



Answers to Everyone’s Frequently Asked Questions about the Development of Three Rivers Market

by Jacqueline Arthur, General Manager

UPDATE ON THE 1100 N CENTRAL STREET PROJECT

- 1. 1100 N CENTRAL STREET HAS BEEN ACQUIRED FOR THE NEW STORE.** We closed on our preferred site December 29th. The property was purchased for \$525,000, the appraised value. Thank you CapitalMark Bank and Trust, the beautiful bank in the beautiful old Post Office on Main Street in downtown Knoxville, for financing the purchase!
- 2. CITY OF KNOXVILLE BUSINESS EXPANSION LOAN.** The City of Knoxville is providing a \$400,000 loan for our expansion project through their Business Expansion Loan Program. Thank you City of Knoxville!
- 3. COOPERATIVE LOAN PROGRAM.** Member-owners of Three Rives Market who are residents of Tennessee will have the opportunity to make loans to their co-op. Anyone can become a member-owner with the purchase of one \$25 share. Approximately 30% of the project financing needs to come from the cooperative’s owners through the store’s cash reserves and loans from member-owners. This program will allow us to pay individual community some of the interest on the project financing. Because we are incorporated in MN, a Small Company Offering Registration (SCOR) must be filed with the State of Tennessee. Ron McFall, one of our attorneys, is assisting us with that filing based on the following, which is not final and subject to change:

Amount of loan: may be for any amount greater than or equal to \$1,000.

Interest rate: for loans less than \$10,000 the interest rate may be selected by the member-lender up to a maximum of 4% per annum simple interest accrued annually and paid at maturity. Interest rate for loans of \$10,000 and more will be at a negotiated interest rate not to exceed 5% per annum simple interest accrued annually and paid at maturity.

Term: 5, 6, 7, 8, 9 or 10 years duration selected by the member-lender within the following constraints, the purpose of which is to avoid uneven cash requirements for loan repayment:

Term	Maximum total
5 years	\$125,000
6 years or less	\$150,000
7 years or less	\$225,000
8 years or less	\$225,000
9 years or less	\$150,000
10 years or less	\$125,000

Quotas by Term are subscribed first-come, first-served. If a quota has been reached for the Term requested, the lender will be asked to accept the next available Term for which the quota is not exceeded.

Interest is simple (not compounded) and is calculated and paid when the principal amount of the applicable Note is due and payable. Loans are unsecured and subordinate to all other claims. These are modest returns. It is presumed that the social benefit of the investment rather than financial return is the motivating factor for lending.

FAQ

Why Is Three Rivers Market relocating?

To provide more goods and services to our member-owners, customers and community, operate more efficiently, enhance the shopping environment, improve working conditions for our employees, enhance our environmental and socially-responsible practices, and stay competitive, Three Rivers Market is expanding its business through the purchase and development of 1100 N Central Street, Knoxville, TN 37917 and relocation its operations on Broadway.

Plans for the new site include demolition of one of two existing buildings and construction of a 3,500-4,000 square foot addition to the remaining 6,000 square foot building, resulting in a 9,500-10,000 square foot facility. The expansion will triple the sales area, allowing for a complete array of perishable, customer service, and specialty departments such as a meat/seafood department, a service deli, a small café seating area, and a prepared foods section, as well as a broadened merchandise selection and assortment.

KEY ASSUMPTIONS	Current	New Store
Total Square Feet	6,221	9,500 - 10,000
Retail Square Feet	2,000	6,500 - 7,000
Off Street Parking	4 spaces	45 - 50 spaces
Staffing	25	55

Here is some of what we are planning to include:

Expanded Department and Services:

- A first-rate produce department featuring local, organic and naturally-grown produce
- Dairy and perishables, particularly cheeses
- A wellness department well stocked with body care essentials and supplements and herbal and alternative remedies
- Grocery and dry goods for everyone's pantry
- Great selection of fresh, local baked goods
- Organic gardening supplies, seeds, and plants
- Additional check out lanes.
- Food preparation tools and gadgets

New Departments and Services:

- A café, including a food bar with salads, hot foods and soups, made to order hot and cold sandwiches and deli entrees for convenience and grab-n-go.
- Deeply discounted truckload sales
- Enhanced accessibility including adequate parking and handicap access throughout the facilities.
- A cheese counter with cut cheese varieties.
- Fresh meat and seafood and a sushi bar.
- Fill-your own water dispenser, ideally a reverse osmosis system.
- Front entry with automatic doors and cart storage.

- Environmentally-sound floral products
- A Member & Customer Service Counter to take care of your needs, including community services such as ticket sales.

How Can We Help Make This Happen?

1. SHOP AT THREE RIVERS MARKET. Every purchase you make at the co-op instead of at another store makes a real difference!
2. MAKE A LOAN TO YOUR CO-OP. See summary above.
3. STAY INFORMED. New opportunities to help will emerge.

What will the store look like?

This has not been finalized but it will adhere to the Design Guidelines for Downtown North.

We have been talking about this forever. What is taking so long!?

It hasn't been financially feasible. See "Can we afford it?" below.

Can we afford it?

Asking if we can afford it is kind of like asking "is it fattening?" It depends. Under the old structure, as the Knoxville Community Food Co-op (KCFC), we couldn't afford to do much of anything. For one thing, the old co-op was chronically undercapitalized. Members paid annual dues which meant no Member equity was being raised. Member equity must form the base of an expansion project, ongoing store operations, and the long-term sustainability of the cooperative. To get there, we transformed the KCFC into Three Rivers Market (TRM) in 2005 to create a strong and viable cooperatively-owned business to better serve our community. As of June 30, 2009 we have completed four fiscal years as Three Rivers Market. This has allowed, for the first time, the creation of what we believe to be a feasible financial pro forma for an expansion project that proved impossible for KCFC to accomplish. Three Rivers Market sales are the strongest in the 28+ year history of the co-op. Our last four years have been the most profitable ever. We expect better opportunities will follow.

The table below shows a couple of the dramatic financial changes since the transformation to Three Rivers Market on April 1, 2005:

	March 31, 2005 as KCFC	Sept 30, 2009 as TRM	% growth
CASH	\$22,402	\$371,202	1,557%
EQUITY	\$99,850	\$497,169	398%
<i>Member-Owner equity</i>	<i>\$0</i>	<i>\$136,200</i>	<i>off the charts!</i>

In a little more than four years, our cash increased 1,557% (yes, one thousand five hundred and fifty-seven percent) and our Equity increase 398%. Individual contributions went from \$0 from the KCFC membership (which was paying annual dues instead) to \$136,200 from the Three Rivers Market membership (which purchases membership interests or "shares"). Member-owner investment, along with enhanced purchasing power and training through our alliances with other food co-ops in the National Cooperative Grocers Association, a Board of Directors focused on effective governance, and an excellent, dedicated staff working everyday to implement Best Practices and strengthen operations have all led us to the revival of our co-op.

What is a “pro forma”?

A pro forma in this situation is a tool used to analyze a project’s financial feasibility. It consists of a “Sources and Uses Budget” that balances the sources of financing and with the uses of the funds. It also includes 10 years of financial projections based on at least three years of historical operating data, and a debt schedule.

How much is this going to cost?

Current estimates:

Real Estate Purchase	\$525,000
<i>Site Work</i>	<i>\$90,000</i>
<i>Demolition and Build-out</i>	<i>\$850,000</i>
<i>Contingency</i>	<i>\$200,000</i>
Total Site Development/Build-out	\$1,140,000
Equipment	\$600,000
Fees: Various	\$100,000
Additional Inventory	\$135,000
Total	\$2,500,000

These will be big changes for our co-op. Who is helping us figure everything out?

In addition to our management team, key personnel have been assembled to research all aspects of the project including financial assumptions, market data and location analysis and to assist with the planning and implementation of this project.

- **C.E. Pugh**, National Development Director of the **National Cooperative Grocers Association Development Cooperative** (NCGADC), is advising and assisting Three Rivers Market throughout the life of the project and the first two years of operations. The NCGADC was developed for the purpose of providing targeted development services to strengthen the operations of food co-ops, help them expand, and to support the development of new co-op stores. C.E. has worked in food retailing for over 33 years. He has extensive experience in all aspects of retail food operations and new store development, including direct oversight for over 20 store expansions and new store development projects in both conventional and natural food cooperative retailing. These include 8 acquisitions, 7 existing building build outs, 4 new constructions, and 4 store expansion. C.E. is based in Iowa City, IA.
- **Pete Davis**, consultant with **Cooperative Development Services**, has over 40 years of experience and expertise in retail market research, site analysis, location research and strategy planning. Having been a retail consultant since 1977, consulting in almost all aspects of the retail environment, his specialty for the past 20+ years has been in the field of natural, specialty and co-operative food store location research, site analysis and expansion strategy. Pete did the first Market Study for the co-op in 2003 and completed an update in May 2008.
- **J.A. Street and Associates**, a General Contracting firm based in Blountville, TN, has been selected to develop the site and facility. JA Street is a service-oriented, design/build company, with special emphasis on a team approach between the owner, design firm, general contractor and subcontractors. Providing the best possible value-efficient product for clients, with their needs and requirements in mind, is the foundation of their operating philosophy. They specialize in the construction of grocery stores.
- **Studio Four Design**, an award-winning firm comprised of architects, interior designers, graphic designers, planners and project management experts with 30+ years experience in East Tennessee’s design and

construction industry, has been selected by Three Rivers Market and JA Street and Associates to provide architectural services.

- **P.J. Hoffman**, consultant with **Cooperative Development Services** and head of the Store Development Services department of **United Natural Foods**, will be designing the store layout, fixture plans, merchandising plans, and store equipment specifications.
- **Jennifer Montgomery**, a real estate agent with **Coldwell Banker Wallace & Wallace, REALTORS®**. Jennifer is a member-owner of Three Rivers Market and has a special interest in the historic neighborhoods surrounding Three Rivers Market. She holds a B.A. in Anthropology with emphasis on Historic Archaeology, a B.A. in Urban Studies, and a M.S. in Urban and Regional Planning. She has assisted us in locating and securing a site under the guidance of **Jim Staley**, a commercial real estate agent also with **Coldwell Banker Wallace & Wallace, REALTORS®** with
- **Robin Easter Group** continues to create a new look for Three Rivers Market. This work is being carried through the current store's signage, educational and outreach materials, and incidentals such as employee aprons, member-owner cards, and Three Rivers Market merchandise. Robin and her team will also work on the design of the new store, advising us on color choices and creating new features as needed.
- **Joel Dahlsen** is Three Rivers Market's attorney and agent in Minnesota (MN). Joel specializes in advising cooperatives. He assisted in the establishment of Three Rivers Market, most recently providing advice on the development of member-owner equity and loan options under federal, MN, and TN law. Joel is with the Minneapolis, MN office of Stoel Rives LLP.
- **Ronald McFall** is the attorney working with Three Rivers Market to develop a member-owner loan program as a registered offering in TN. Ron specializes in federal and state securities law compliance. He is also with the Minneapolis, MN office of Stoel Rives LLP.
- **John Winemiller** is an attorney who has also been assisting Three Rivers Market in researching TN securities law. He is with the Knoxville office of Merchant and Gould P.C.
- **Bruce Mayer**, with **Wegner LLP CPAs and Consultants**, is Three Rivers Market's accountant. Bruce specializes in providing cooperatives tax return preparation and advisory services including financial and compliance auditing, establishing and improving internal control systems, and tax and financial planning. In addition to being a Certified Public Accountant, he has a MBA and is a Certified Financial Planner. Bruce is based in Madison, WI.

What about parking?

Regardless of your stance on transportation, adding more parking is one of the key improvements our grocery store needs. We have member-owners and customers coming here from well over 100 zip codes. Unlike our current grandfathered-in status, we will be required to supply a minimum of 5 off-street parking spots per 1000 square feet of building in most city zones. Our consultants as well as fellow food co-ops recommend more.

In addition to car parking, we will also be able to offer proper handicapped parking and expanded bike parking, along with a place for dogs to rest and get a drink of water while waiting for you to finish shopping (don't forget the dog treats!).

I love our little store! What will you do to keep it charming and easy to shop?

We hear this quite a bit. To borrow a well-worn phrase, we will do our best to be *big enough to meet your needs but small enough to meet your neighbors*. We will reference the good parts of the current store when making design decisions for the new store and ensure that it fits in with the neighborhood.

What will happen to the building we are in now?

Three Rivers Market owns the building the store is currently in. It will be used to help finance the expansion, first as collateral and once sold, to pay down debt.

Meanwhile, we are able to save money towards the new place each day we continue to operate at 937 N Broadway. If for no other reason, this should inspire us all to love it as much as we can while we are here.

What if I have more questions?

We get questions just about every day and we want all of our member-owners and customers to feel comfortable about the changes headed our way. You will be able to find updates on our website and feel free to contact me anytime at the store or by emailing j.arthur@threeriversmarket.coop