

Building Proposal Guide

November 13, 2006

Hunger Mountain COOP

Dear Hunger Mountain Coop Member-Owner,

As you may know, there are many physical constraints at The Coop that affect worker safety, customer comfort, and operating costs. These same challenges have an effect on our ability to offer healthy, local food, promote ecologically sound goods and services, pay employees a livable wage, and provide community education.

Over the past nine months, the Coop Council worked closely with Coop staff, Member-Owners, and volunteer committees to develop a plan to address these issues. Our overall goals are to:

- Provide a healthy and efficient workplace
- Meet our customers' needs
- Serve the community better
- Improve the building's performance
- Shepherd The Coop's financial resources responsibly

Over the past nine months we've looked at options, received constant feedback, developed financial projections, and benefited from staff input while crafting this proposal.

We've looked at numerous options, asked you for feedback at each step of the way, developed detailed financial projections, and benefited from staff input across every department. One alternative was relocating, but upon review we ruled it out. We also analyzed opening a satellite location to take pressure off our store, but concluded the problems in our existing building should be taken care of first.

After careful consideration, the Council agreed with the recommendations from our Financial and Facility Committees. The best way to solve our current

challenges is to renovate and expand our facility. There is simply not enough space within the building to fix today's challenges and sustain a viable business into the future. The proposed changes are carefully balanced to do both, by providing the added income we need to pay for the improvements and keep up with other rising costs.

At a special meeting in September, the Council unanimously endorsed this proposal as a practical, affordable, and sustainable solution. It makes good use of our current site, allows us to greatly improve safety and efficiency, and creates a better overall environment for our customers and staff. The Council is confident this is a reasonable investment that will improve the long-term financial health and vitality of The Coop.

Now, the decision is yours. Our by-laws guarantee your voice is the final one in this process. Each Member-Owner will receive a ballot in the mail in early December, asking for you to vote on whether or not to approve the project and begin construction next spring. Please see the Voting section of this *Guide* for details.

We encourage you to learn as much about this proposal as you can, prior to voting. The background, process, financial information, and new floor plan are described in this *Guide*, along with information about the most common

concerns we have heard the past few months. We've also included details about upcoming informational meetings, our updated web site and on-line forums for member discussions, and other ways to find out what you need to make your decision.

Like the changes we are considering today, each previous change to Hunger Mountain's home was driven by an increased demand for locally grown, wholesome food.

The broad range of ideas our members express is what keeps The Coop dynamic. Feel free to contact any of us if you'd like to have a more detailed conversation.

– The Coop Council

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Why Change Anything?

Hunger Mountain Coop moved to its Stone Cutters Way location 10 years ago. In that time our membership has tripled and sales have more than doubled, yet the building has remained virtually unchanged. Over the past few months,

to maneuver carts, a larger bulk foods section, an additional bathroom, extra café seating, and improved check-out lanes. Parking is sometimes hard to find. Other physical improvements, such as replacing our leaking entryway,

limited. We can trim other expenses significantly, raise prices, or increase sales. The Coop Council doesn't feel the first two solutions are appropriate. With our sales per square foot already at the upper end of national averages, projections are that sales growth will slow down without some expansion.

The Coop's abilities to serve our members and the larger Central Vermont community are being severely stretched by its very success.

The Coop initiated a lot of discussion about its future. For some, the first question is "Why does The Coop have to change at all?" The short answer is that The Coop's abilities to serve our members and the larger Central Vermont community are being severely stretched by its very success.

improving energy efficiency, and reducing excessive noise from our refrigeration, have been on hold while The Coop develops a comprehensive plan.

Feedback (online at hungermountain.com) from surveys, community forums, and small group discussions, as well as committee and staff meetings was essential in developing this proposal. Those comments, along with a careful analysis of our site, building operations, and financial health, led to this plan.

It is increasingly difficult to run our \$12 million dollar a year business in this space. There are excessively crowded working conditions for the staff, primarily in the backroom and offices. Storage areas, travel lanes and work spaces overlap. We now have over 100 Coop employees. They have adapted admirably, but there is no doubt that the lack of space impacts their efficiency, morale, and at times safety.

The tight quarters also affect our abilities to support the 230 Vermont vendors that provide local products to The Coop and support the growing "local food" movement in our area.



A single hallway serves as the major route to get stock from the back area to the store shelves. Passage is difficult, especially when departments are loading and unloading boxes.

Our limited space also has financial impacts on The Coop. In order to remain profitable, The Coop's income must keep up with rising costs (energy, insurance, taxes, wages, etc.), our options are

Shoppers have also told us they would like more "customer space"—room

What Will Change?

This proposal adds both work space and customer/retail space. Throughout the planning, cuts and reductions were made to draft plans. Most significantly, the entry improvements were scaled way back, a parking garage and large conference room were dropped, freezer and cooler changes were limited, and costs for finish materials (from flooring to shelving) were reduced.

Keeping our building's feel as a community "commons" and meeting place was essential in developing this proposal. The open area in the current produce section will remain, and be supplemented with similar spots throughout the store. Shoppers will still recognize The Coop's unique layout.

| | <u>Current</u> | <u>Proposed Increase</u> | <u>Change</u> | <u>Total</u> |
|----------------|----------------|--------------------------|---------------|------------------------------|
| Customer space | 8,138 | 2,989 | 37% | 11,127 (includes entry/exit) |
| Work space | 5,130 | 4,651 | 91% | 9,781 (includes mezzanine) |
| Total | 13,268 | 7,640 | 58% | 20,908 |

(Numbers are square feet)

| CURRENT CHALLENGE | | PROPOSED SOLUTION |
|-----------------------|---|---|
| WORK SPACE | Walk in cooler serving five departments severely overloaded | Additional designated coolers |
| | Main work passageway crowded and inefficient | Several wider hallways to ease congestion |
| | Kitchen not equipped to meet growing customer demand | Kitchen redesigned for increased capacity, efficiency, safety, and work flow |
| | Storage space inadequate to keep up with current sales volume | Increased storage space to reduce “out of stocks”, improve work flow, help local vendors |
| | Desks/office space cramped and limited | Add to mezzanine area and relocate some staff downstairs |
| | Computer servers lack a secure space | Create climate-controlled lockable room for servers |
| | Meeting space for staff, and community education events, noisy and crowded | Move computers and other stored items from meeting room into new, designated spaces |
| CUSTOMER/RETAIL SPACE | Long check-out lines during peak times | Add two registers and lanes and increase area for customer line |
| | Single bathroom inadequate for customer demand | Add second customer bathroom |
| | Deli crowded at times, not enough seating | Additional seating and improved flow for customers and staff |
| | Bulk area cramped, hard to stock | Redesigned and expanded bulk department |
| | Shelves require frequent restocking, don't hold enough inventory to meet demand | Increased shelf space for most departments |
| | Difficult for customers to move carts at busy times | Relocate and consolidate wine and other freestanding displays to create less cluttered aisles |
| | Entryway leaks, causes dangerous ice build-ups | Construct redesigned entry and separate exit |
| OTHER | Energy efficiency needs improvement | See section on “green” building below |
| | Parking shortages occur at peak times | See section on parking below |

Parking

We know parking can be hard to find, especially at peak times like holidays. Our planning process provided a lot of good suggestions for reducing the parking demand, including better bus service, off-peak discounts, on-line shopping, and delivery service. The Coop is considering these. At the same time it is arranging to secure more parking spaces nearby for customers and staff.

A new lease with the Pyralisk assures The Coop can continue to use all our existing spaces, including the ones at the far end of the lot. We are also in discussion about increasing parking once the former Salt Shed “warming hut” is torn down. In addition, we have an agreement with a nearby granite company to lease space for employee parking if needed.

Energy efficiency and “green” building

In our surveys, an overwhelming majority of members said incorporating “green” components into any design was important. A special subcommittee, led by Andy Shapiro, developed recommendations to guide us. Efficiency Vermont is committed to working with us towards these goals.

The proposal, as outlined, includes:

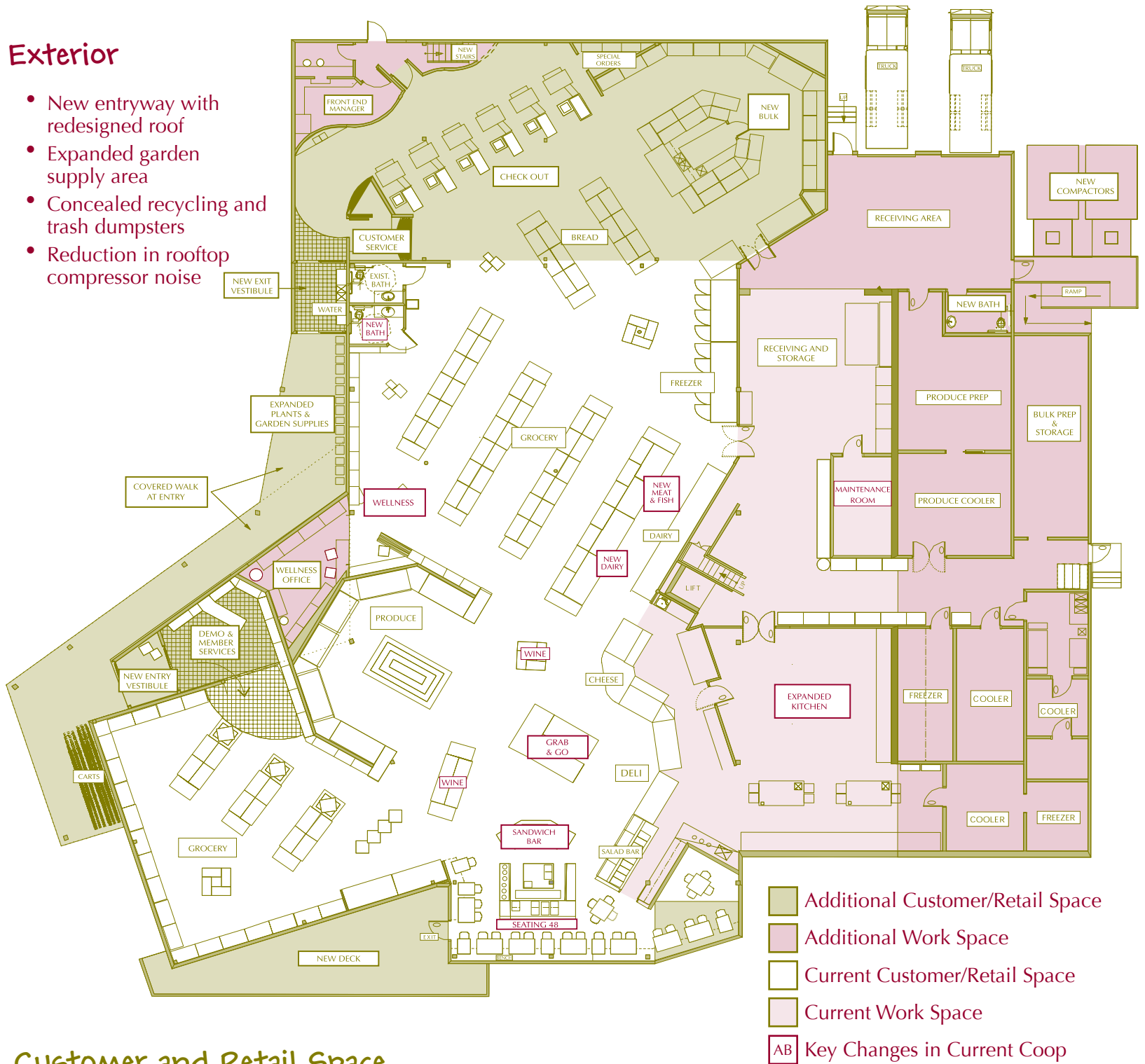
- Increasing natural and efficient electric light throughout The Coop
- Improving indoor air quality and temperature control
- Acoustic panels to reduce noise
- “Ozone friendly” coolant in all new refrigeration
- Seasonal outdoor air to directly cool walk-in coolers
- Low water-use plumbing

Additional items, such as a preference for using local building materials, will be considered as the overall budget permits.

The Proposed New Floor Plan

Exterior

- New entryway with redesigned roof
- Expanded garden supply area
- Concealed recycling and trash dumpsters
- Reduction in rooftop compressor noise



Customer and Retail Space

- Bulk foods moved and expanded
- Larger café/deli, more seating
- More shelf space for bulk, dairy, bakery, deli, meat/fish, grocery, and wellness departments
- Second customer bathroom
- Two new check-out lanes and registers
- Consolidated wine/beer department
- Separate sandwich counter
- Less cluttered aisles
- Expanded Grab and Go foods
- Improved customer service counter in wellness department

Work Space (Includes Mezzanine, not shown)

- Improved employee/vendor efficiency and safety
- More storage space (including coolers and freezer)
- Expanded kitchen
- Additional office/work stations
- Dedicated maintenance room
- Secure computer room
- Better meeting/workshop space
- Indoor access to recycling/trash compactors
- Additional employee bathroom
- Expanded break room for staff

How Did this Plan Come About?

The Coop has done its best to keep Members informed during the past nine months. We hope you've stayed up to date through The Coop's *Full Scoop* newsletter, stories in area newspapers, radio interviews, and postings on The Coop website. Information was also displayed in the entryway, and distributed through in-store brochures. Here's a brief recap.

December 2005

Coop Council decides on two priorities for the year:

- Moving forward with facility related planning and
- Building communication and involvement among members and the larger community.

A Facility Committee is formed to identify current challenges, research possible solutions, develop potential draft plans, and analyze the design alternatives. It will work closely with the existing Communications and Finance Committees. Each of these committees is composed of Council members, Coop staff, and member volunteers.

January 2006

The Coop adopts a planning process designed to encourage member and staff input every step of the way.

February & March

Facility Committee generates three possible scenarios. Coop holds 14 small group discussions (totaling about 100 members and staff). In addition, about 500 shoppers (2/3 members, 1/3 non-members) fill out surveys in the store. A new section is added to The Coop's web site for facility updates.

April

Findings from the outreach efforts are presented to the Council, resulting in key guidelines for the Facility Committee. "Green" building design and parking emerge as issues of particular importance, and separate subcommittees are formed to research them. A parking structure and large community meeting room receive little support and are dropped from the plans.

May

The Facilities Committee approves a draft plan. About 100 members attend a series of Community Forums to share their thoughts about the general scope of the plans and to offer specific comments, questions, and concerns. A second round of small group discussions (a total of 40 people) is also used to get input from members and staff.

June

The information from Forums and small groups is summarized for the Council and new guidelines are developed to shape the final project.

July - November

The Coop develops parking options, conducts an energy audit, works "green" building components into design, and tests nearby soil for potential contaminants. Drawings are revised, financing options researched, and other details attended to. The Facility Committee and Coop Council approve a plan for members to vote on.

Who Worked on This?

Facility Committee

Rita Ricketson, chair
Ben Bashore
Wayne Fawbush
Larry Mires
John Osgood
Andy Shapiro

Kari Bradley
Rowen Hurley
Paul Ohlson
Martin Pincus

Finance Committee

Hope Crifo, chair
Kari Bradley
Tim Wingate

Rita Ricketson

Communications Committee

Rachael Grossman, chair
Hope Crifo
Robyn Peirce
Elly Wood

Glenda Otto
Carol Randall

Outside Expertise

- Bast and Rood Architects are helping us develop the plans, along with Tony Bucci, a specialist in interior store design.
- Project estimates came from Tony Bucci and DEW Construction.
- Flywheel Communications is assisting with our outreach efforts.
- Cooperative Development Services worked on financing and budgeting for the proposal.
- John Penny conducted an energy audit of our current system and is working with the "green" subcommittee (spearheaded by Andy Shapiro) to develop a cost/benefit analysis on new investments.
- The Johnson Company conducted soil tests.
- RavenMark Inc. designed this *Guide*.



What About the Financial Side?

Currently, The Coop is financially healthy. We have more than \$3.1 million in assets which include cash, investments, inventory, equipment and the building. We have made good progress in paying down our mortgage (currently about \$880,000) and now have a healthy level of member equity (roughly \$1.3 million, including retained earnings). Sales have grown to over \$12.2 million per year and The Coop is able to earn a small profit in a competitive market while at the same time paying good wages and offering excellent benefits to employees.

From the onset, the Council decided that any proposed plan must generate enough income to cover anticipated increases in financing and operations over the long term. **Therefore the project is designed to be built without raising prices or relying on increased member equity.**

The Finance Committee conducted a careful analysis of The Coop's financial position. The Coop used its own sales data, staff knowledge, industry trends, and a new marketing study as the basis for its forecasts. This led to clear guidelines regarding borrowing limits, cash flow, sales projections, and cash investment.

The anticipated cost of this proposal (as determined by professional estimators) is \$2.6 million. The Coop would use some of its existing cash on hand to fund \$200,000 of the project, leaving sufficient cash to buy inventory and pay for operations until the store returns to profitability.

The Coop will also borrow up to \$2.4 million. It is anticipated that member loans will make up at least \$300,000 of the borrowed funds. In the past, members loaned The Coop money for no interest, or interest well below commercial bank rates. The more of the project we can finance in this way, the lower our long-term borrowing costs will be. The remaining balance will be borrowed from cooperative loan funds and commercial banks at prevailing commercial interest rates and will be secured by a pledge and/or mortgage of all or substantially all of the assets of The Coop.

Projections by the Finance Manager, reviewed by the Finance Committee, and confirmed by a national expert in Coop financing, show the 16% increase in retail shelf space will allow The Coop to generate a profit again by 2009, despite the added costs of this project.

Income Statement Projections (In Thousands) Based on proposed building changes

| | CY 2007 | CY 2008 | CY2009 | CY 2010 |
|--------------------------|----------------|----------------|-------------|-------------|
| Gross Sales | \$13,004 | \$14,973 | \$16,025 | \$16,626 |
| Cost of Goods | 8,542 | 9,755 | 10,392 | 10,747 |
| Personnel Expense | 3,443 | 3,743 | 3,886 | 3,990 |
| Operating Expense | 1,214 | 1,632 | 1,719 | 1,798 |
| Net Income (Loss) | \$(195) | \$(157) | \$28 | \$91 |

The proposed improvements will help The Coop control expenses, and our bottom line. The plan improves employee efficiency and is expected to reduce energy costs proportional to sales. In summary, the Finance Committee is confident this proposal is sound and will benefit The Coop's financial health.

Financials at a Glance (in thousands)

Cost

| | |
|----------------|---|
| \$2,200 | for construction |
| \$400 | for permitting, finished design and drawings, and contingencies |
| \$2,600 | TOTAL PROJECT COST |

Sources

| | |
|----------------|--|
| \$200 | Current Coop cash |
| \$300 | Member loans |
| \$2,100 | Cooperative loan funds and commercial bank loans |
| \$2,600 | TOTAL SOURCES |

NOTE: Coop expenses related to developing the proposal (including preliminary drawings, soil test, energy audit, market study, and community outreach), are about \$110,000.

Concerns

The concerns we've heard during the planning are summarized below along with how The Coop has tried to address them.

We don't want to lose the community feel inside The Coop.

The proposed design preserves existing "commons" areas such as produce, as well as adds new ones and increases seating in our café/deli.

Overall, the plan enlarges our customer space by about one-third and will feel very familiar.

We're concerned about the financial risks and The Coop's survival.

Financial risks always exist. However, The Coop conducted a thorough analysis of our current and projected numbers and views the risk as acceptable. A professional market study confirms that

Coop sales can reach the levels we are projecting. This proposal, as detailed in the Financial section, meets the spending and borrowing guidelines we set. We are also aware that failing to address the current challenges in our facility carries its own set of risks due to slowing sales and the possibility that The Coop may wind up with annual expenses greater than its income.

We don't want prices to go up.

The Coop has designed the project to be built without raising prices or member equity. However, we do caution members that there are many other factors that affect prices and some of these are beyond our control.

We don't think The Coop would need more space if it pursued other options instead. For instance, developing satellite stores and stronger local coops or staying open longer hours would reduce the current overcrowding.

The Coop looked at numerous alternatives before recommending this investment in the current building. Satellite stores may well be a key component of Hunger Mountain in the future, but is not the right path to follow today. Strengthening local food coops by helping them with the challenges they face is a priority for The Coop, but we don't see this resulting in any significant short-term reduction in shoppers at Hunger Mountain. As for staying open longer, our study shows this would have a minimal impact on overcrowding since few customers would shop exclusively during extended hours.

Our priority today is to improve safety and efficiency in our current location, and assure we have a sound financial base to grow from.

If The Coop just cut its product selection and reduced shelf space it wouldn't need to add on.

Through our design work, we concluded that reducing inventory would not create the space necessary to provide additional cash registers, wider aisles, another bathroom and more café seating. The extra space will also allow us increase the efficiency of our operations and reduce "out of stocks." We don't anticipate much change in the variety of products available.

Reducing selection is complex. With a few exceptions, The Coop sells what it stocks faster than comparable stores. In other words, customers want what we offer. This means one person's "frill" may be another one's "must have."

We don't want The Coop to close during construction.

The Coop anticipates staying open throughout, and will plan the construction in a way that minimizes

disruption to the current store. For instance, the additions can be closed in from the weather before any interior walls need to be disturbed and much of the work in the current space can be done at night. A certain amount of noise will be unavoidable, and individual departments may be temporarily relocated or closed off.

Even if this plan does not receive approval, some deferred improvements (such as replacing the ailing entryway at a cost of \$50,000) will need to be made very soon.

If The Coop goes bankrupt what is my exposure as a member? What if I loan The Coop money?

Members are not liable for any outstanding debts in the event The Coop defaults. However, members do risk losing their equity investments if the store closes. Any member loans would be treated as unsecured debt, with any repayment subject to federal bankruptcy law.

We're worried about current parking shortages getting worse.

See Parking section of *Guide*.



Explanation of Ballot and Voting Process

In December, Member-Owners will be asked to vote YES or NO on the following question:

Shall Hunger Mountain Cooperative be authorized to renovate/expand its building at 623 Stone Cutters Way, Montpelier, Vermont at a projected cost of \$2,600,000 and in a manner consistent with the plans and financing outlined in the The Coop Building Proposal Guide mailed to Members in November of 2006?

Coop Member-Owners will be mailed a ballot with this question, as well as voting instructions, in early December. You are currently reading the *Guide* referred to in the question. Additional copies are available at The Coop.

A YES vote mean you support this proposal moving forward.

A NO vote means you do not support it.

Professional estimators believe this proposal will cost \$2.6 million. Costs will be carefully monitored as construction proceeds. If construction costs are higher than estimated, the Council will delay finishing parts of the proposal. As cash flow increases, these improvements could be funded as part of The Coop's annual capital budget.

Hunger Mountain Coop by-laws require this question receive a YES vote by a two-thirds majority of Members that cast ballots in order to pass.

The ballot you will receive can be cast by mail, or brought to The Coop and dropped in a designated box. Members can also obtain replacement ballots at The Coop. Polls will be open for about two weeks, from the time you receive your ballot until the close of business on December 21, 2006. Ballots received after that time will not be valid.

The ballots will be opened on December 22, and counted by a ballot committee. Results will be announced by December 24th.



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Montpelier, VT 05602

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Coop Building Proposal Guide Inside



Find Out More Before You Vote

Plan To Attend December Information meetings

The Coop is hosting two information meetings in December to present its renovation/expansion proposal and detail the costs, financing, and “green” aspects of the plan. Please join us with your questions and comments. Snacks and childcare will be provided.

Christ Church Parish House

64 State Street
Montpelier

Sunday, December 3, 2-4pm

Tuesday, December 5, 6-8pm

Call Coop Member Services for directions.
223-8000 ext.202

If you can't attend:

- We encourage you to contact any of the Council members with your questions and/or thoughts.
- Go to www.hungermountain.com. Click on Facilities Update where you can also post comments and read what other members are thinking about the project.
- Committee and Council members will be at the in-store info table periodically during Novemebr and December.
- Listen to Coop Manager Kari Bradley on the radio.
WDEV 550AM – November 28, 8:45-9am
WGDR 91.1FM – November 30, 8:30-10am