



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

- **1100 N CENTRAL STREET ACQUIRED FOR THE NEW STORE.** Our preferred site was acquired on December 29th, 2009. The property was purchased for \$525,000, the appraised value. 25% was paid in cash from our reserves and 75% was financed by CapitalMark Bank and Trust, a community bank located in the historic post office building on Main Avenue in downtown Knoxville, based in Chattanooga.
- **CAPITALMARK BANK AND TRUST CONSTRUCTION AND EQUIPMENT LOANS.** A \$1 million senior construction loan and a \$200,000 loan towards equipment have been provided by CapitalMark Bank and Trust.
- **CITY OF KNOXVILLE BUSINESS EXPANSION LOAN.** The City of Knoxville has loaned Three Rivers Market \$450,000 through their Business Expansion Loan Program (BELP). \$393,750 was used to pay off the real estate loan with CapitalMark. \$50,000 of this is under the Façade Grant program, an interest-free loan forgiven at a rate of 20% per year as long as we comply with the terms.
- **THREE RIVERS MARKET CASH.** Three Rivers Market is contributing \$315,000 to the project.
- **THREE RIVERS MARKET MEMBER LOANS.** Members of Three Rivers Market have loaned \$250,000 for their new store. Although we initially planned to raise \$500,000 from member loans, \$250,000 is the maximum raise allowed in a 12 month period in the state of Tennessee for this type of loan program. Loans can be made again by members who are residents of the state of Tennessee in July 2011. These will be used to pay down the gap loan (see below).
- **NORTHCOUNTRY COOPERATIVE DEVELOPMENT FUND (NCDF) LOAN.** NCDF is providing a loan to cover the \$250,000 gap until additional member loans can be raised, enabling the project to move forward.

FAQ & Answers

How many members does Three Rivers Market have?

We currently have over 2,650 members. Membership grows everyday!

Why is Three Rivers Market relocating?

To provide more goods and services to our members, 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 of 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 department, a service deli, indoor and outdoor café seating area, and a prepared foods section, as well as a broadened merchandise selection and assortment.

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
- 2 additional checkout lanes (4 total)
- Food preparation tools and gadgets

New Departments and Services:

- A café, including a food bar with nutritious salads, hot foods and soups, vegetarian/vegan specialties, sliced cheeses and meats, some baked goods, and an extensive selection of prepared foods. We will offer seating indoors, and outdoors on a dog-friendly patio along the south end of the store.
- Deeply discounted truckload sales and/or a buying club for members
- Enhanced accessibility including adequate parking and handicap access throughout the facilities
- Fresh meat, with a focus on organic and local products, and a sushi bar using only natural ingredients
- Fill-your own water dispenser, using a reverse osmosis system
- Front entry with automatic doors and cart storage
- Environmentally-sound locally-grown floral products.
- Store-based composting and water retention systems to sustain environmentally- sound landscaping. This will include use of native and edible plants.
- A Member & Customer Service Counter to take care of your needs

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

How can we help make this happen?

1. MAKE A MEMBER LOAN. THE MEMBER LOAN PROGRAM WILL RE-OPEN IN JULY 2011.
2. SHOP AT THREE RIVERS MARKET. *Every purchase you make at the co-op instead of at another store makes a real difference!*
3. STAY UP TO DATE WITH YOUR MEMBERSHIP INTERESTS AND BECOME FAIR SHARE AS SOON AS YOU CAN.
4. STAY INFORMED. *New opportunities to help will emerge.*

Will it be a “green” building?

Yes. Since both the development and our daily operations are environmentally-sound, we explored LEED certification under a new option for retail. We appear to easily have enough points for certification. However, the cost is of merely certifying the project is high (~\$30,000) and could endanger the overall financial sustainability of the project. We can look into LEED certification after we open if this is a priority for our membership.

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

It hasn't been financially feasible. See "Can we afford it?" below. Over the years, many scenarios for a larger store were considered, including leasing property. However, by purchasing property nearby and developing it ourselves we are ensuring the co-op's independence and sustainability in the long run. This type of project is much more complicated and time-consuming than simply leasing space somewhere. The Recession and overall condition of the U.S. economy negatively impacted the lending environment and further slowed down the process. On the positive side, we are benefiting from low interest rates so it all works out for the best.

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, 2010 we had completed five full fiscal years as Three Rivers Market. This has allowed, for the first time, the creation of a feasible financial pro forma for an expansion project that proved impossible for KCFC to accomplish. 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	March 31, 2010 as TRM	% growth
CASH	\$22,402	\$247,260	1004%
EQUITY	\$99,850	\$536,763	438%
Member Paid In Equity	\$0	\$152,850	off the charts!

Individual contributions went from \$0 from the KCFC membership (which was paying annual dues instead) to \$152,850 from the Three Rivers Market membership (which purchases membership interests). As of December 31, 2010, total member paid in equity was \$183,550. Member 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 historical operating data, cash flow projections, and a debt schedule.

How much is this going to cost?

USES	
Down Payment on Real Estate	\$131,250
Real Estate Loan	\$393,750
Total Real Estate	\$525,000
Construction	\$1,260,505
Equipment	\$557,850
Soft Costs	\$46,645
Inventory	\$75,000
Total Uses	\$2,465,000

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.
- **J.A. Street and Associates**, a local General Contracting firm based in Blountville, TN, is developing 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. They specialize in the construction of grocery stores and food storage facilities.
- **Studio Four Design (S4D)**, a local, award-winning firm with 30+ years experience in East Tennessee's design and construction industry, was selected by Three Rivers Market and JA Street and Associates to provide architectural services. **Greg Terry** with S4D designed our beautiful new building.
- **P.J. Hoffman**, consultant with **Cooperative Development Services** and head of the Store Development Services department of **United Natural Foods**, designed the store layout, fixture plans, and store equipment specifications.
- **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.
- **Joel Dahlsen** is Three Rivers Market's attorney 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 equity and loan options under federal, MN, and TN law. Formerly with Stoel Rives LLP, he now has a private practice.
- **Ronald McFall** is the attorney who worked with Three Rivers Market to develop a member loan program. Ron specializes in federal and state securities law compliance. He is with the Minneapolis, MN office of Stoel Rives LLP.
- **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.
- **Jennifer Montgomery**, a local real estate agent with **Coldwell Banker Wallace & Wallace, REALTORS®**. Jennifer is a member 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 local commercial real estate agent also with **Coldwell Banker Wallace & Wallace, REALTORS®** with

- **Robin Easter Group**, a local design firm, 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 cards, and Three Rivers Market merchandise.

What about parking?

Regardless of your stance on transportation, adding more parking is one of the key improvements our grocery store needs. We have members 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!). We are also planning to offer a bike fix-it station

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. Jim Staley and Jennifer Montgomery (see above) are handling the sale.

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.

When will the new store be open?

We were hoping for an opening date of April 1, 2011, the 30th birthday of the co-op. However, some of the costs came in higher than forecast and some work had to be done to keep the project within budget. Common sense pushed the opening date into the summer of 2011. We will post a timeline as soon as we can.

What if I have more questions?

We get questions just about every day and we want all of our members and customers to feel comfortable about the changes headed our way. Feel free to contact me anytime at the store or by emailing j.arthur@threeriversmarket.coop