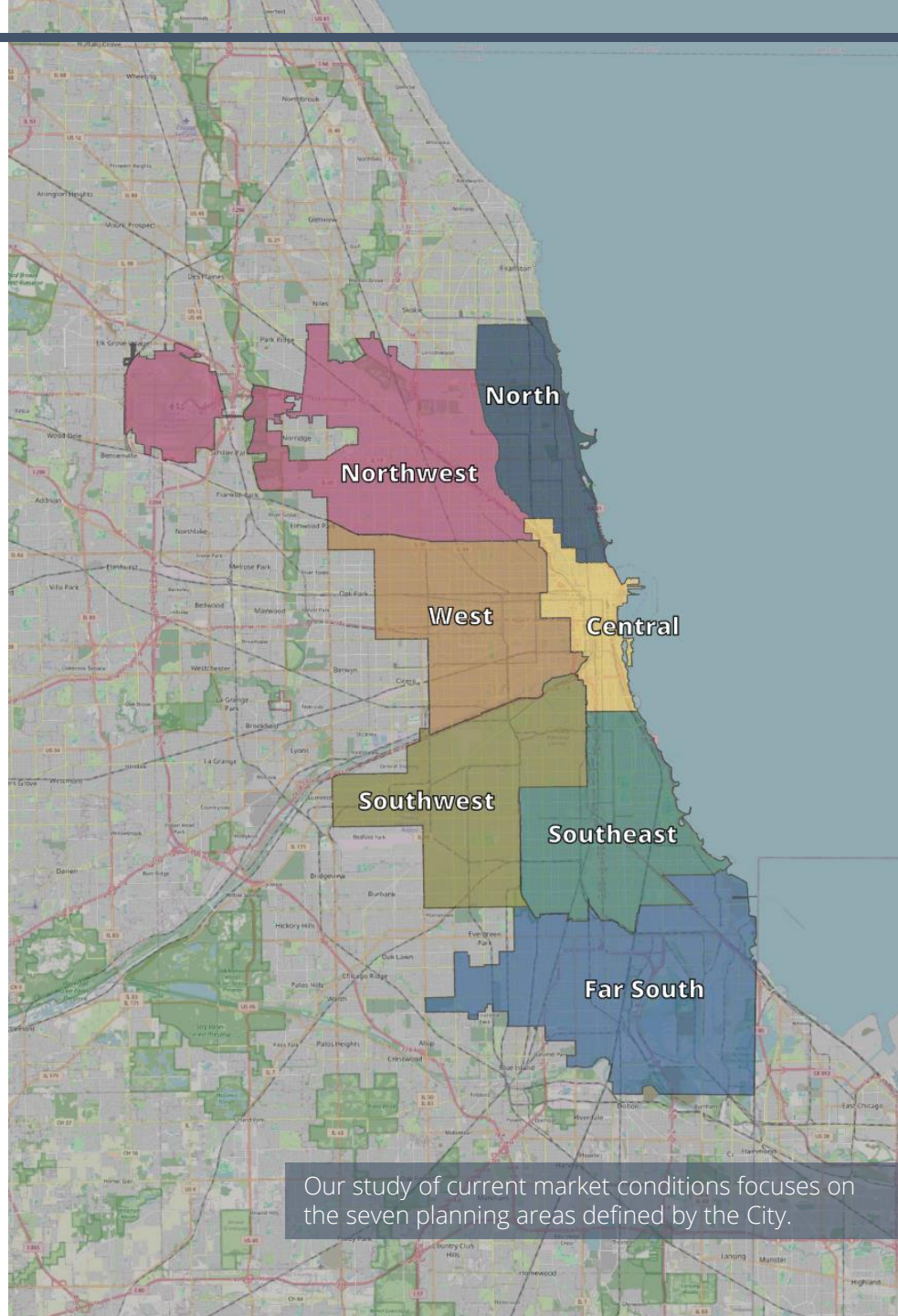
This market scan describes the current grocery market and considers how a municipal grocery option could be feasible within the broader market context.

Market scan objectives:

1. Understand **current market trends & dynamics** that impact grocery sustainability

2. Outline the **competitive landscape** of grocery operators to inform how a municipally-owned grocery store can position itself successfully

3. Identify **opportunities and challenges** likely facing a municipally-owned grocery operation



Our study of current market conditions focuses on the seven planning areas defined by the City.

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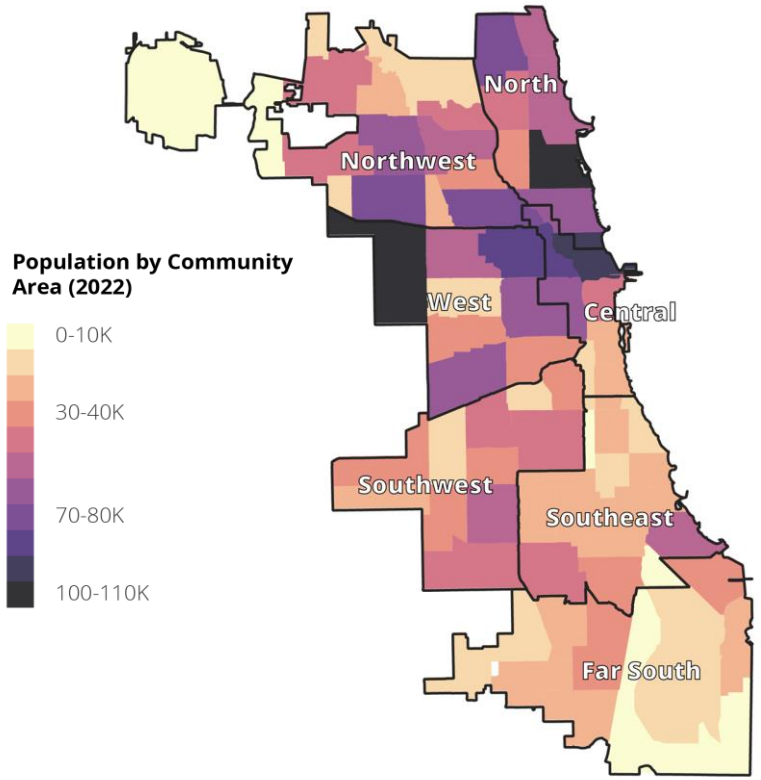
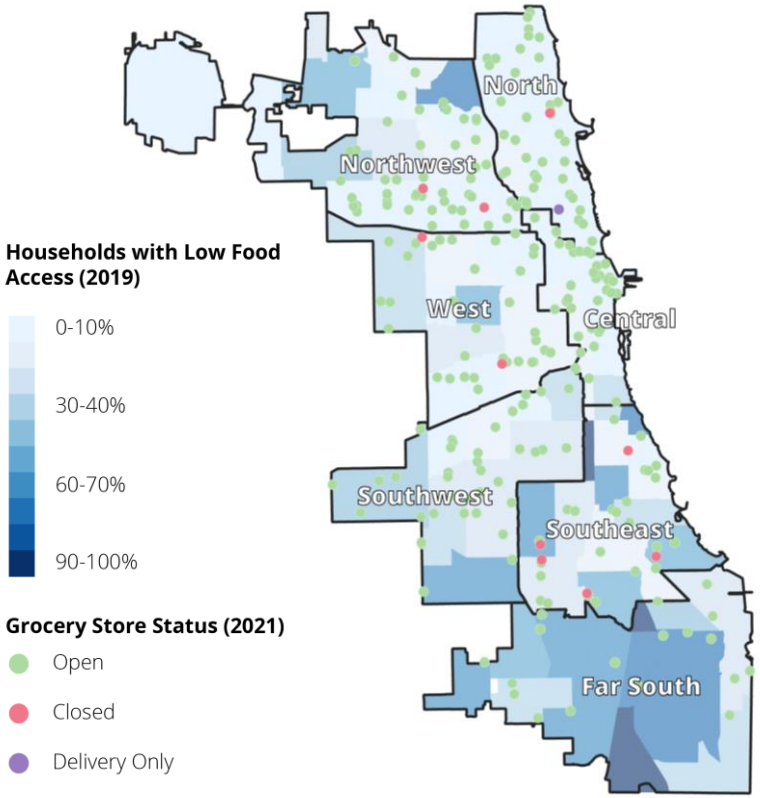
While Chicago's South Side neighborhoods are less densely populated, they also disproportionately suffer from inequitable food access. Recent grocery closures (through 2021) tend to be clustered on the Southeast and West/Northwest Sides.





Sources: Chicago Health Access, ACS 2018-2022, USDA, Economic Research Service, Food Access Research Atlas

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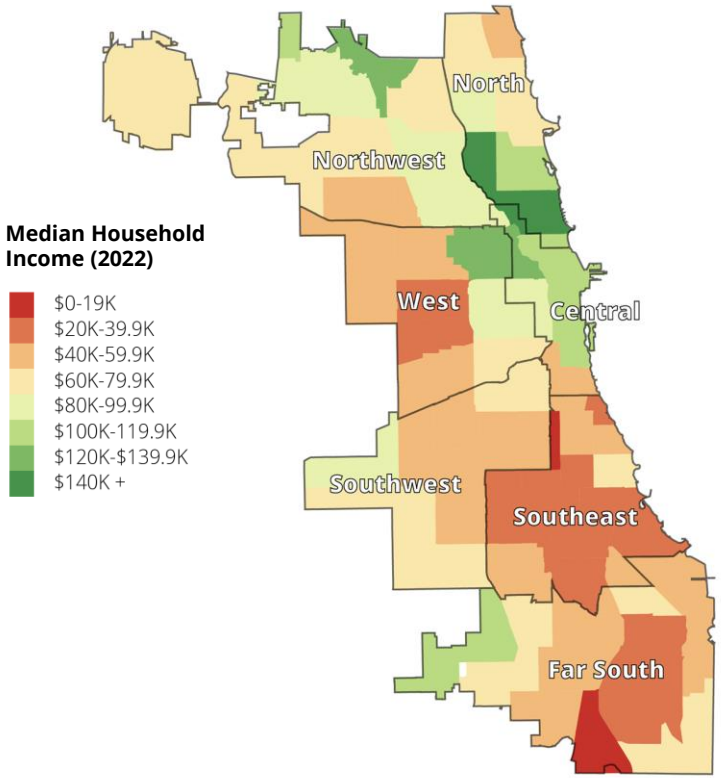
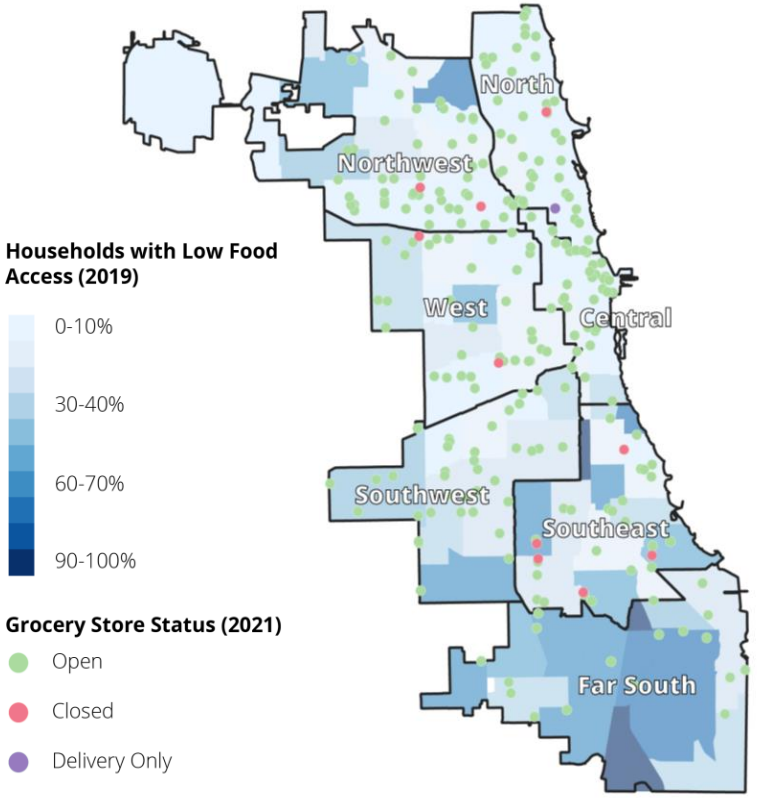
Communities with lower household incomes on the South and West Sides coincide with areas that have the highest percentage of households with low food access or have faced grocery closures.





Sources: Chicago Health Access, ACS 2018-2022, USDA, Economic Research Service, Food Access Research Atlas

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Recent closures of for-profit grocers in low-income neighborhoods highlight that when stores fail to meet profit objectives, private operators choose to close despite the negative impacts to the community.

ALDI

3835 W. Madison (2021): "Poor sales performance and increasing expenses."

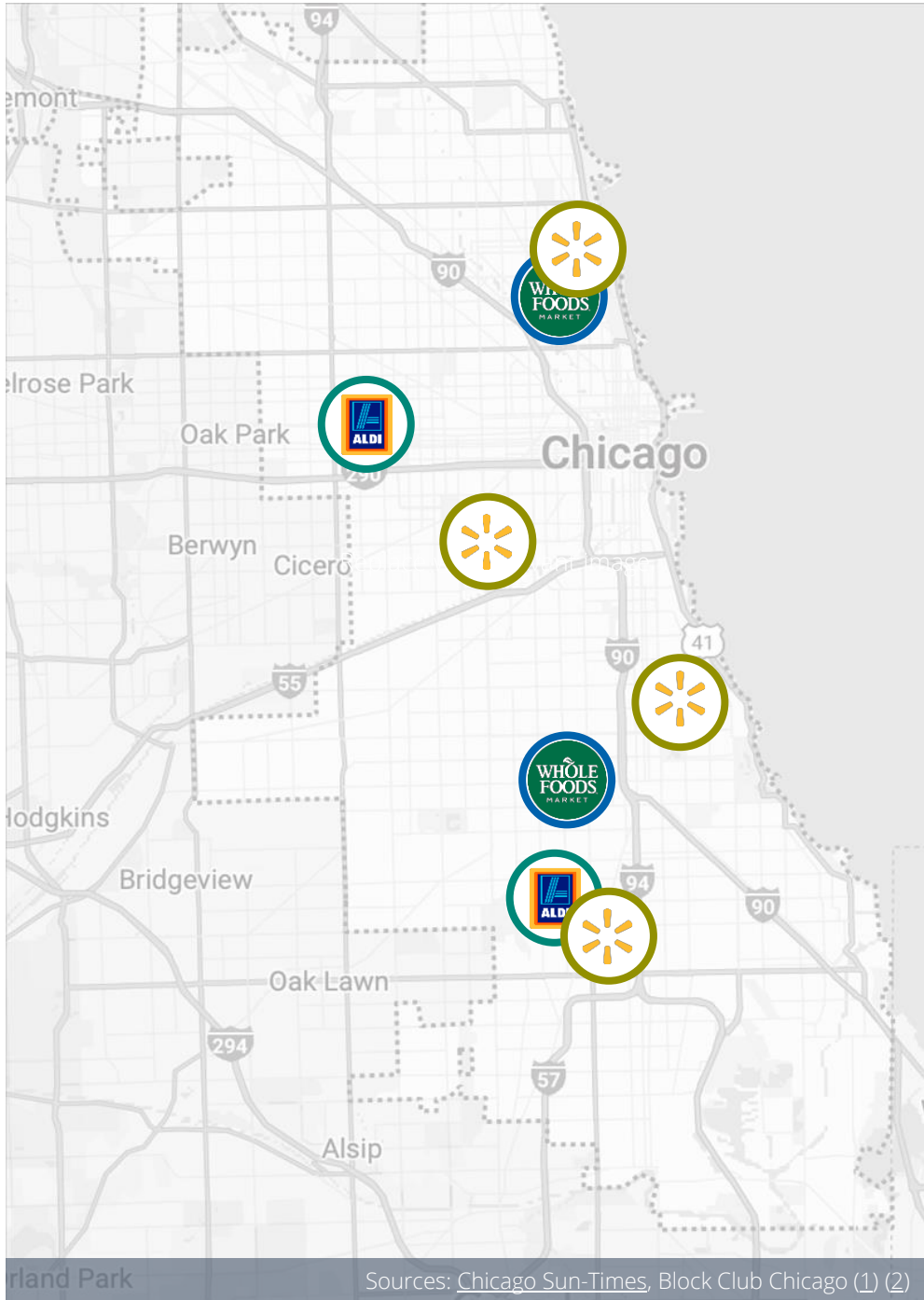
7627 S. Ashland (2022): "Poor sales performance."

Whole Foods

Two stores (2022): Evaluated the "performance and growth potential" and "made the difficult decision to close."

Walmart

Four stores (2023): "Our Chicago stores have not been profitable."



Sources: Chicago Sun-Times, Block Club Chicago (1) (2)

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Recent mergers among Chicago grocery titans will significantly change industry competition and the types of products and services offered to consumers.

Jewel Osco + Mariano's

Kroger, owner of Mariano's, bid $20B for Albertsons and plans to assume $4.7B of Albertsons' debt. Even though Albertsons is the smaller company of the two, they are the **market leader in Chicago with 185 Jewel-Osco stores**. The merger, if executed, is expected to result in:

- **Lower prices** and improved store conditions for customers
- **Higher wages** for employees
- **Greater returns** for shareholders
- Up to **14 Illinois Kroger/Mariano's stores** likely to close

Dom's Kitchen & Market + Foxtrot

As of late 2023, two Chicago-based grocers, Dom's and Foxtrot, announced their plans to merge, creating a new entity called Outfox Hospitality. Both brands will be retained for a short period and will plan to combine online ordering and rewards program platforms. Outfox will be:

- Expanding their **prepared foods to improve margins**
- Expanding private label products
- Further **exploring their cafe and coffee business**

Sources: Chicago Sun-Times, Crain's Chicago

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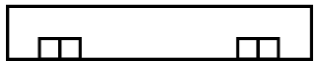
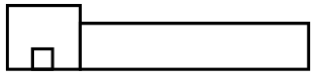
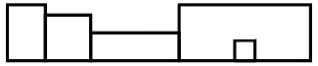
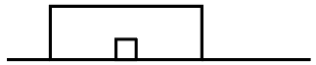
Any new grocery store will need to compete against a range of established grocery providers. Based on the products and services they offer, each provider thinks differently about store layout, footprint, and the necessary sales to achieve viability.

	Formats	Avg. Footprints	Sales (PSF)
Supermarkets 	Walmart, TARGET	72,000 - 179,000 SF	$350 - $655
Multiregional Marketplaces 	Jewel-Osco, MARIANO'S	53,000 - 65,000 SF	$470 - $670
Urban Grocery Stores 	city target, Walmart Neighborhood Market	28,000 - 37,000 SF	$485 - $590
Specialty Marketplaces	TRADER JOE'S, WFM, WHOLE FOODS MARKET, FOXTROT DELIVERY MARKET, GO GREEN ON RACINE	3,000 - 39,000 SF	Up to $2,220
Low Density & Value Markets 	ALDI, save a lot	17,000 - 22,000 SF	$340 - $550

Sources: Retail MAXIM 2019

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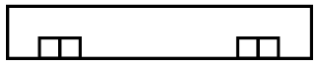
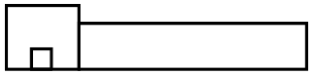
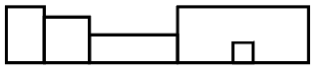
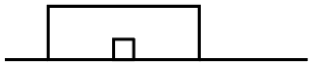
A municipal grocery store would need to consider how it can serve local community needs and establish a competitive position against other providers. This positioning can distinguish the municipal option against its competitors and attract customers away from their preferred grocers.

	Formats	Ownership	Service Type
Supermarkets 	Walmart, TARGET	Chains owned and operated by a large corporation	Fresh and nonperishable groceries, prepared foods, clothing, toiletries, homeware
Multiregional Marketplaces 	Jewel-Osco, MARIANO'S	Sub-brands of larger supermarkets tailored to local communities	Fresh and nonperishable groceries, prepared foods, clothing, toiletries, homeware
Urban Grocery Stores 	city target, Walmart Neighborhood Market	Chains owned and operated by a large corporation	Fresh and nonperishable groceries, toiletries, limited homeware
Specialty Marketplaces (+Independent)	TRADER JOE'S, WIC, WHOLE FOODS MARKET, FOXTROT DELIVERY MARKET, GO GREEN ON RACINE	Franchised, independently-owned, or cooperative-style stores, can be chains	Fresh and nonperishable groceries, prepared foods, locally sourced products, specialist food services (health, ethnic, WIC, SNAP, café)
Low Density & Value Markets 	ALDI, save a lot	Discount groceries with a focus on price instead service or convenience, typically chains	Discounted fresh and nonperishable groceries, toiletries

Sources: Research Gate

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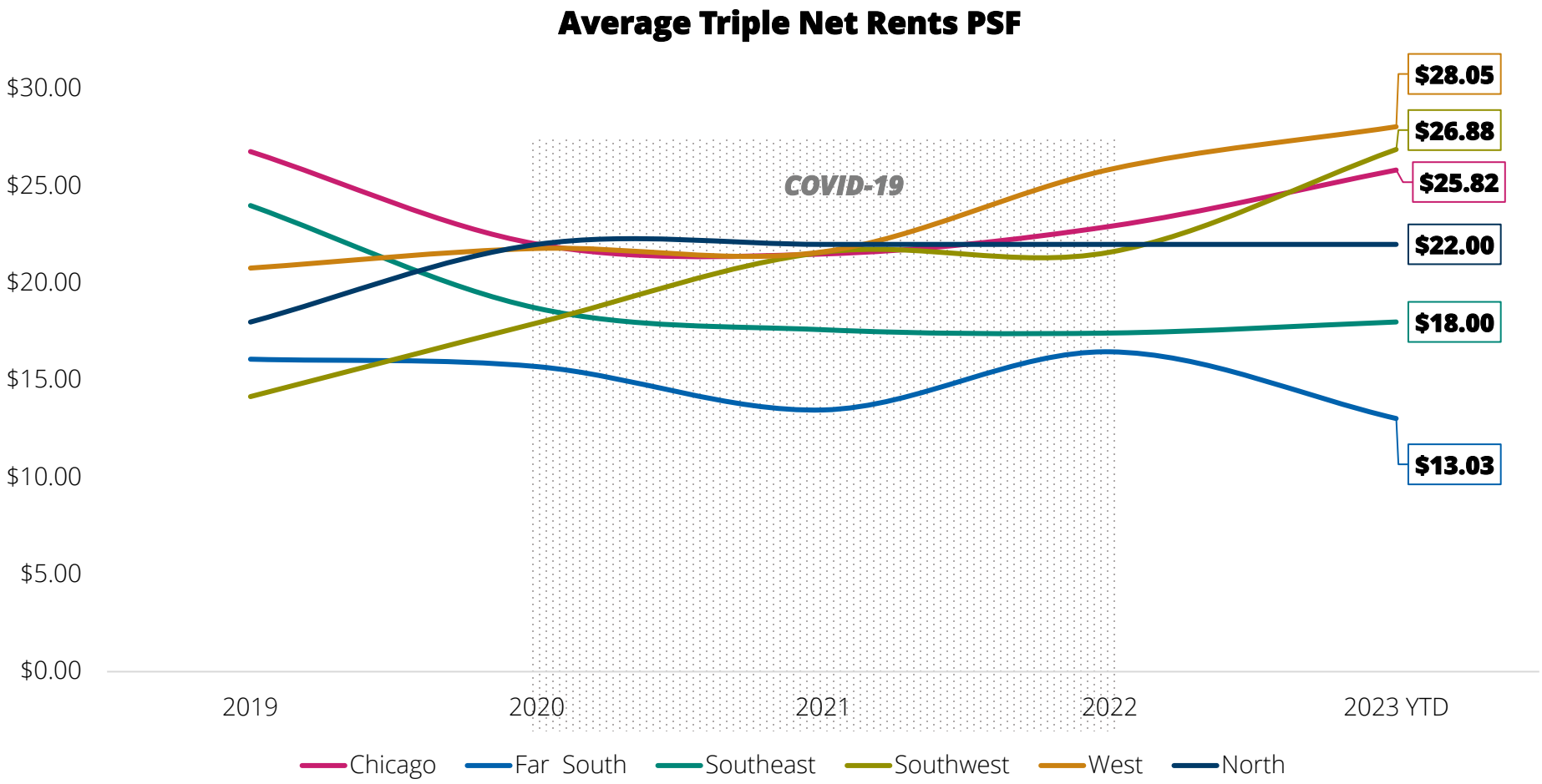
Rents for grocery spaces across the City vary widely based on geography. Whether the City leases space to an operator or rents from a property owner, local rent dynamics will impact operational feasibility.



Note: There are data limitations which prevent characterizing rent trends across the Northwest Side of Chicago as well as the Central Area.

Source: Costar

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Stakeholder conversations offered useful insights about how stores can be effectively positioned to compete in the challenging Chicago market.

Takeaways from stakeholder conversations:

1. **Competitive positioning:** To attract customers away from their habitual grocery options, stores must establish a unique competitive positioning, offering products, services, technologies, and experiences that customers want and that distinguish this grocery store from competitors.

2. **Operator quality:** Individual stores need strong lead operators who have experience in grocery, understand how to effectively run stores (e.g., manage inventory, train staff, engage the community, determine an appropriate product set), and are in tune with community needs. Stakeholders commented that operators with this skillset (along with grocery labor in general) are becoming more difficult to find across Chicago.

3. **Active environments:** Grocery stores benefit from consistent foot traffic. Co-locating grocery with municipal, residential, employment, and other retail uses in active corridors and/or districts across Chicago improve store visibility and consumer convenience.

4. **Experimentation and innovation:** Grocery is undergoing fundamental change locally and nationally. Grocers are considering how to improve user experiences both in-store and digitally, and are experimenting with different formats, products, and services. To compete, grocery providers need to tailor industry innovation trends to meet their communities' needs.

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Insights from the market scan provide insights defining the opportunities that can make a municipally-owned model feasible.

Market Competition

Risks	Recommendations for a Municipally-Owned Grocery Program
Without a compelling market position, stores will have difficult competing with the broader market.	• The City should select sites that visibly position stores within **community hubs,** thoughtfully located near and among new development, established businesses, community service providers, and supportive infrastructure (e.g., transit, roads, parking, etc.), promoting **store visibility and legitimacy as a community institution**. This could include revitalizing a vacant commercial space. • The City should partner with grocery operators **"from the community,"** who are in touch with community needs, and are enthusiastic about regularly engaging with the community to **understand the products and services the community wants and needs, aligned with the price points they can afford.** Ideally, store leadership will have significant experience working in grocery with exposure to new grocery trends (e.g., online ordering, prepared food, etc.) • To support grocery operators, the City should lean on relationships with established retail collaborators and should formalize an **Advisory Committee** of current grocery leaders who can inform the City's concept and operational feasibility and work with the City's selected operator. • To create a pipeline of strong grocery operators, the City should explore partnerships with local grocery providers to build a **talent incubator program** that develops young grocery talent to lead municipally-owned stores.
Grocery is undergoing evolution and stores must keep up with growing trends.	
Quality operators are difficult to find.	
As a public option, consumers may assign "government program" stigma.	

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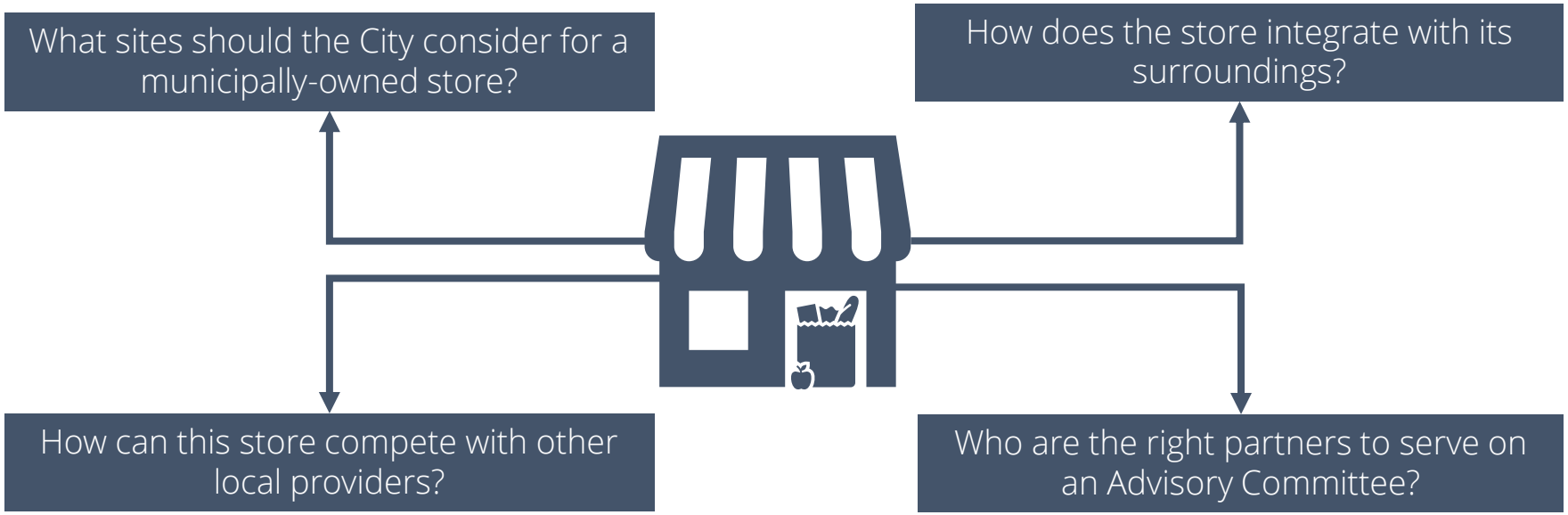
Successfully positioning a municipal grocery option requires consideration for how the store can effectively compete with other providers in the broader market.

Decision Points



Financial Feasibility

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To assess financial feasibility, our analysis evaluates capital and operating needs for an average, conventional grocery operator. Using this as a baseline, we explore alternative scenarios and approaches to understand how the City can promote grocery sustainability.

Areas of focus:

1. **Store financial analysis:** Outline baseline assumptions for conventional grocery stores to understand capital and operational needs across two scenarios:
   - City developing and owning retail space, renting to a private grocery operator
   - Private property owner leasing space to the City, subleasing to a private grocery operator

2. **Network of stores:** Evaluate a network of 3 city-owned grocery spaces, renting to a private operator to understand the feasibility implications of scaling operations

3. **Operating subsidies:** Conceive of potential public subsidy or financial support options tailored to grocery operations and evaluate pros and cons

4. **Funding & financing sources:** Research available funding and financing sources to support capital construction and store operations

Note: Financial feasibility analysis is an **illustrative exercise, informed by extensive research and conversations with local grocery leaders. To fully evaluate feasibility, additional details about proposed grocery sites, products, services, and development terms are needed.*

Store Financial Analysis

For a single grocery operator, evaluate whether store sales are sufficient to cover operating expenses and achieve baseline profit margins.

Image Source: Kenny Eliason via Unsplash

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To construct and open a grocery store, a large upfront investment is necessary.

Construction Costs: The scale of development costs will vary depending on whether the space is a **stand-alone store**, **rehabilitation** of existing space, or a part of a **new retail or mixed-use development.**

Tenant Improvements: Tenant Improvement (TI) allowances are reserved to prepare and customize the space to meet the grocery tenant's needs**. Depending on the quality of the space, TIs often range from $200-$300 per square foot,** with costs often shared between the property owner and tenant.

Start-Up Costs: Start-up costs include **inventory, equipment, staffing, and other overhead expenses** (e.g., licenses and permits) that are necessary to prepare the store for opening.

Large footprint stores carry higher costs to construct and fit out. While grocery store development has **significant upfront costs, there are several funding sources available** (and detailed later in this section) that, if effectively assembled, can cover the majority (if not the entirety) of these costs for the City and operator.

Image Source: Wikimedia Commons

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Grocery stores operate on slim profit margins – the slightest fluctuation in revenues or expenses greatly influences financial outcomes.

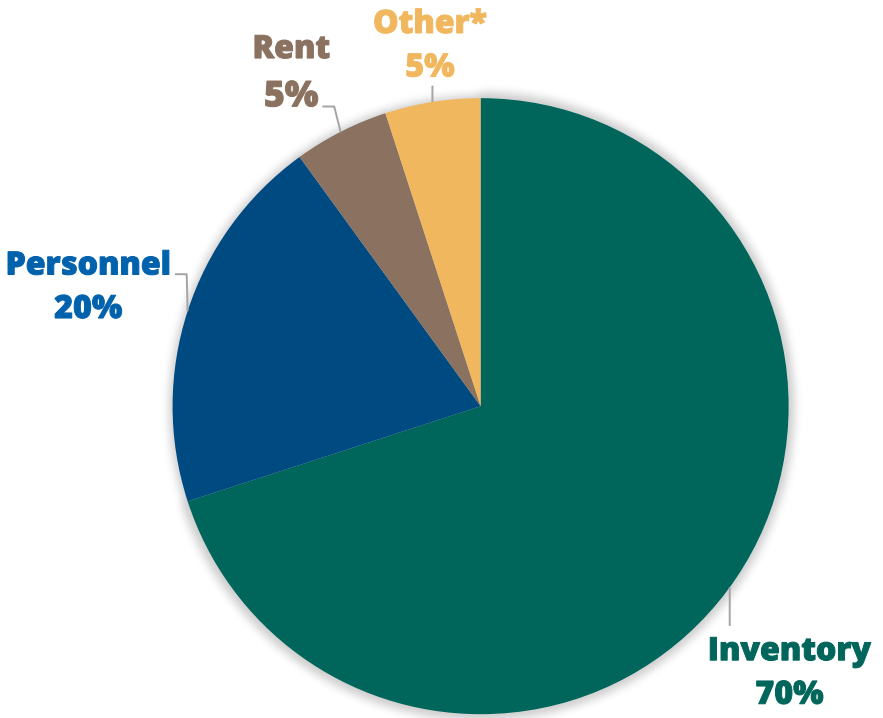
Revenues: Product sales almost entirely comprise store revenues. While other revenue sources (e.g., membership, subleasing space to retailers) can increase store income, **consistent inventory churn** is needed to turn a profit.

Operating Costs: Inventory is the largest expense, typically representing about 70% of sales. Staffing and personnel often represent the second largest expense. Other costs, such as marketing, utilities, and insurance occupy a smaller cost share but are **essential for store performance**. Smaller footprint stores generally have lower operating expenses.

Profit margins: Large footprint grocery chains operate on thin operating margins, often between 1-3%. These thin margins can be sufficient because larger grocers sell so much volume. Comparatively, small footprint stores sell less volume, and as a result need to achieve a **margin of 3-5%, if not higher, to operate sustainably.**

Selling higher margin goods (e.g., meats, fresh fruit) and prepared foods can improve overall margins if the inventory is effectively monitored and managed. However, product margins and markups must **preserve product affordability** (relative to the customer community) or else sales will likely decline.

Operating Costs as a Share Of Expenses



**Note: 'Other' captures the cost of utilities, licenses/permits, marketing, and insurance for Scenario 1.*

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Using these assumptions, we consider two potential baseline scenarios for individual stores: (1) the City directs construction of a new store for a private operator and (2) the City occupies an existing space and subleases to a private operator.

Store Size: 10,000 square feet (SF)	**Scenario 1: City builds new space**	**Scenario 2: City occupies existing space**
Land and Property Ownership	City	Private (City leases; subleases to operator)
Inventory Ownership	Private operator	
Hard Construction Cost per SF	$400*	$250 (only tenant improvements)
Share of Tenant Improvements	30% (City) / 70% (Operator)	30% (Property Owner) / 70% (Operator)
Other Startup Costs *(e.g., equipment, inventory, staffing)*	Operator	
Rent	Operator pays 5% of revenues	As leaseholder, City pays market rent Operator pays 5% of revenues to the City
Property Taxes	No	Yes
Estimated Annual Sales per SF**	$530 (escalating)	
Store Reaches Full Sales	Year 5	
Staffing***	1 Full Time Equivalent (FTE) per 400 SF	

**Inclusive of construction and tenant improvements*
***Weighted average of average sales PSF for Aldi & Save A Lot brands, adjusted to current dollars; source Retail MAXIM (2019)*
****Salaries consistent with average sales for Chicago grocery workers, Lightcast*

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This study uses a pro-forma to assess the financial feasibility of a grocery store over the course of 20 years. Two key metrics are determined through the pro forma.

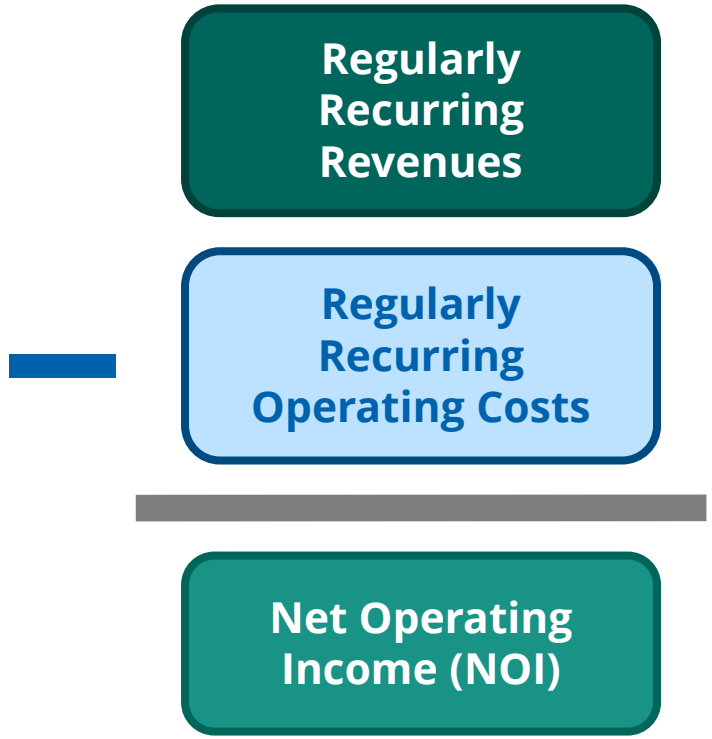
Net Operating Income (NOI): All revenues from the store minus all necessary operating expenses. Revenues and expenses represent the store's cash flow.

NOI indicates whether the store is generating profit or a deficit. It is a **necessary figure to determine the store's operating margin.**

Net Present Value (NPV): Uses the sum of the store's projected cash flows discounted to a preferred rate of return to determine the value (or profitability) of significant upfront investment which includes construction, equipment, store improvements, working capital, etc.

Cash flows are discounted to account for risk and the time value of money (e.g., inflation, interest rate changes). **NPV suggests how much an investor (e.g., the City) could be willing to pay *presently* to receive *future* cash flows**.

NPV analyses do not reflect the non-monetary benefits or costs of an investment (e.g., greater citywide food equity).



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In Scenario 1, the City would pay a developer to construct a new grocery store on city-owned land. The City pays a portion of tenant improvements (30%) and the operator covers remaining tenant improvements (T/I) and startup costs.

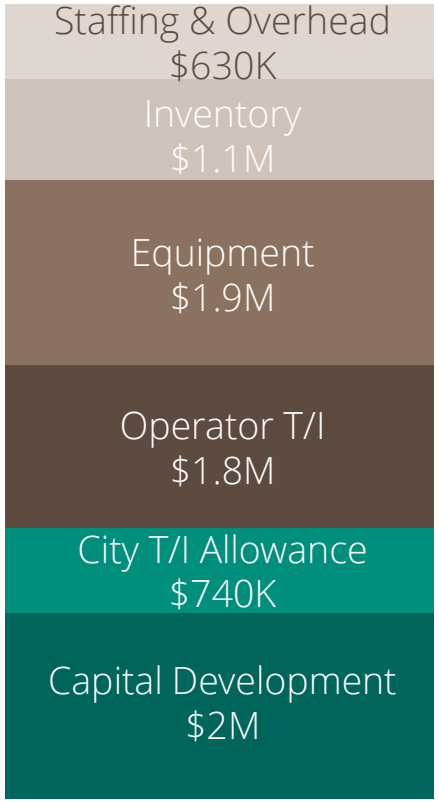
Total Upfront Costs:
$8.1M

Operator Expenses

$5.4M

City Expenses

$2.7M



	Revenues to the City	Costs to the City
Development (NPV, Year 1)*	-	-$2.6 million
Rent to the City (NPV, 20 Years)*	$3.1 million	-
20-Year NPV*	$500,000	

*If the City were to finance the capital expenses through municipal bonds, rent could serve as a tool for repayment.***

Based on stabilized year revenues, if the City dedicated 100% of rent to pay back debt, ***it would cover 122% of its share of upfront costs and 41% of total upfront costs.***

*NPV uses a 7% discount rate
**Assumes 5% interest rate on bonds

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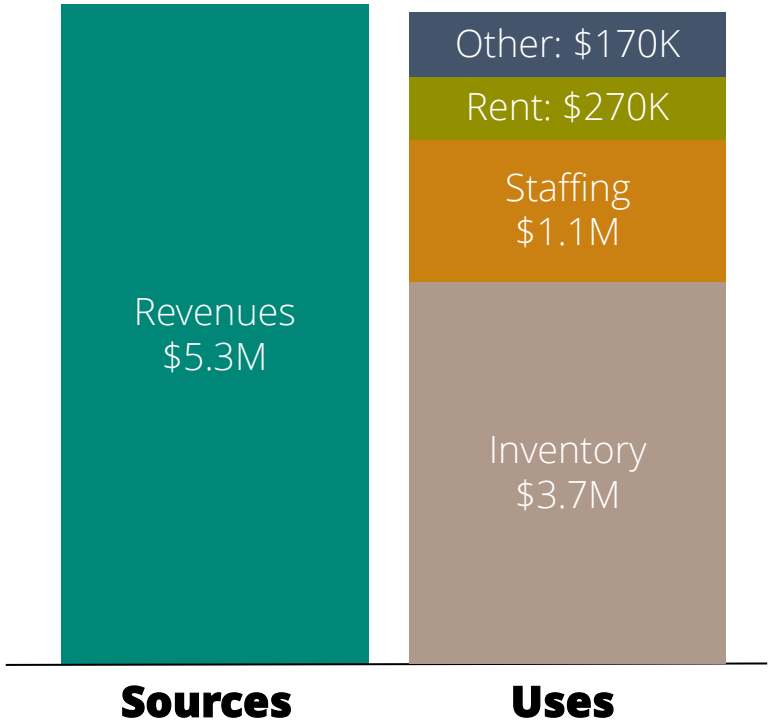
In Scenario 1, the store makes low operating profit once the store stabilizes. These margins make it difficult to pay back initial capital investments from the operator.

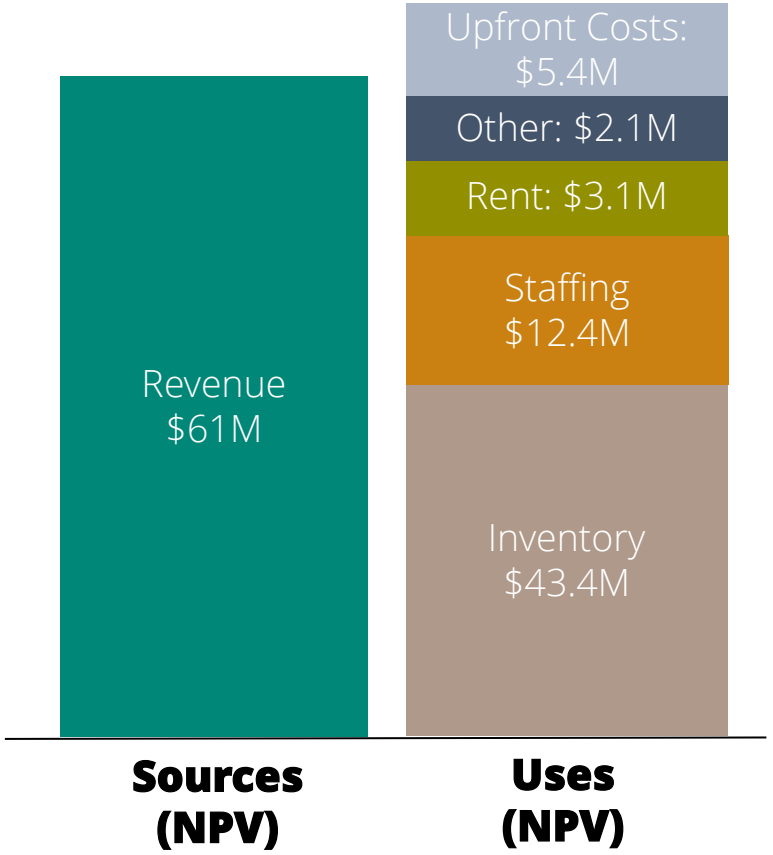
Stabilized Year NOI:
$45K (0.9% of revenues)



To reach 3% Profit Margin in Stabilized Year:

Increase sales to $541 PSF
OR
Reduce/subsidize costs by $110K**

Operator NPV (20 Years):
-$4.6M



**NPV uses a 7% discount rate*
*** Stabilized revenues and costs represent annualized year*

Note: Using year 1 as a construction year, the store's revenue realization raises in increments of 20%, beginning at 50% of potential in Year 2 (the opening year) to 100% from Year 5 onward.

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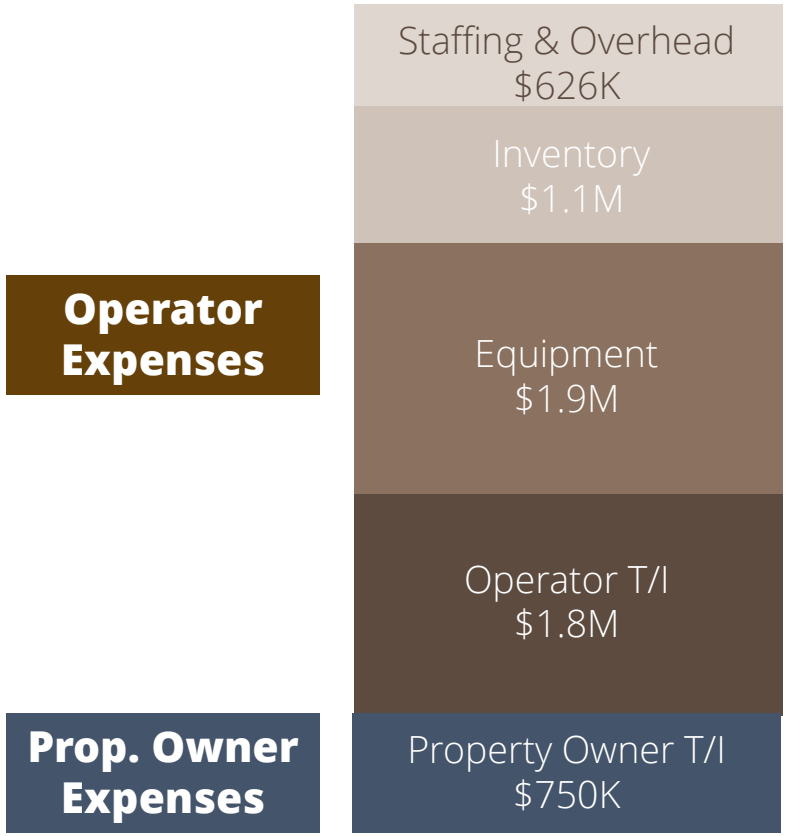
In Scenario 2, the City would occupy an existing retail space and sublease to a private operator. The operator pays rent at 5% of store revenues with the City covering the remaining rent owed to the property owner, based on market rates.

Total Upfront Costs:
$6.2M



	Costs
Development (NPV, Year 1)*	-
Rent paid by the City (NPV, 20 Years)*	**-$130K**
20-Year NPV*	**-$130K**

In this scenario, store revenues exceed market rents by Year 5 (first stabilized year).

At this point, operator pays market rate and the remaining rent is returned as a rebate to the operator.

**NPV draws from a 7% discount rate*

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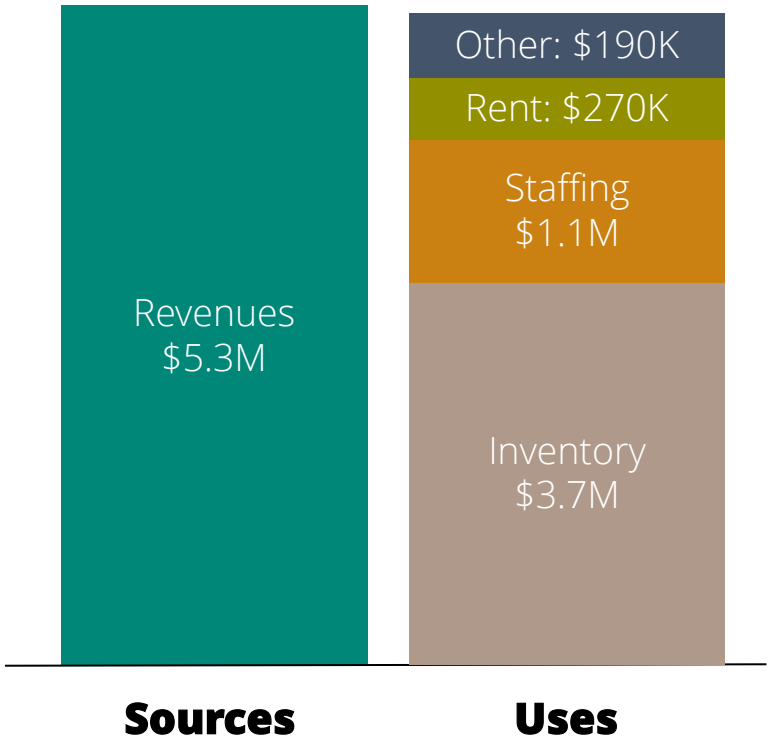
In Scenario 2, the key difference is the operator must pay property taxes to the private property owner which slightly diminishes margins.

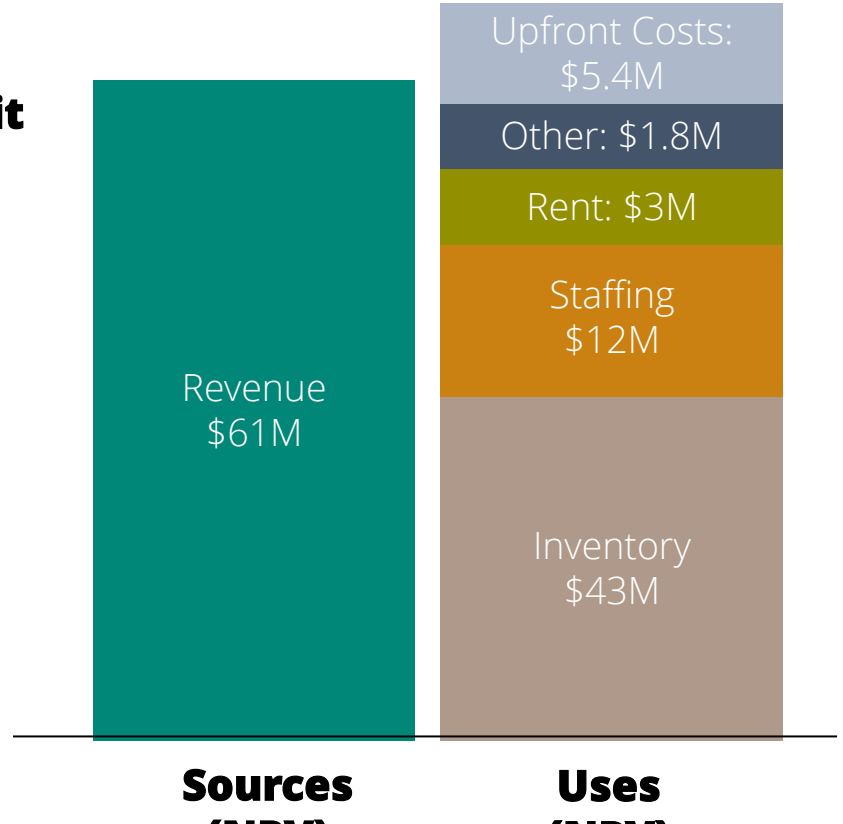
Stabilized Year NOI:
$30K (0.6% of revenues)



To reach 3% Profit Margin in Stabilized Year:

Increase sales to $543 PSF
OR
Reduce/subsidize costs by $129K**

Operator NPV (20 Years):
-$4.7M



**NPV uses a 7% discount rate*
*** Stabilized revenues and costs represent annualized year*

Note: Using year 1 as a construction year, the store's revenue realization raises in increments of 20%, beginning at 50% of potential in Year 2 (the opening year) to 100% from Year 5 onward.

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Taken together, both scenarios indicate launching a single grocery store will carry high upfront costs and low operating margins over a 20-year period. Nonetheless, there are strategies the City can pursue to improve feasibility.

Addressing Upfront Costs: Costs to construct or retrofit a store will carry high upfront costs for the property owner (which can be the City) and operator. In our scenarios, if the operator bears their share of upfront costs, it significantly hurts project viability. However, there are **numerous sources available to finance store development and other upfront costs**. Access to capital sources such as New Market Tax Credits, the Healthy Food Financing Initiative (HFFI), and Illinois' forthcoming Grocery Initiative **provide relief to upfront costs** borne by the property owner and operator and improve overall feasibility.

City Ownership: A municipally-owned grocery option can increase store viability by **cutting expenses.** Scenario 2 illustrates how private property ownership would require the operator to **pay property taxes** and decrease the store's net operating income, negatively impacting feasibility.* **Using city-owned land eliminates these costs** and as the property owner, the City can grant more generous lease terms to an operator.

Cost Sensitivity: Given the small operating margins, operating feasibility is **very sensitive to fluctuations in revenues and costs**. Sudden changes to either can significantly affect the store's operating margin and sustainability. Both scenarios capture this sensitivity.

Opportunity for Public Subsidy: While there are several funding and financing options to cover upfront costs, **there are few that would support store operations.** Smaller grocery formats need 3-5% of operating profit to operate sustainably, and while these scenarios earn operating profit, they are falling short of the 3-5% benchmark. However, if the City can **serve as a funding partner** to close gaps, when necessary, it can ensure store sustainability.

** Under the County's Class 7d Property Tax Incentive, the store in Scenario 2 may be eligible for reduced property taxes. This reduction can help feasibility, but not to the same extent as a municipally-owned building.*
Note: Financial feasibility analyses are illustrative, informed by extensive research and conversations with local leaders with grocery expertise. Analyses intend to capture a conventional private operator working under average conditions. Nevertheless, given the localized nuance of the grocery supply chain and store operations, we understand expected sales and expenses could vary significantly from figures calculated.

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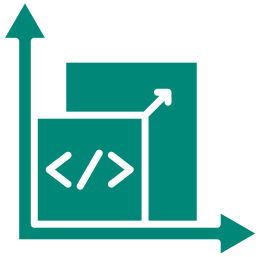
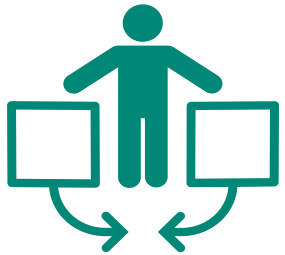
Throughout the industry, chain grocers use volume to overcome smaller profit margins. If effectively managed, greater scale can produce efficiencies such that a network of stores may improve feasibility.

Cross-subsidization: Within a network, stores with higher profit margins could subsidize other stores in the network that are struggling. This may help ensure sustainable operations for stores that have trouble attracting profitable sales volume.



Benefits of scale:

- Wholesale inventory purchases at a larger scale bring down per unit costs.
- Utilizing centralized warehousing and distribution from one site can help find efficiencies in inventory management across stores.
- Additional locations promote greater brand visibility.



Shared resources: Stores can share staff within the network as needed to fill temporary or seasonal staffing gaps. Marketing efforts can support the whole brand instead of an individual store.

Moreover, the public options with the most impact are <u>universal.</u>

Network of Stores

Given some of the identified benefits of scale, evaluate a network of stores and whether the network can achieve economies of scale, improving operating margins while expanding food access to more areas in need.

Image Source: Kenny Eliason via Unsplash

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Drawing from the potential benefits of expanding operations, we consider a network of three stores and test varying levels of sales between stores and potential positive impacts from additional scale including cost savings on inventory.

Network of Stores Scenario (3 stores)

Store Size: 10,000 SF	High Performing	Average Performing	Low Performing
Building Type	New build, City-owned		
Hard Construction Costs per SF (including tenant improvements)	$400*		
Estimated Annual Sales per SF	$583 ***(10% Above Average)***	$530	$424 ***(20% Below Average)***
Inventory Costs (as % of Revenues)	68%	68%	68%
Rents	5% of sales		
Store Reaches Full Sales	Year 5		
Staffing	1 FTE/400 SF (subject to sales escalation)		

**Inclusive of construction and tenant improvements*
***Average of average sales PSF for Aldi & Save A Lot brands, adjusted to current dollars*

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For a network of stores, standing up three new stores naturally presents greater upfront costs. The City recoups much of its share of construction cost through operator rent.

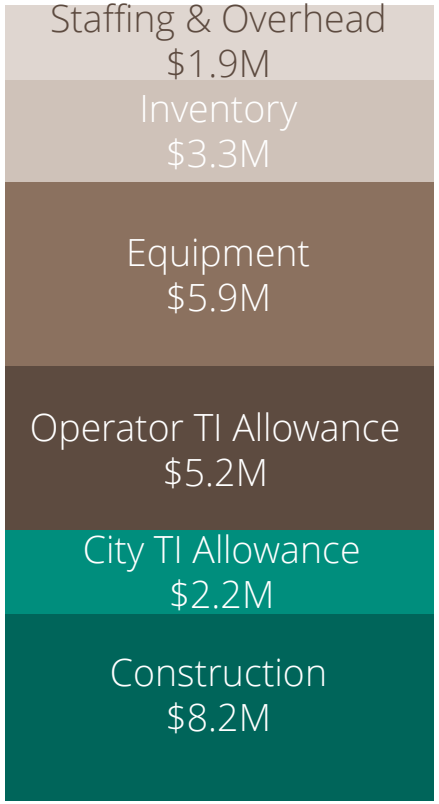
Operator Expenses

$16.3M

City Expenses

$10.4M

Total Upfront Costs:
$26.7M



	Revenues to the City	Costs to the City
Development (NPV, Year 1)*	-	-$9.8 million
Rent to the City (NPV, 20 Years)*	$8.9 million	-
20-Year NPV*	-$800,000	

*If the City were to finance the capital expenses through municipal bonds, rent could serve as a tool for repayment.***

Based on stabilized year revenues, if the City dedicated 100% of rent to pay back debt, ***it would cover 93% of its share of upfront costs and 36% of total upfront costs.***

*NPV uses a 7% discount rate

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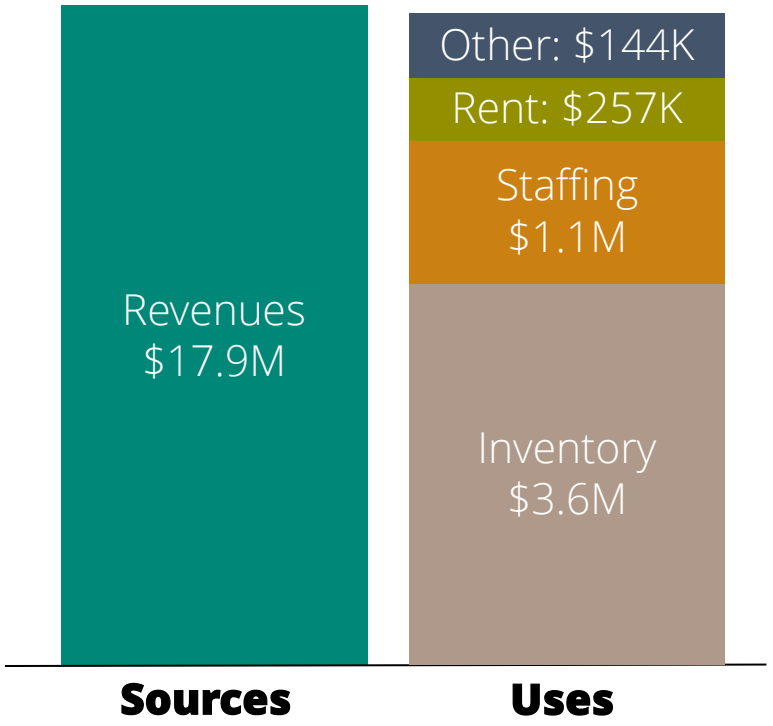
For a network of stores, the average and high performing store achieve desired profitability. Cost improvements from scaling offset some of the operating losses from the lower performing store to produce an improved profit margin overall.

Stabilized Year NOI:
$428K (2.8% of revenues)



Stabilized Year NOI & Margin by Store

	NOI	Profit Margin
Low Performing Store	-$85K	-2%
Average Performing Store	$190K	3.6%
High Performing Store	$320k	5.6%

To reach 3% Profit Margin in Stabilized Year Network-wide:

→ Increase collective sales by $1 PSF *OR* Reduce/subsidize costs by $27K**

**NPV uses a 7% discount rate*
*** Stabilized revenues and costs represent annualized year*

Note: Using year 1 as a construction year, the store's revenue realization raises in increments of 20%, beginning at 50% of potential in Year 2 (the opening year) to 100% from Year 5 onward.

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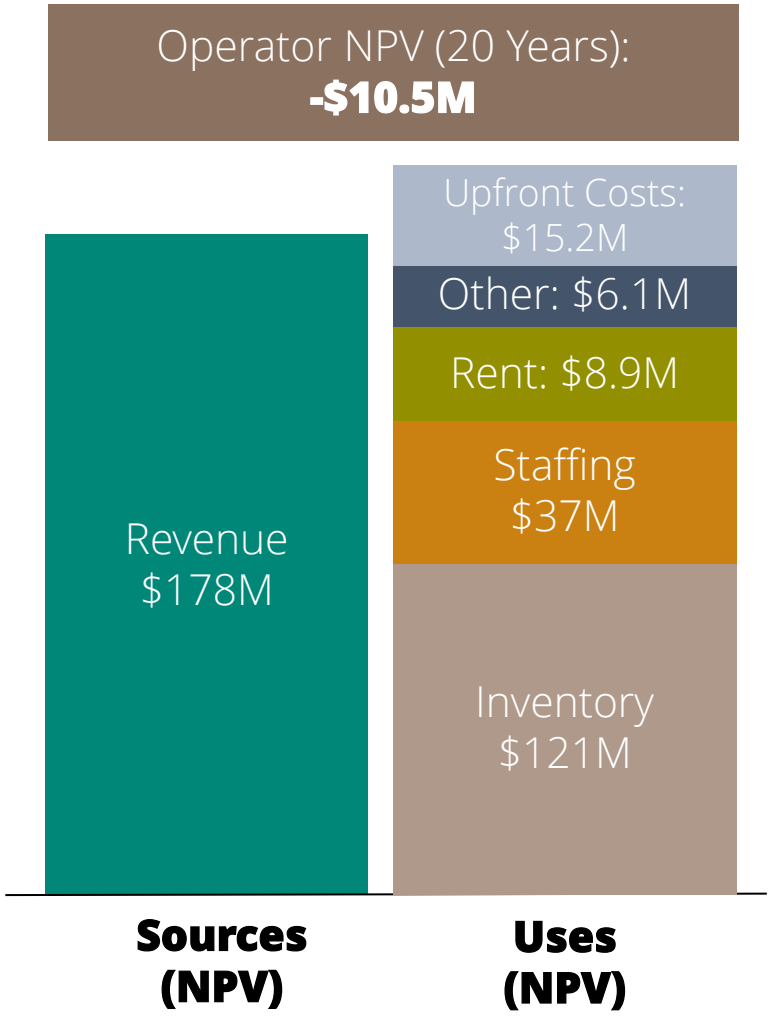
When evaluating the net present value for the network, upfront costs hamper project feasibility. However, if funding sources can cover those upfront costs, the project becomes more feasible.



*NPV uses a 7% discount rate
** Stabilized revenues and costs represent annualized year

Note: Using year 1 as a construction year, the store's revenue realization raises in increments of 20%, beginning at 50% of potential in Year 2 (the opening year) to 100% from Year 5 onward.

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Cumulative rent from a network of stores creates a source of revenue that the City can use to pay back debt, cover operating gaps, or invest in network building or store infrastructure.

Stabilized Year Rent to City

	Rent Paid
Store 1	$212k
Store 2	$265k
Store 3	$292k
Total Rent	**$769K**

Debt Service or Revenue Source?

The path the City takes to build out the store will determine potential uses of rent received from operating stores.

Should the City take out debt to fund construction, **collected rent would first be used to cover debt service**.

However**, if the City can secure funding to cover development and upfront costs, operator rent can be used as a revenue source to support operational sustainability**. The City can use these revenues to:

- Cover necessary building maintenance;
- Subsidize store operational shortfalls (if necessary);
- Invest in store improvements/innovation or;
- Collect funds for future subsidy or begin developing funds for additional stores.

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While the benefits of the network improve overall feasibility, it will still require some form of public support to reach desirable profit thresholds.

Network of Stores Takeaways

Upfront Cost Burden: While the store network may have operational advantages, it **significantly increases the scale of upfront costs.** In this scenario, there are 3 new structures that require ground-up construction, tenant improvements, equipment, inventory, and other upfront costs, therefore **multiplying the scale of funding and financing sources that the City must secure** to reduce upfront costs to improve network viability.

Improving Operational Sustainability: If the City were to implement a network of stores, its likely that based on neighborhood demographics and available spending potential, each store would perform differently. Based on our illustrative examples, between additional revenues from a higher-performing store and cost savings derived from increased scale, **the operating profit from the average and high performing stores subsidize operating losses from the lower performing store**.

Need for Subsidy: While the store network scenario may improve operational outcomes, it still falls short of the 3% profit threshold, indicating that **subsidy may still be necessary**.

Rent as a Source: With operators paying the City 5% of revenues as rent, **the City collects over $750,000 in revenue** (annualized in current dollars). This revenue may be needed to pay back debt on upfront costs. However, if the City can secure other funding sources to cover upfront costs, the **City can use the rent it collects** to subsidize store operations, pay for building improvements and store infrastructure, or invest those revenues for later use.

Operating Subsidies

The grocery business is risky. Low profit margins leave operators with little room for error. The public sector can play a role in mitigating that risk, possibly offering subsidies to ensure stores have adequate resources to sustain operations, even in difficult economic conditions.

Image Source: Kenny Eliason via Unsplash

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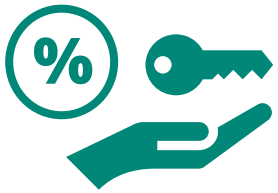
Given the high upfront costs and narrow operating margins grocers face, the City can help stabilize store revenues and improve sustainability by providing subsidies supporting operations.

Possible Operating Subsidy Types:



Discounted Rent

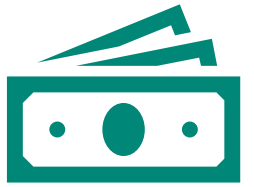
Inventory Support (Warehousing)

Inventory Support (Purchasing)

Repairs and Maintenance

Utility Relief

City-managed Marketing



Direct Gap Funding to Operator

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The City can subsidize store operations in various ways to improve profitability and sustainability.

Subsidy Type	Pros	Cons
Discounted Rent	• City and operator can come to an established and **mutually beneficial agreement** • A set rent **discount does not require annual renegotiation** or City payout • An established, set level of subsidy supports the operator without promising that the City will close operating gaps; **incentivizing the operator to provide quality services and products** while minimizing costs, knowing that other subsidies may not be available	• Inflexible subsidy which **may not provide sufficient operating support** in difficult economic conditions; operator would need to find **external funding sources to continue sustainably** • Should the City fund upfront capital investment, rent will be the most direct revenue source to pay back costs. **Discounting rent limits pay back to the City**
Inventory Support (Warehousing)	• In a larger operation, the City could provide subsidy that **helps an operator pay for centralized warehousing space**, potentially cutting costs across a system of stores • A set subsidy level in agreement **does not require annual renegotiation** or City payout	• Subsidy for warehousing space **would likely benefit a larger operator with multiple locations** for which a centralized warehouse would be beneficial • Smaller operators **may not need a centralized space** and may not be able to pay for inherent transportation costs • This type of support alone **may not be flexible enough to meet larger operator needs** in difficult economic conditions

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The City can subsidize store operations in various ways to improve profitability and sustainability.

Subsidy Type	Pros	Cons
Inventory Support (Purchasing)	• As the largest operating expense, **inventory support can improve operating margins more considerably** than subsidies for other expenses, without offering a blanket subsidy for total operating shortfalls • Earmarked subsidy would **support operators seeking out specific goods** to meet community wants and needs • **Creates flexibility** for operator to purchase harder-to-find foods desired by the community • Could be framed as an **incentive to procure from local businesses** • Can help smaller operators in **negotiations with wholesalers** • City support can be **tailored to specific inventory items** (e.g. subsidized fresh produce)	• **Operator would need to substantiate** that City support is directed towards inventory purchases • **Inflation and supply chain forces** can trigger steep inventory cost changes that are hard to plan for • City and operator would need to **define very clear terms** as to how the city will support the operator and how the operator would need to meet City standards to qualify for support • **Shrinkage**, whether from accidents or theft, can **limit the overall impact** of inventory support

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The City can subsidize store operations in various ways to improve profitability and sustainability.

Subsidy Type	Pros	Cons
Repairs & Maintenance	• Investing in store maintenance is a **preventive measure** that lowers potential property deterioration in the long-term • Mitigates a relatively small, but **important cost** from an operator • **Allows the operator to focus profit margins and invest in other parts of the store**, such as improving energy efficiency or installing smart technology into the store – leading to long term cost savings	• **Challenging to predict the totality of R&M costs**; emergency maintenance can carry high costs the City cannot pay out in a timely manner • City and operator would **need to identify/review preferred maintenance servicer** with reasonable service costs • R&M allowances would **likely need to be revisited annually** to ensure sufficient subsidy • If leasing from a private property owner, the City will **need to negotiate what infrastructure**, if any, the owner is willing to pay for • Potentially makes City responsible for store's **physical state, quality, and appearance**
Utility Relief	• Reduced utility costs can **improve operating margins,** enabling the operator to invest cost savings in other areas of the store • Well-functioning utilities can contribute to a **higher quality shopping experience,** improving sales • **City can set consistent rate subsidy,** providing some certainty to the operator	• Depending on the structure of the subsidy, it may be more **difficult for the City to bear utility costs based on fluctuating rates during high-demand periods** • May require the City to **disburse funds regularly and quickly**

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The City can subsidize store operations in various ways to improve profitability and sustainability.

Subsidy Type	Pros	Cons
City-managed Marketing	• **In leveraging existing marketing capacity** to promote stores, City can help operator save on marketing costs • City can **identify opportunities to cross-promote** the store with other City-led initiatives, expanding the potential reach of marketing materials • **City can collaborate with the operator** to identify preferred marketing design and messaging	• Potential for the City's marketing design or messaging to conflict with operator's vision, **creating delays in store promotion materials** • If City marketing personnel changes or shrinks, the transition period and/or staff loss **may reduce capacity dedicated to grocery promotion**, which could negatively impact sales • Potential for people to **assign negative perceptions of government-run stores** if marketing is not positioned effectively
Direct Gap Funding to Operator	• Direct support with timely disbursement **can close critical operating gaps and ensure long-term sustainability** through difficult economic conditions • As store needs change over time, City payments create flexibility for the operator to **focus on operating areas of the greatest need** each year	• **Difficult for the City to budget for unknown operating shortfalls** which are most likely to face under difficult economic conditions and to disburse funds quickly to support operator • Budget shortfalls may require City and operator to **revisit operating subsidy regularly** • City would need to **establish a clear accountability mechanism** to ensure payment improves store operations and does not incentivize inefficiency

Funding & Financing Sources

Beyond the City's involvement in operating subsidies, there are other funding and financing tools from public, philanthropic, and institutional resources that can improve project feasibility.

Image Source: Kenny Eliason via Unsplash

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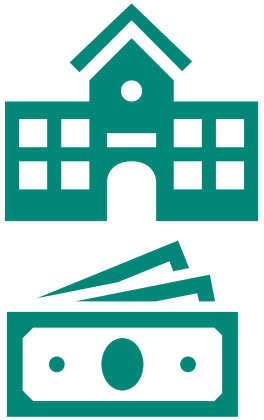
Beyond identified subsidies, this analysis considers other funding and financing sources that can support grocery feasibility, accounting for specific challenges and opportunities for each source. Some sources the City can apply for, while others are only available for the partnering operator.

Funding & Financing Source Categories



Public Sources

Philanthropic Sources

Alternative Sources

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Available funding at the federal, state, and local level typically support capital development, with limited support for first year operations and workforce development.

Public Sources: Local

Source	Description
Housing and Economic Development Bond	If approved, the Mayor's newly proposed $1.25 billion bond intends to offer more flexible financing than TIF. Over the next 5 years, this could include $400-500 million of bond proceeds for community development grants, $80-$115 million for small business support, and $55-90 million for jobs and wealth building. Bond debts would be repaid with revenues from expiring TIFs.
Tax Increment Financing (TIF)	City TIF dollars can be used to cover costs related to property acquisition, site preparation, building renovation, job training, and interest cost related to development.
TIF Works	This program provides eligible businesses and non-profit organizations in TIF districts with funds to cover workforce training. These funds can help new and existing employees increase their skillsets in areas such as management, communication, safety, and sales. Since 2008, $21 million in TIF dollars have supported training for over 11,000 employees.
Community Development Grants	DPD provides grants to support local commercial, mixed-use, and light manufacturing development, with a priority for projects in areas with histories of disinvestment or limited private investment. Funds can be used for pre-development, construction, or renovation costs for permanent capital improvement projects.

Sources: Reinvestment Fund, City of Chicago, Mayor's Press Office

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Available funding at the federal, state, and local level typically support capital development, with limited support for first year operations and workforce development.

Public Sources: Local (cont.) & County

Source	Description
Good Food Fund	Launched in 2023, Chicago's $7 million fund intends to support food entrepreneurs and organizations addressing food access inequity. The fund awards one organization $5 million. The remaining $2 million supports fund administration and two years of specialized coaching. Subgrants are also available to businesses across the food ecosystem (production, distribution, processing, retail).
Neighborhood Opportunity Fund (NOF)	NOF awards new construction and rehabilitation commercial projects with potential for catalytic impact on the South, Southwest, and West Side. Eligible activities include site preparation, employee training, and public improvement expenses. With City Council approval, grants can exceed $250,000.
Class 7d Property Tax Incentive	Cook County offers grocery stores operating in food deserts a 12-year reduction on property type assessment, lowering the rate from 25% of market value to 10% for a decade with the option to renew once. This incentive is only suitable if the store operates on privately owned land.

Sources: U.S. Department of the Treasury, City of Chicago, Department of Planning and Development, Cook County Assessor's Office

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Available funding at the federal, state, and local level typically support capital development, with limited support for first year operations and workforce development.

Public Sources: State & Federal

Source	Description
Illinois Grocery Initiative (IGI, expected early 2024)	This $20 million competitive grant program will support grocery store development and equipment upgrades for stores in food deserts, covering up to 25% of project cost. It will mostly fund capital investments but also provide working capital for the 1st year of operations. Grants are slated to range from $25,000 to $2.4 million.
Equipment Upgrades Grant	Under the IGI, this $3.5 million program provide grants between $25,000 and $250,000 for energy-efficient equipment upgrades for existing independently owned for- and non- profit grocery stores as well as grocery co-ops. Eligible businesses have fewer than 500 employees and no more than four existing grocery stores.
Healthy Food Financing Initiative (HFFI)	Administered by Reinvestment Fund on behalf of USDA Rural Development, this program provides loans, technical assistance, and grants between $200,000 and $3 million to improve food access in underserved communities.
New Markets Tax Credits (NMTCs)	NMTCs use Community Development Entities (CDEs) to attract private capital to underserved communities. Many Census tracts on the South and West Side are eligible. NMTCs can fund up to 25% of new construction if paired with other funding.

Sources: Illinois Department of Commerce & Economic Opportunity, City of Chicago

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Recent City and local partnerships to support equitable food access expansion set strong precedent for public investment in grocery stores.

In 2019, the Chicago Development Fund (CDF) provided **$12 million in New Markets Tax Credits** to support the development of Jeffrey Plaza shopping center, including renovation for the 62,300 SF Shop & Save Market.

In 2019, The Austin Grocery Initiative, a collaboration between Forty Acres Fresh Market and the Westside Health Authority, received **$185,000 in Healthy Food Financing Initiative assistance.**

In 2024, the City awarded a **$2.5 million Community Development Grant** to the Mildred Wiley Wellness Hub in Austin to expand health services and build a hub with refrigerated food storage, greenhouse, and a commercial kitchen.

Sources: Chicago Development Fund, Healthy Food Financing Initiative, Urbanize Chicago

Several philanthropies are invested in food access expansion and nutrition education in Chicago.

Philanthropic Sources

Source	Description
Chicago Region Food System Fund (CRFSF)	Launched in 2020 with an initial $4.2 million investment from the Walder Foundation, CRFSF is managed by regional food collaborative called Fresh Taste. CRFSF supports food-focused nonprofits serving farmers, growers, and advocates as well as communication associations and food businesses who do farm-to-table food distribution.
Austin Fresh and North Lawndale Fresh	These two separate $1 million annual funds aim to expand healthy retailers, support local food production, and grow food enterprises in the Austin and North Lawndale neighborhoods. Funding is a collaborative effort across the Builders Initiative, Food:Land:Opportunity, and Lumpkin Family, Walter Mander, and Christopher Family Foundations.
American Heart Association Social Impact Fund	In 2023, the American Heart Association provided $850,000 through its Social Impact Fund to support Chicago-based organizations and entrepreneurs addressing social and economic barriers to health equity, including food access. Supported by the Oscar and Cathy Munoz Pave It Forward and the Tullman Family Foundations, the fund has contributed to several food retailers and organizations across Illinois.
Chicago Community Trust (CCT)	CCT provides grants to projects addressing critical needs and revitalizing communities of color. This includes pre-development grants and discretionary funds for food distribution organizations (e.g., pantries), community gardens, and nutrition education programs.

Sources: Chicago Region Food System Fund, Lumpkin Foundation, Walder Foundation, American Heart Association

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Philanthropic funds have advanced grocery store initiatives for various organizations in Chicago.

In 2021, Inner City Muslim Action Network (IMAN) received **$50,000 from the Chicago Region Food System Fund** to support the Go Green on Racine initiative.

In 2021, Southside Market received a **$200,000 grant from the American Heart Association's Social Impact Fund**.

In 2022, **Austin Fresh awarded $500,000** to the Westside Health Authority for its partnership with Forty Acres Fresh Market to support the construction of a brick-and-mortar store.

Sources: Chicago Region Food System Fund, American Heart Association, University of Chicago, Go Green on Racine

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Other funding opportunities are geared towards strengthening the local food economy through a health equity lens or through supporting non-traditional food retailers like co-ops.

Other Sources

Source	Description
Local Hospitals	Nationwide, hospitals are taking a more active role alleviating food insecurity. Rush University Medical Center donates leftover food from its cafeterias to homeless shelters and in 2021, delivered food boxes to residents in West Garfield Park after the nearby Aldi and Save a Lot stores closed. In Boston, MA, the Boston Medical Center contributed close to $2M to support funding for a grocery store in the Roxbury neighborhood. Local hospitals may be interested in partnering for food access initiatives.
Local Enterprise Assistance Fund (LEAF)	LEAF is a nonprofit CDFI who finances co-ops, underserved businesses, and organizations promoting alterative economic models. Though based in Massachusetts, LEAF has financed co-ops nationally, including 2 food co-ops in Illinois – Dill Pickle Food Co-op in Chicago and Green Top Grocery in Bloomington.

Sources: Local Enterprise Assistance Fund; Chicago Food Policy Action Council

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Grocery businesses operate on razor-thin margins and often need years to stabilize sales, making them highly sensitive to changes in economic conditions. The City can take an active role in insulating operators from this risk.

Financial Feasibility

Risks	Recommendations for a Municipally-Owned Grocery Program
Grocery has traditionally low profit margins.	• The City should partner with a chosen operator and **provide support** (e.g., subsidies, low-interest loans, other resources) to ensure sufficient and sustainable profit margins through early stages or difficult conditions.
Smaller-scale stores likely need 3+ years for sales to mature and stabilize.	• Individual stores should consider **local products, perishable goods, and/or prepared foods** that deliver higher margins if inventory is effectively managed. Experienced operators can maximize inventory efficiency and identify areas where stores can cut costs.
Grocery sales are sensitive to broader economic conditions.	• The City should pursue **a network of stores** (under one brand) that **share wealth, risks, and resource and can benefit** from wholesale purchasing.
Prioritizing local needs and maintaining operations can limit profit.	• The City should **arrange financial or technical support to other grocers** (outside of the municipally-owned model) to support their operations, ensuring neighborhoods with inequitable food access continue to have grocery access.
Left unaddressed, existing grocery access inequity can exacerbate fiscal costs.	• The City wishes to mitigate the fiscal impacts of inequitable access to grocery. The City **should study the precise costs** to present a fiscal picture that informs City investment in grocery.

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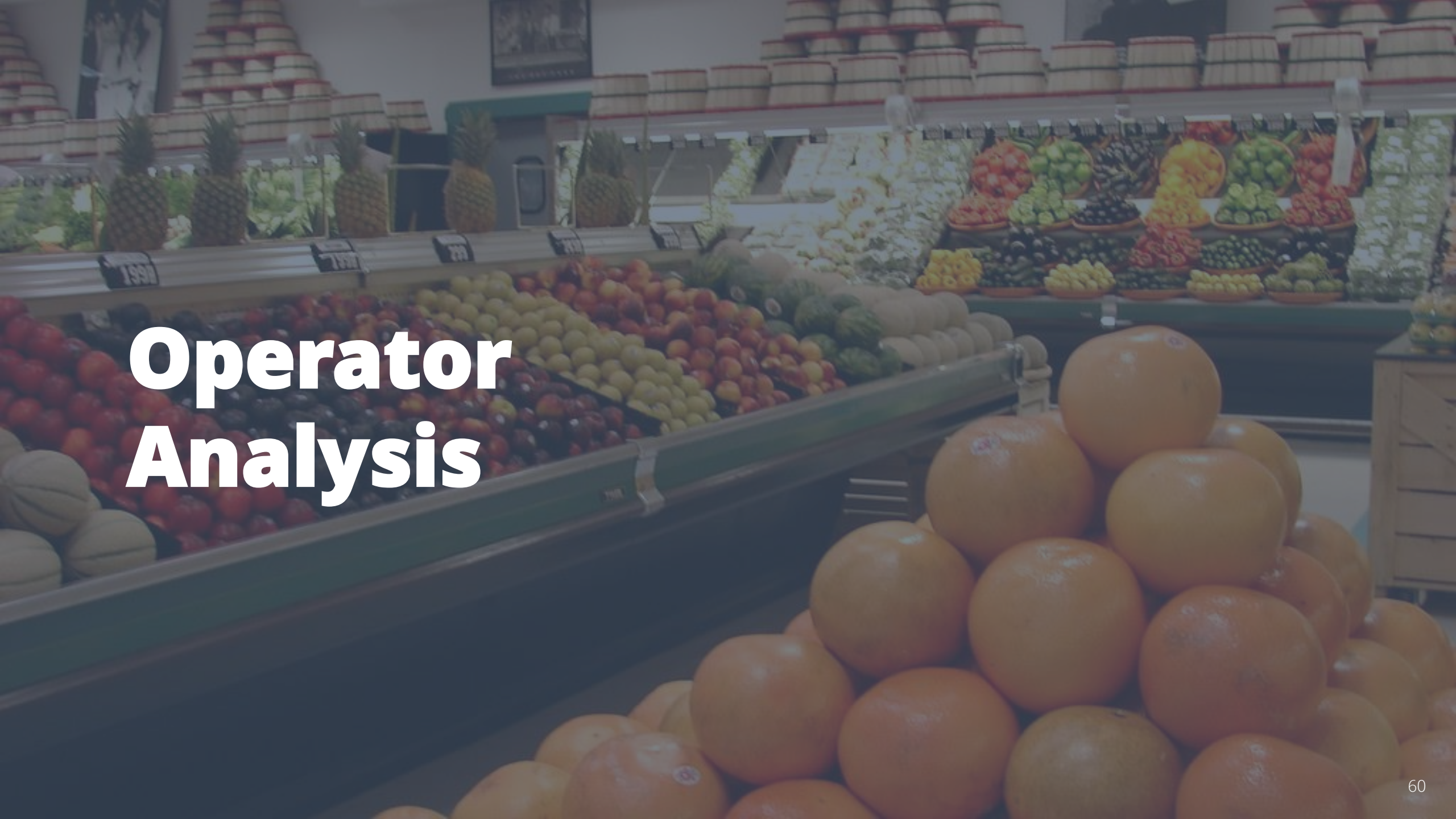
The viability and success of a municipally-owned grocery model is highly dependent on how the City expects to partner with and financially support the model over the long-term.

Decision Points



Operator Analysis

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In grocery, for-profit, non-profit, and community-led models are common. In this analysis, we evaluate a City-led operation against these more common models to understand the implications of each model on grocery sustainability and how they potentially create opportunities to build community wealth.

Our Approach:

1

Operator Model Evaluation:

- Consider how different grocery business operators are likely to operate if the City owns the real estate.
- Evaluate the operational capability of the City, private owners, and cooperative ownership models across different criteria.

2

Community Wealth Building: Within a grocery context, identify opportunities and pathways for community wealth building and ownership.

Operator Model Evaluation Criteria
Operational capacity & expertise
Ability to scale
Labor & workforce needs
Business sustainability
Community engagement capacity & responsiveness
Community wealth building capacity*

Source: Community wealth building capacity is evaluated in the community wealth building section.

Operator Model Evaluation

In exploring how to define a municipally-owned grocery model, it is critical to identify the optimal role for the public sector to ensure service sustainability. In this section, we explore the inherent advantages and disadvantages that distinguish for-profit, non-profit, cooperative, and public grocery operators and how those could impact successful operations and business sustainability.

Image Source: Kenny Eliason via Unsplash

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Based on our research and conversations with stakeholders, we evaluated how different grocery business owners approach operations and consider the implications of different operator models on business sustainability.

Operator Examples

		Model 1	Model 2	Model 3	Model 4
Ownership	*Land & building owner*	City	City	City	City
	Business ownership	For-profit	Citizen Cooperative	Non-profit	City
	Definition	Operating models built to make profit. For large chain grocers, priorities may be determined by national trends and a privately owned board.	A business owned and controlled by its employees, who share in both the decision-making and the profits of the business.	Operator with mission to deliver grocery services with some funding coming from donors, community organizations and philanthropy.	A public entity (the City of Chicago) would be responsible for delivering grocery services, using public resources to operate a store.

Source: Community Wealth Building Report, Office of Equity and Racial Justice, City of Chicago (2023).

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Developing operational expertise is likely easier for larger, established operators. However, with strong leadership, sufficient capital, and dedicated intention, smaller non-profits and co-ops have also been able to develop this expertise and capacity.

Criterion	For-profit Operator	Cooperative Operator	Non-profit Operator	City Operator
Operational Capacity & Expertise	• A for-profit grocery store operator would bring existing industry expertise, but they have **struggled to offer sustainable operations in low-income settings.** • **Capacity is easier to build for larger operators** since they have an existing network of stores. • Smaller operators **may need additional support** to build capacity.	• A cooperative would need to **seek out a talented operator** with an understanding of the grocery business to plan a store that can effectively attract and train staff. • Cooperatives **rely on members/owners to bring and develop expertise** and serve as additional capacity as necessary.	• Non-profits with experience managing grocery can bring operational expertise. • There are examples of non-profits **that have developed expertise and capacity**.	• The City, though interested in exploring what a municipally-owned grocery may look like, **does not currently have any expertise in operations**.

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While private operators are likely better suited to grow operations or expand to new locations, non-profit operators can operate at scale with robust financial and organizational support and innovative service delivery.

Criterion	For-Profit Operator	Cooperative Operator	Non-profit Operator	City Operator
Ability to Scale	• **Growth and expansion to new locations are part of private operators' overall strategy** to earn greater market share. • Private operators **regularly expand local operations** or expand to new locations and can do so more quickly. • Profits typically provide **regular source of capital to expand**.	• Cooperatives **are less likely to scale**, often directly focusing on the local community they serve. • A successful grocery cooperative relies on a **community that is involved, engaged, and informed.** There are many communities that are not right for a cooperative model. • Scaling would **require a long-term increase in membership** and regular profits to support expansion.	• With robust financial and organizational support, there are examples of **non-profit operators that have the capacity to operate at scale**. • Operating at scale **allows for the diversification of service delivery** to support that network • With effective management, they **can create surpluses that drive scale.**	• The City can **leverage its ubiquity to get to scale** (e.g., libraries, post offices, etc.) • When it comes to retail, **legislative and budgetary processes (as well as politics) can make the municipal ownership less flexible** in delivering resources to support plans to scale operations.

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Typically, labor represents the second largest cost in grocery operations. Though for-profits have the most resources to offer competitive wages and formalized training, co-ops and non-profits may aspire to create quality grocery jobs with good pay and benefits as part of their mission.

Criterion	For-profit Operator	Cooperative Operator	Non-profit Operator	City Operator
Labor & Workforce Needs	• Large private operators regularly staff stores and have dedicated staff who understand talent and skill needs. However, **private operators often draw from national staffing trends, which can obscure neighborhood-level needs.** • Larger operators have deeper resources to **offer more competitive wages but are also more likely to cut staff** if the store is temporarily underperforming.	• Cooperatives have a **natural base of interested and committed members** who can become grocery staff or volunteer support. • There may be **opportunities to use volunteers to support community initiatives**, programming, and partnerships. • These **advantages help in upfront staffing pre-opening** as well as handling changing seasonal staffing needs.	• While non-profits may not have the resources of private operators, **mission may prompt them to offer higher wages as part of a commitment to creating quality jobs for community members**. • Non-profits **can draw from volunteer base** for support. • Larger non-profit grocery operators may have **capacity and resources to secure staff during market downturns**.	• The City would **need to build grocery expertise to leverage its internal capacity** to conduct a hiring process. • It would **need to develop an understanding of the types of skills** that are needed to effectively staff a store, train staff, and manage operations. • The City will continue to **establish standards for good jobs** (PTO, sick leave, wage ordinances, etc.)

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While there are a variety of funding sources to support capital development, there are few incentives or resources that are meant to sustain grocery operations. When finances tighten, co-ops and non-profits may be more likely to choose mission over margin, ensuring more reliable service delivery.

Criterion	For-profit Operator	Cooperative Operator	Non-profit Operator	City Operator
Business Sustainability	• Due to their scale, **large for-profit operators can offer lower prices and move more volume**, creating larger gross profits. • A for-profit store is **only sustainable as long as it is profitable. This puts it at a higher risk of closing** with no clear incentive to stay open if/once it starts losing money. **Recent closures of South and West Side stores have happened** with little communication to the community.	Cooperatives benefit from: • **Community commitment** to buy from and support the store. • Stores experiencing difficulties **can work with its membership to develop solutions**. • **Additional revenues from membership fees/dues**, though limited, offer an additional revenue source to close operating gaps and fund store improvements.	• Non-profits **may draw from donations or grants in addition to sales revenues** to support operations. • Though non-profits may be well-positioned to secure grants, there are **limited funding sources that regularly support store operations**. • Non-profits are more **likely to find solutions that enable them to serve their mission** despite operational challenges that limit profit.	• If the City **commits to providing grocery as a public good and commits to subsidizing operations**, this could promise sustainability over a longer term. • Any municipal operation will also **be subject to changing political headwinds** between election cycles.

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Cooperatives provide a direct link between the community and store governance. For other operators, success will hinge on their capacity to conduct community engagement and how they respond to the community's needs.

Criterion	For-profit Operator	Cooperative Operator	Non-profit Operator	City Operator
Community Engagement Capacity & Responsiveness	• A private operator expanding to a new neighborhood **would need to build community-level expertise through regular interaction with residents.** • **Historically, some for-profit operators have not regularly engaged local communities on store operations**, often drawing ire from community members, especially when those stores close with little notice to the community.	• The cooperative has a **direct line between feedback from its community to decision-makers** who can align products and services with local needs. • Co-operatives must **take additional steps to ensure non-member voices are heard** as well to ensure reliable foot traffic.	• Non-profits are **more likely to have established networks of trust** with communities. • Non-profits often have **experience engaging and serving communities** and are therefore more likely to have that internal capacity. • Their ability to **translate this feedback into service delivery would depend on their grocery expertise**.	• The City regularly conducts community engagement today. • Since the City does not currently possess grocery expertise, it **would need to develop that expertise to effectively respond and adjust product and service offerings to community needs**, leveraging its existing internal capacity to conduct community engagement.

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Given that the City may not have the grocery expertise necessary to operate a store, the City can leverage its other resources including real estate, public authority, ubiquity, and capacity for community engagement as an effective partner to a for-profit, non-profit, or cooperative operator.

Criterion	For-profit Operator	Cooperative Operator	Non-profit Operator	City Operator
Overall Summary	For-profit operators are in the business of operating grocery. As such, they bring the **expertise and resources that can facilitate successful store operations.** However, for-profit operators are **profit-driven and risk-averse** and have struggled to establish sustainable operations in South and West Side communities across the City. Larger, national brands often **draw from national trends** and can sometimes neglect local context in operational decision-making.	The strength of a cooperative model lies in its connection to the community. The community is baked into the **store workforce, funding, governance, and growth strategy.** This means community members are often dedicated to the store's success and sustainability. However, this model can be **difficult to replicate and scale across different communities.**	While some non-profits exist to provide grocery services, others develop internal grocery capacity to serve a specific or broader community of need. They are often **very community-focused and often see delivering food access as core to their mission and** potentially provide grocery services with other mission-aligned services. Since they are committed to delivering on their mission, non-profits are **likely to seek solutions to continue operations despite financial shortfalls.**	The City does not currently house internal capacity or expertise in grocery, making it difficult for the store to lead on store operations. However, given the City's **significant land ownership, ubiquity and scale, funding tools, and community engagement capacity,** the City is **well-positioned to partner** in this effort and provide support and resources to an established operator.

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Should the City choose to partner with an existing grocery operator, the relationship between the City and the chosen operator will be critical determinant for store success.

City-Operator Relationship

Risks	Mitigation Tactics

The City is sometimes slow to issue needed permits, licenses, program funding, and approvals.	• As the City and the operator solidify an agreement, they should come to clear terms and expectations as to how they will work together. This should include:
	  • An **accelerated path** to gaining permits, licenses, and approvals.
	  • Clarity regarding the **type of support (financial or otherwise)** the City will provide and commitments regarding the **timing of available capital and operational funding.**
	  • **Roles, responsibilities, and decision-making authorities** outlined between the City and the operator, aligned with expertise and capacity.
	  • **Norms and accountability mechanisms** to ensure quality service provision.
	  • Exit provisions detailing how the City and operator can **end the relationship,** including stipulations that require advanced forewarning of any financial difficulties that would prevent the operator from carrying out store operations.

City disbursement of needed capital and operating funds may not align with grocer needs.	
The operator could fail to meet established commitments or not be able to continue operations.	

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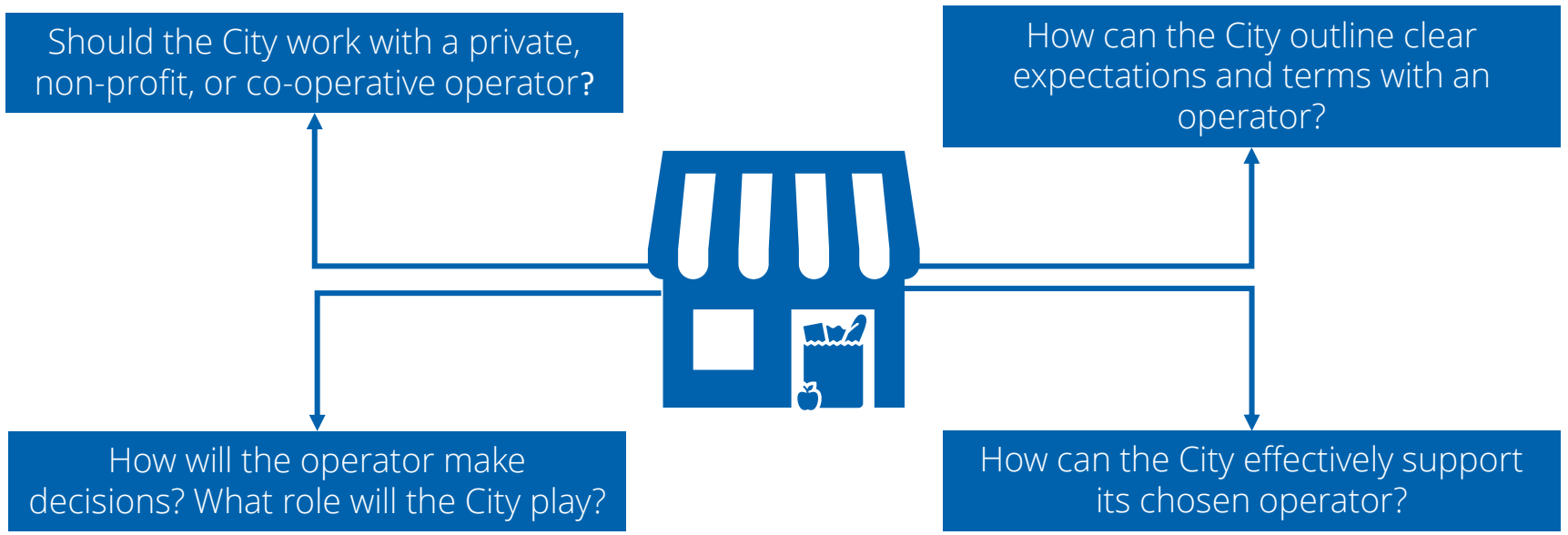
Developing a strong working relationship between the City and an operator, if selected, requires thoughtful short- and long-term planning.

Decision Points



Community Wealth Building

As a partner in the venture, the City is interested in exploring and facilitating opportunities to promote community wealth building through grocery as a policy objective. This section examines how a grocery store can create pathways to community wealth building.

Image Source: Kenny Eliason via Unsplash

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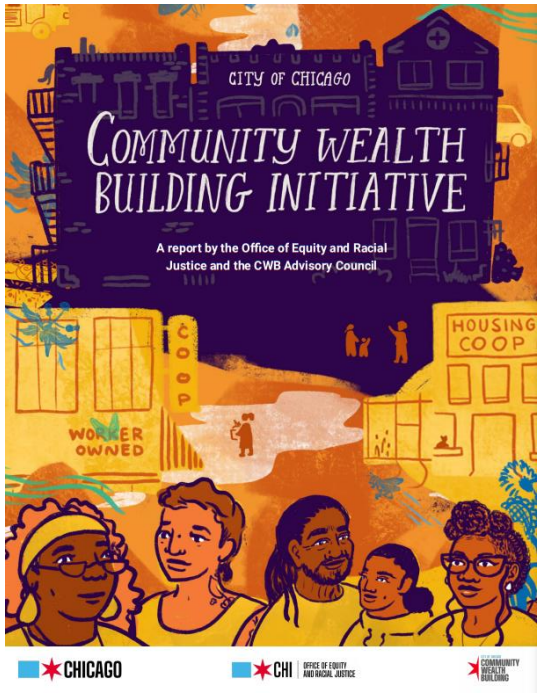
In 2021, the Office of Equity and Racial Justice and the Community Wealth Building Advisory Council put forth a comprehensive roadmap positioning the City as a strong advocate of community wealth building (CWB) alternatives to traditional economic development approaches.



Pillars & Goals

- Defined by **local, democratic, and shared ownership** of community assets
- **Primary models of interest**: worker cooperative, limited-equity housing cooperative, community land trust, community investment vehicle.
- **Key challenges**: capital access, community capacity, lack of public awareness
- **Key outcomes**: neighborhood stabilization, community self-determination, dignified work conditions, civic engagement, circular economy

Strategy & Findings

- **CWB Advisory Council** (2022-2023) assembled through Office of Equity and Racial Justice.
- Former Mayor Lori Lightfoot announced **historic $15 million investment in CWB** as part of Chicago Recovery Plan to build a robust CWB ecosystem.
- While maintaining deep connections with community leaders, the City can commit **substantial funding, coordination with regional partners, and public awareness campaigns** to build a strong CWB ecosystem.

Source: Community Wealth Building Report, Office of Equity and Racial Justice, City of Chicago (2023).

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Despite low margins, grocery stores can still create potential pathways to build community wealth. This can take place directly through the everyday business operations and indirectly through the impacts that a successful retail business can have on a community.

Direct

Residents and/or community earn income from **shared ownership and/or participation** in store **real estate and/or everyday operations**

Indirect

Community member assets in **proximity to the store** develop and appreciate from **store success**
(i.e., “retail success begets retail success”)

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Store development and operations create flows of financial resources that, if thoughtfully directed, can create meaningful opportunities to build wealth through ownership and participation.

Direct mechanisms:

Ownership

Real Estate

- Pathways to building equity stake and/or **community ownership of land and/or property** (e.g., regular rent payments to residents; residents own shares of property)

Business Operations

- Pathways to **community ownership of business** (or portion of business)
- **Profit-sharing and stock offerings** to grocery workers

Participation

Capital Development & Maintenance

- **Hiring local firms and/or workers** to support property construction and/or maintenance
- Sourcing equipment and/or materials from **community businesses**

Labor

- Paying **living wages and offering benefits** to workers
- Dignified working conditions

Product Vendors

- Intentionally selling and prioritizing products from **locally-owned businesses**

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There are formal structures and mechanisms that enable community members to participate in real estate and operational ownership.

Priority	Details	Local Example
Worker Cooperative	A business **owned and controlled by its employees,** who share in both the decision-making and the profits of the business.	**Chi Fresh Kitchens:** Local, Black-owned food service contractor. Every worker can choose to share in business governance and profits.
Community Investment Vehicle (CIV)	Communities leverage CIV models **to raise the necessary capital to acquire and control key assets in their community that impact their quality of life**, such as blighted or foreclosed commercial properties.	**We The People CIV South Shore:** Formed by South Shore residents who are also business and property owners in the neighborhood to ensure local residents have a voice in redevelopment projects.
Employee Stock Ownership/Purchase Plans (ESOP/ESPP)	Company-run program where employees **can purchase company stock directly** at a discounted price.	**Publix:** Largest employee-owned company in the country. Over 90% of employees own stock. Publix has a voluntary turnover rate of just 5% (compared to 65% across the industry.)

Source: Community Wealth Building Report, Office of Equity and Racial Justice, City of Chicago (2023).

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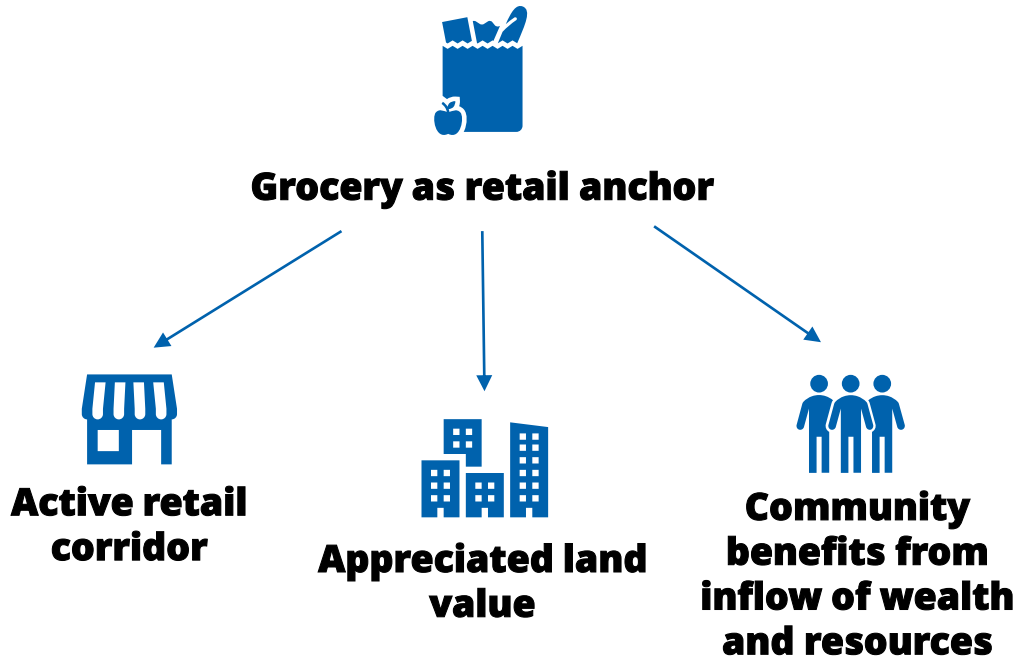
Grocery sustainability can also build community wealth through its continued success, creating spinoff benefits that reach community members living in proximity.

Retail success begets retail success.

Successful local businesses catalyze retail development in the surrounding neighborhood through property value growth, growing interest from real estate developers, and a healthier, safer, more vibrant environment for the community.



The City should monitor neighborhood dynamics near grocery investments and actively ensure that the project builds local wealth and does not contribute to or accelerate gentrification. This could include a series of provisions from developing agreements with operators to reinvest profits back into the store, requiring a degree of local or disadvantaged business participation on other adjacent city-controlled land, or advancing a range of residential and commercial anti-displacement measures that protect residents and vendors.

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While the cooperative model builds community wealth building into everyday operations, each operator type can partner to advance community wealth building goals.

Criterion	For-Profit Operator	Cooperative Operator	Non-profit Operator	City Operator
Community Wealth Building Capacity	• For-profits can create structures in which employees **hold stock or participate in profit-sharing.** • Could potentially lease space in a **community-owned building or on community-owned land.** • Can intentionally source products or services from **local vendors or MWBE.**	• Employees and members share in the success of the store. • Employee ownership models are **more likely to ensure that community members operating the co-operative have stable incomes**. • Can intentionally source products or services from **local vendors or MWBE.**	• Community wealth building is **generally aligned with the mission** of most non-profit grocers. • Could potentially lease space in a **community-owned building or on community-owned land.** • Can intentionally source products or services from **local vendors or MWBE.**	• The City could **establish a partnership with community members, vendors, and regular patrons** that connects them to the store's success. • Use of city-controlled land and property **creates opportunities to include the community in wealth** built from real estate ownership, similar to the Home Depot in Chatham, when citizens own the land and participate in a ground lease.

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Given grocery's smaller profit margins, the potential to directly connect profits to community wealth is likely limited. However, there are still opportunities for local businesses to participate in project development and operations to direct investments towards community efforts.

Reality of Grocery: Even some of the most successful grocers operate on sub-5% profit margins, suggesting that there may not be a significant amount of wealth left over to share with community members. Using city-owned land, there **may be an opportunity to partner with community investment vehicles to offer a stake of the land or building to community members,** but the City should consider how that initiative would line up with potential rent subsidy or rebates (i.e., if the City chooses collect discounted rent, that limits what's left for the community to collect.)

Grocery Development & Operation: In the flow of resources in supporting grocery development and operations, there are several opportunities to **encourage locally-owned business participation**. From M/WBE construction firms participating in capital development to local companies selling their goods in the store, the City can either **require or incentivize** inclusion of local or disadvantages enterprises.

Community Investment: The success of one retail operation **can have a catalytic effect**. Its success signals to other potential retailers that they can experience commercial success in that location and benefit from existing foot traffic and visibility. More **active retail corridors create value** for residential and commercial property owners, prompting additional investments in community development and infrastructure.

However, its also critical that the City is aware of how **such conditions could drive gentrification**, creating economic conditions that increase rents and other costs for existing residents or business owners. The City should monitor investments and revitalization efforts in neighborhoods that it could choose for a grocery location and respond with policies that **protect current residents and businesses and facilitate how they can participate in community growth.**

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The City should consider which viable community-building pathways are most appropriate for a municipally-owned grocery initiative.

Decision Points

Who will be responsible for facilitating the community engagement process (the City, the operator, an external partner)?

What policies should the City consider and implement to mitigate potential gentrification in neighborhoods hosting a municipal store?

What mechanisms of community wealth building should the City and/or operator pursue?

Operational Considerations

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Several factors (listed below) greatly contribute to the success of a grocery operation. The City should leverage insights and best practices to ensure its stores operate to their maximum potential.

- Physical location and context
- Supply chain, sourcing, and inventory management
- Zoning & land use
- Tech & point of sale systems
- Store size and layout
- Staff recruitment, attraction, retention
- Market positioning, marketing, and promotion
- Permitting, approvals, and standards
- Products & services
- Risks & liabilities

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The physical and geographic context of any grocery store is vital to ensure successful operations, but also to empower and enliven the community to take ownership of the space.

Opportunities

Community orientation

- Central and visible neighborhood location
- Facilitates community pride, wealth, and ownership
- Potential to re-use existing buildings or space meaningful to local residents

Proximity

- Mixed-use development, close to residents and workers
- Co-locate with other community uses (i.e., recreation center, school, library, etc.)
- Partner with other mission-aligned projects (e.g., Sankofa Wellness Village)

Accessibility

- Transit-orientation
- Sufficient transportation infrastructure (e.g., nearby bus stops, parking, etc.)
- Walkable and pedestrian friendly location

Sustainability

- City-owned real estate can present favorable conditions for grocery operator

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Intentional efforts to position grocery stores within mixed-use community hubs have helped anchor a concentration of services and amenities critical for residents.

Pullman Park, Chicago

- **180-acre mixed-use development** including a **community center,** Walmart w/ full-service grocery, food hall, **retail**, health care and commercial spaces **creating >1,500 jobs**
- Location off I-94, close to Harborside Golf Center, and Pullman historical monuments provide **great visibility**
- **47% MWBE** representation in development

Nubian Markets, Boston

- Located on ground floor of an **affordable housing development near Bartlett Station on MBTA**
- Along with the café, butcher, grocery store, and catering services, installed a **community space to meet needs expressed by residents**.
- Features products by **local- and Black-owned businesses** to build community wealth

Sources: LISC, CNI Group, ICI Builds, Chicago Magazine; BMC, Health City

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Grocery can kickstart neighborhood revitalization, but it can also add energy to ongoing revitalization. Site considerations and local context will inform whether grocery is in a position to succeed in that environment.

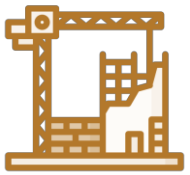
Grocery supporting ongoing revitalization

Opportunities

- Grocery benefits from existing energy and user foot traffic
- Advances revitalization effort, providing critical service and anchor to ongoing growth

Considerations

- Must understand current local competition and/or other grocery stores in the pipeline to understand how it will compete
- Grocer should consider effects of gentrification and how store can continue to affordably serve longstanding residents



Grocery as a first mover

- Can jumpstart revitalization—providing a critical anchor and proving that retail works in that area, potentially attracting other concepts
- If part of a broader development, can leverage energy from other uses
- Place near existing service/ community hubs for visibility

- Will require additional marketing and education to attract people and change from historical/behavioral grocery choices
- Must fit within existing user base providing goods and services current residents need
- May need additional time to stabilize

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Nowadays, urban customers are increasingly seeking out the products and price points they want across multiple stores instead of doing all their shopping at just one location. Stores with smaller footprints may be able to benefit from this trend and capture a share of this targeted demand.

Benefits for Operators

- Efficiencies and lower costs (overhead, rent, inventory, and fewer employees)
- Flexibility to offer products catered to target audiences
- Conducive to online shopping or click and collect services

Benefits for Customers

- Quicker shopping experience (particularly appealing to younger customers)
- More approachable design and scale
- More curated and specialized offerings available

Sources: Forbes, Cayuga, Grocery Dive

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To distinguish themselves from other stores and attract consumers, new grocers need to establish a competitive advantage that can interrupt consumer habits. Grocers should be aware of and address the community's wants and needs as they form their market position.

Sample Distinguishing Factors

Products

- Offering locally crafted products to support small businesses
- Selling organic and free-range products
- Providing distinct services like a butcher, ready-made dinners, sandwiches-to-go, etc.

Amenities

- Having a café serving coffee, tea, and pastries
- Offering other services like banking or childcare
- Providing a community space available for public use

Convenience

- Being in a convenient location for people stop by on their way home from work
- One-stop shop for people doing their weekly shopping
- Offering recipes, ingredients, and classes for shoppers on how to prepare dishes

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Strong marketing, both during the launch of the grocery store and continuing throughout operations, is critical to communicating that market position and informing the community about available products and services.

Media

- Email newsletters and social media can be primary outreach mechanisms
- Website is critical front door for many potential customers
- Less need for big print/media ads, however newspaper ads can be a low-cost alternative to reach certain demographics

Face-to-Face

- Knocking on doors in the community and in-person marketing can be effective, particularly when the grocery store is launching
- Direct outreach to mission-aligned community organization can activate critical support base

Messaging

- Marketing should align with the established market positioning to ensure it considers community needs and the customer base

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The store's success in attracting community members is largely dependent on its ability to balance affordably-priced goods that people want with adequate markup to generate profit margin.

Sell Inventory with Larger Profit Margins

Prepared foods, meats, seafood, and fresh produce have **higher product markups that generate larger profit margins**. The shorter shelf life of these products also requires they be sold quicker than dry or canned goods. Selling a **balanced mix and volume of higher margin items** can improve profitability.

Markup Goods but Preserve Affordability

While prepared foods and other higher-margin goods are beneficial for profit, these items and all other **inventory must be priced appropriately to align with community needs and resources**. If goods are marked up too high, customers may experience **"sticker shock"** and limit their purchases, negatively impacting sales and operating margins overall.

Source Local, Sell Local

Special pricing for locally sourced goods and products made by minority/women-owned businesses can **stimulate the local food economy, build community wealth**, and creates a **strong case to attract customers.** Trends indicate that customers are willing to pay more for local goods with a compelling story.

Sources: Flickr, Interviews with Mike Mallon, Liz Abunaw, Vickie Lakes-Battle, and Sana Syed

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Tapping into the City and region's existing agriculture and consumer good supply chains creates opportunities for community wealth building and cost savings but can also come with higher price tag for customers.

Local is Powerful!

The Chicagoland region is a hub for food, rich with a diversity of growers and suppliers who can bring special products to market. These goods help **cultivate unique shopping experiences** that can distinguish a store from conventional grocery retailers. **Committing to sourcing local** where possible **strengthens community ties and promotes local businesses**. Meanwhile, technology has made it easier to identify new products and connect with local suppliers.

Opportunities for Cost Savings & Improved Quality

Due to their proximity, **transportation costs for locally sourced goods can be lower**, helping to lower inventory costs. Additionally, **obtaining quality fresh produce is more attainable** when collaborating with local growers.

Local Sourcing Caveats

It can be **challenging to consistently source from smaller local brands** who may not be able to produce their items with the same frequency or volume to keep up with store demand and may not be able to afford slotting fees for shelf spaces. It is also **unclear what the optimal role for the City is** in promoting local sources.

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Investing in a strong Point of Sale (POS) System ensures a seamless checkout experience and improves the efficiency of inventory management.

POS Hardware

Complete POS hardware systems include barcode scanners, cash drawers, receipt printers, card readers, and displays for employees and customers.

Hardware is a one-time purchase that is customized to vendor needs. **Complete hardware solutions can cost between $450-$1700+ per register, depending on the provider and register features.**

POS Software

Operators pay a monthly subscription fee for POS software. **Subscriptions for basic software start around $20/month while more advanced platforms cost upwards of $120+/month.**

POS software suites come with a range of capabilities to process different payments*, manage inventory, create customer rewards, and track employee time, amongst other functions.

Wireless hardware options and cloud-based software are popular across leading POS providers. In most cases, POS providers have integrated hardware and software solutions.

*Typical transaction processing fees range from 2.49-2.6%, with manual entry sales carrying a 3.5% fee. Operators also pay 10¢ per EBT or WIC transaction, with some POS providers offering unlimited EBT and WIC transactions for a monthly flat fee.

Sources: National Retail Solutions, Square for Retail, Clover, Lightspeed, Comcash, IT Retail

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Store integration of public benefit programs ensures residents with the greatest need for food access can shop with ease.

SNAP/LINK

The Food and Nutrition Service (FNS) within the USDA issues permits to qualified stores to accept SNAP benefits. Eligible retailers *must meet 1 of 2 requirements*:

- **Criterion A:** Have a minimum of 36 staple food items (produce, dairy, meat/fish, bread/cereal)
- **Criterion B:** Have staple food inventory equal to 50% or more of total gross sales
- *If neither criteria are met*, a "Need for Access" designation can be applied for if located in an area with significantly limited access to food

WIC/eWIC

The Illinois Department of Health Services (DHS) oversees WIC vendor authorization. Authorization usually takes 4-5 months upon application submission. The process includes:

- Verifying inventory on the **Approved Food List** and **Authorized Formula Supplier List**
- Completing an initial training
- Passing a site visit
- Completing **eWIC certification**
  - Integrated POS systems require an additional Certification Visit by DHS

LINK Match

Launched by the Experimental Station, Link Match doubles the value of SNAP purchases at farmers markets, co-ops, and independent grocery stores for fresh produce. Grant recipients are required to:

- Spend a ***minimum* of 80%** of funds on Link Match voucher reimbursements
- Spend a ***maximum* of 20%** of funds on program implementation

Currently, 15 grocery stores provide Link Match between $5-$25 for fresh produce.

Sources: Experimental Station, Illinois Department of Health Services, Food and Nutrition Service

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Through adequate pay, benefits, and opportunities for upward growth, the City has established strong baseline terms for worker pay and benefits.

Relevant Worker Regulations

City of Chicago Paid Leave and Paid Sick Leave

- Chicago-based employees are entitled to 40 hours of paid sick leave and 40 hours of paid leave (for any reason) each year if they worked 80 hours for the employer within any 120-day period within the geographical boundaries of the City.

City of Chicago Minimum Wage Ordinance

- Minimum wage for operations with at least 21 employees is $15.80 an hour.
- For operations with 4 to 20 employees, minimum wage is $15 an hour (or $9 for tipped employees).

Illinois Day and Temporary Labor Services Act

- Day and temporary workers assigned to third-party clients for over 90 calendar days in any 12-month period must now be paid at least as much as the lowest paid directly hired comparator employee.
- Both the day and temporary labor service agency and the third-party client must provide training specific to the temporary laborer's job site.

Sources: Shriver Center on Poverty Law

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While the City has made considerable progress in ensuring safe, dignified working conditions, these protections increase operational costs in an already struggling grocery labor landscape.

Labor Shortages & Productivity

- Majority of grocers have continued to face **labor shortages**, with 68% rating labor availability as "difficult" or "very difficult," while the demand for digital orders steadily increased by 7% in 2023.
- Grocery workforce has experienced an overall 3% **decrease in productivity**.
- Criticism for **ending "appreciation"/hazard pay** for workers post-COVID.

Skills & Technology

- Grocery workers believe in the potential of technology, but **do not always have the right tools to execute effectively** due to limited testing, poor connectivity/infrastructure, lack of associate input, and poor training.
- There is a **growing generational tech gap** among grocery workers.

> "When you have private equity on the board, or owning the company, it's primarily about trimming costs, reducing overhead and trying to drive profitability even if the company isn't growing. **It's the opposite of [building] an enriching career path."**
>
> - Errol Schweizer, former Vice President of Grocery at Whole Foods Market

Sources: Grocery Doppio Report (2023), Grocery Dive (2022)

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In pursuing a municipal grocery option, the City can partner with an operator to create good jobs, offer the training workers need, and build meaningful pathways for career advancement.

Opportunities

Career Pathways

Drawing from and partnering with industry leaders, the City could launch a **grocery incubator program** to create meaningful pathways for career growth in grocery. This would leverage existing talent who have experience working in stores and formalizing career development opportunities so that workers can take advantage of quality jobs in the industry.

Training Curriculum

Similarly, the City can work with existing providers to develop a **standardized training curriculum** for grocery workers. This would ensure that new employees have a good foundation to build upon and are more likely to effectively contribute to store operations and develop in their role.

Wi-Fi & Connectivity

The City can ensure that all municipal grocery locations are equipped with **publicly accessible high-speed broadband service**. Not only would this help operate technology in-store but could also have the added benefit of attracting people who need reliable internet.

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As grocery stores prepare, serve, and sell time-perishable food, a Retail Food Establishment License is required to operate in the City of Chicago.

Application

The License requires an application fee based on square footage as well as the following documentation:

- Business name & address
- Sq. footage
- Lease or proof of ownership
- Illinois Business Tax Number
- Federal Employers Identification (FEIN) number,
- Ownership information
- Photo I.D

Zoning

The required zoning classification is "retail food service." It is permitted by right in all business and commercial zoning districts. Parking minimums are:

- *Neighborhood (M):* none for first 4,000 gross SF then 2.5 spaces per 1,000 SF
- *Downtown:* 1 space per 1,000 square feet in DC; 2.5 per 1,000 square feet in DX

**Additional requirements necessary if liquor will be sold.*

Certificates

It is required to always have at least one employed person on the premises who has a valid City of Chicago Food Service Sanitation Certificate, which covers:

- Basic food science background
- Information on the proper handling of food
- Maintaining a sanitary food establishment

Inspections

A public health facility is required prior to opening, which focuses on:

- Food handling practices
- Product temperature,
- Personal hygiene
- Facility maintenance
- Pest control

Recurring "Restaurant Inspections" are required from the Department of Buildings at the time of renewal and will be billed based on square footage.

Sources: City of Chicago, Code Library

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After the grocery store has obtained their Retail Food Establishment License, there are a number of food health and safety requirements the store must comply with to stay up to code.

Health Inspections

- **Business License Health Inspections** – for new establishments or transferred ownership
- **Routine Health Inspections** – frequency determined by level of risk
- **Complaint-Based Health Inspections** – unannounced inspections 14

Health Code Violations

- **Priority Violations** – immediate health hazards with a high-risk of causing food-borne illness
- **Priority Foundation Violations** – potential health hazard if not corrected in the timeframe specified by the health inspector
- **Core Violations** – not an immediate threat to the public's health

Foodborne Illness Risk Factors & Interventions

- Since July 2018, the Chicago Department of Public Health uses a checklist to illustrate foodborne illness risk factors, public health interventions, and good retail practices

Best Practices

- Safe food and water
- Adequate food temperature control
- Properly labeled food
- Proper use of clean food utensils
- Adequate physical facilities (i.e., plumbing, ventilation, lighting, bathrooms, etc.)
- Sufficient employee training
- Compliance with City of Chicago Ordinance

Source: City of Chicago

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The nature of the relationship between the City and the operator will determine who will bear other liabilities inherent within grocery operation.

Overall Liability

Liability	Foodborne Illness	Property Damage	Worker's Compensation
Risk-Bearing Party	Operator	Land and building owner	Employer
Implications for the City	Unless the City chooses to operate the store or handle the inventory, this risk will remain on the operator.	Should the City choose to own the building and/or land, they carry the risk for any property damage, unless otherwise agreed to.	As long as the City does not directly employ the grocery workers, it will not be directly responsible for worker's compensation claims.

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There are numerous operational risks that could inhibit store feasibility. The City should proactively consider how it can mitigate those risks.

Operations

Risks	Recommendations for a Municipally-Owned Grocery Program
Choosing isolated, inaccessible sites will likely inhibit network success.	The City should conduct a **comprehensive site selection analysis** weighing how site location from factors such as transit accessibility, adjacency to other services and uses, market dynamics, neighborhood context, local demographics, among other considerations.
Larger grocery stores present daunting operational challenges.	With smaller stores increasingly aligned with broader trends, the City should investigate **store layouts with smaller footprints.**
The public may not know the store has opened or what products and services it offers.	• The City should empower and support local operators to **conduct community engagement** to understand competitive positioning in the local community. • The City should empower and support operators to deliver **marketing messages aligned with the store and network market positioning**, conveying how offerings respond to community wants and needs. • The City should consider how it can incentivize operators to **feature local products** that can entice residents and customers. • The City should consider **co-locating with other retail/commercial uses** (e.g., coffee shops, restaurants, banks, pharmacies), to enhance customer attraction.

There are numerous operational risks that could inhibit store feasibility. The City should proactively consider how it can mitigate those risks.

Operations (continued)

Risks	Recommendations for a Municipally-Owned Grocery Program
If low-income residents cannot use public benefits, they'll be less likely to shop at a store.	The City should work closely with an operator to ensure that all stores are equipped to **accept benefits from public programs** (e.g, SNAP, WIC, LINK Match).
Poor inventory management technology and staff training contribute to "shrink" through operational errors.	• The City should ensure that operators have **appropriate software** to efficiently manage inventory. • Stores should provide **reliable high-speed internet** to enable store technology, and as a point of attraction for residents and customers and cultivate a community hub.

* "Shrink" is the loss of potential profit through lost or compromised product inventory. This is often the result of mislabeled goods, poor merchandising or ordering, theft, or administrative errors.

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There are numerous operational risks that could inhibit store feasibility. The City should proactively consider how it can mitigate those risks.

Operations (continued)

Risks	Recommendations for a Municipally-Owned Grocery Program
Grocery leadership & staff can turnover quickly.	• The City should ensure that grocers offer **sufficient wages, benefits, and incentives** to grocery workers (including possible profit-sharing opportunities), while balancing need to limit costs. • The City should develop a partnership to establish a **training curriculum** for new grocery staff, tailored to specific operations and technology.
Grocery operations can face significant liabilities.	• The City should ensure that operators can easily secure **critical permits and approvals** to ensure they comply with legal requirements • The City should work with its chosen operator to **understand the risks and liabilities** it is willing to bear.

* "Shrink" is the loss of potential profit through lost or compromised product inventory. This is often the result of mislabeled goods, poor merchandising or ordering, theft, or administrative errors.

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The City must reflect on its preferred role and available resources to support grocery operations.

Decision Points

Conclusion

HR&A finds that a municipal-grocery model is necessary, feasible, and implementable.

Necessary

Over the last few years, several for-profit grocers across Chicago have closed, primarily in South and West Side neighborhoods, citing poor sales and increasing costs. Decades of structural racism, segregation, and disinvestment have led to diminished resident density, disposable income, and community infrastructure in neighborhoods already experience high levels of food insecurity, making it difficult to sustain grocery operations and attract new retailers to the neighborhood. Grocers are typically unwilling to take the market risk that these neighborhoods present. **In the absence of private sector action or commitment to provide sustainable grocery options, it is necessary for the City to play a role in creating and sustaining grocery services in neighborhoods that lack grocery access.**

Feasible

In this study, we explore illustrative grocery scenarios using revenue and cost assumptions sourced from industry experts and resources to inform our calculations. While our financial analysis does not evaluate specific store formats, footprints, products, or service offerings in particular locations across the City, it does draw from industry averages and rules of thumb to provide insights about overall grocery feasibility. **Our analysis suggests that there is potential for the City to lead a feasible grocery model that earns operating profit in neighborhoods that lack food access. While the City's optimal role may not be in serving as a store operator, it can play an effective role as a partner that can provide space, resources, and/or programming to support store operations.**

Implementable

As a partner, there are several actions the City can take to de-risk grocery for potential operating partners. The City can help secure capital financing, provide operating support, develop partnerships, facilitate training and workforce development, and convene grocery experts and leaders, among other supports that can insulate operators from market risk and contribute to lasting, sustainable services for residents that lack food access.

For the City to more fully understand the viability of a municipal grocery model, it must deepen its analysis to consider grocery feasibility under more specific conditions.

Site Selection & Community Analysis

To fully project how a proposed store may perform requires an understanding of its specific location and the community it serves. The physical location of a store and the community it resides in informs spending potential, product preferences, corridor activity, foot traffic, and other conditions that can help grocery thrive. For the City to better understand what future store performance looks like, it needs to investigate different site opportunities such as, but not limited to:

- City-owned land and/or buildings
- Proposed development projects
- Existing community hubs

Community Engagement

To understand which sites may be most advantageous, which products and services are most sought after by residents, or even what may be affordable for residents, the City should conduct some community engagement in priority neighborhoods with low food access across Chicago to understand resident wants and needs.

Explore Convening, Partnership Opportunities, & Initial Business Planning

The City has already convened leaders in the food industry to inform its Food Equity Agenda and has relationships with grocers from across Chicago. The City should leverage these relationships to convene experts who can provide guidance on how to successfully implement this model. This could include establishing a formal Advisory Council of successful grocery leaders to provide insights, best practices, and resources to City leadership. The members of this council can also be potential partners in developing programs (such as an operator training program) and providing support to help implement the municipal grocery model and accomplish the City's objectives.