



Board of Directors Special Meeting Minutes November 14, 2018 Ten Pin Building – 793 K Street, Arcata

Disclaimer: This is not a verbatim transcript of the meeting and is based on the author's understanding of the meeting.

Present at meeting:

Board Members: Colin Fiske (Board President), Robert Donovan (Vice President), Leah Stamper (Secretary – via phone), James Kloor (Treasurer), Cheri Strong, Ed Smith, Mary Ella Anderson

Absent Board Members: None

Co-op Employee-members: Emily Walter, Melanie Bettenhausen, Laurie Talbert, Jason Davenport, Nick Tyner, Lauren Fawcett, Lyndsi Reel, Kristen Hayden, Kirsten Lindquist, Rebecca Lusa, Don, Alanna Labelle, Jessica Correr, Joel Bradfield, Bob Brown, Alisha Hammer, Mara Segal

Members: Diane Sharples, Laura Jones, Thomas Robert, Garry, Vince Graves-Blandford, Gil Friedman, Michael Reeves, Kevin Hoover, Lisa Blandford, KD Gunther, Andrea Contreras, Christine Barnard, Joe Hagan

1. Welcome

The meeting was called to order at 5:32pm by Colin who reviewed the meeting ground rules and introductions were made.

2. Agenda review and approval

- Colin – I talked with Roger earlier. Roger can't be here tonight, but he communicated to improve board member communication, improve staff efficiency, and he's asking everyone he knows to buy Co-op shares.
 - o Mary Ella – I also spoke with Roger and he wants worker moral to be considered with all decisions.

3. Update on Co-op's financial situation and actions to address it – reported by Melanie

Thank you for coming tonight. At the special board meeting last week, I gave an overview of how we came to be in this financial crisis, how bad it is, what we've been doing to get out of it and some broad strokes of more immediate actions we will be taking. Attendees gave input on things we can do in the next 30 days, 90 days and into the future. The board voted on actions to be taken before this meeting.

Follow Up to Board Directed Actions

- Extend our current line of credit of \$149K to \$500K.
 - o I have submitted the financial statements and proposal to the bank and they are working on it.
- Initiate a member donation and/or shares drive.
 - o Laurie will be presenting updates on this later.
- Continue with the aggressive cash management strategies already taking place.
 - o This is ongoing. Our new Controller and accounting staff are working on this by modeling different cash scenarios.

At the last meeting there was a request for more numbers. I didn't talk too in depth about the actions we've already taken on our path to financial recovery, so I'd like to share that now before I present the budget projections—this will give some context.

In late March the Eureka remodel went on indefinite hold. The most impactful thing we've done since was to let our Controller go. RFS came on in late May to get our finances in order. NCG did a peer audit mid-July. They provided guidance directly. Their suggestions were to:

- Hire a controller ASAP
- End our forward buying program (Ten Pin warehouse) to free up cash and exit the warehouse to reduce administrative expenses (lease is up in February 2019)
- Reduce inventory by \$600,000 (warehouse and retail backstock)
- Cut administrative staff by at least 20% of administrative labor
- Push payables out by six days

- Obtain a working capital loan to make minor upgrades to the Eureka store

So far we have:

- Obtained a working capital loan of \$350,000 for the Eureka Deli upgrades and are almost done with that project
- Ended our forward buying program and are still working on exiting this building
- Reduced inventory by \$290,000 between Q1 and Q2
- Reduced administrative staff by 23% labor and made more cuts to reduce overall labor by 7% (total of six positions in admin. And management, effective 9/23 thru 10/20)
- Pushed our payables out by one day and write checks twice a week instead of once a week
- Hired a controller who began November 5

Additionally, we've done the following:

- Made across the board schedule reductions, taking full-time employees down to 37.5 hours per week from 40—this prevents accidental overtime (effective 9/23)
- Reduced general and administrative expenses by \$50K
- Reduced general and administrative expenses, below what was budgeted, by more than \$50K through the end of the fiscal year (March)
- Reduced labor to be in line with budget—19%--by not filling positions lost through attrition (five since end of October)
- Nearly finished Eureka Upgrades that will increase production capacity for hot and cold bars and increase sales. We hope to be complete mid-December
- Switched our third-party administrator for health insurance and switched stop loss insurance carrier to reduce health plan expenses effective August 1
- Perpetually working on strategies to increase sales, with all employees now alert and focused on the financial success of the Co-op

Current Situation

On paper, in terms of our budgeted projections, we are doing everything we need to. Unfortunately, we did not take corrective action soon enough. As mentioned, we were not getting accurate financial information or reports that would allow us to make strategic decisions sooner (we have since remedied that situation and will be able to do so going forward), which has led to our current cash crisis. The corrective actions we have taken over the last few months have not built back cash fast enough to see us through the holiday season. As always, our purchases increase prior to the holidays in anticipation of increased sales. We close our stores for Thanksgiving and Christmas days, yet we pay staff holiday pay. In addition, we pay a “Solstice Bonus” per the terms of our collective bargaining agreement with the Union (roughly \$23K). Based on our projections, if we don't take action, we will run out of cash by December 8. This is not the same as closing our doors. We do have options to get through this, which I'll be going over shortly.

- Michael – you're saying you need a capital loan to do your holiday buying more or less.
 - Melanie – yes.
 - Michael – after we saw a vacuum of nearly half a million dollars with the Eureka Deli remodel, I see a need for a greater level of spending oversight. How do we know this isn't going to be spent on consultants again? How do we know money won't be wasted? After spending \$500K with zero results you don't deserve a reward. Going out to get more money to pay the bills isn't going to solve this. There's no member oversight of spending. I'm furious and I'm not going to let this rest. I will be out tabling. The members need to know this is ridiculous. I showed up for my first board meeting in October and Mr. Donovan commented at the last board meeting that I came looking to have Melanie taken out back and shot. There was a full room at that meeting questioning the spending methods of the General Manager. This board doesn't pay attention to the members. The room at that meeting was full and it was like nothing was heard. Until we see member accountability, I'm going to make a stink about this.
 - James – at the last Policies & Procedures meeting we drafted an expenditure control policy. It lays out four criteria for any expenditure over a certain amount, for a contract over a certain amount, budget deviation by x percentage that would need board approval. I believe this is the oversight you are looking for. It's still in draft form and open to public comment at the December board meeting.

- o Michael – I think anything that isn't standard operating procedures should be posted on the website for a 30-day comment period.
- Kirsten – I appreciate that Michael has gotten so involved in the last couple of months, and others as well. As staff we are concerned. As members we are concerned. I think it would be helpful if Michael raised one or two points and not go on a diatribe. What happened at the October meeting was a cry for help. We were not getting transparency or information. That has changed dramatically. I'd like to thank the board and Melanie and acknowledge this shift. We are now getting information at Department Head meetings. I want people to be considerate and respectful, but we need to stick to what is at hand in this agenda.
- New Member – what you have here at the Co-op is really good. I've seen many co-ops and this one is great. I recently moved here, and I want to be involved and help. I want to keep this operation going. You have an amazing butcher shop and good organic food and bulk.

Budget Projections (a handout was distributed)

Overall assumption is that sales will be 6% down from the original budget through the end of the fiscal year. Sales have been on a downward trend since August. I believe that our small fourth quarter sales were an early indicator of economic decline due to legalization, although we did not recognize it at the time. If that is the case, I anticipate that we will "lap" the beginning of the decline and will not see such steep negative trends in the new year. Many other factors clouded our ability to see this trend. I suspect that the steep declines from the last few months may be due to the marijuana harvest season. There is a lack of "trimmigrants" and those who come to work for that industry and lack of disposable income that those folks historically spent in our stores. We don't know that factually. It is best to assume that we will remain down and do everything we can to change that.

Labor will remain at the dollar cost achieved since schedule reductions and layoffs were enacted in September and October, which will keep us in line with our 19% target through the holidays. We've lost at least five more through attrition reducing labor another 2%; this should carry us if we were to see a decline of 8% in November and December. This means we are understaffed in some areas for the holidays and we typically lose two employees per week. We are not filling positions if we can help it. The New Year will necessitate labor reductions, but we are confident that much of that, if not all, will come from attrition and/or cutting from casuals, temps and those still in their 90-day probationary period.

Another assumption is that Cost of Goods Sold (COGS) will remain at 37%. We would like to increase this and increase our margins. The more margin dollars we gain, the more profitable we will be and the less likely we will be to need to cut labor. Another assumption is that healthcare and benefits will remain the same. The management team has agreed to forego their solstice bonuses. We have a meeting scheduled with the Union for November 29 to discuss other options such as deferring benefits to get through the holidays. We have cut more than \$50K from the budget through the end of the fiscal year. The board has cut nearly \$10,000 from their budget including their 25% reduction monthly stipend.

The final assumption is that we will break even by the end of the fiscal year with the changes that we've made. We will be showing a profit each period beginning October through January. We'd like to think that "harvest season" is over and we will not see further declines in quarter 3 (October - December), and that we will be more in line with prior year in quarter 4 (January - March); however, we can't rely on that. We have done several projections of various outcomes to determine our "if X then Y" actions. Once we establish labor reductions for the New Year, we will have a better idea of what that projected net income will be. Again, we will be taking corrective action and have already determined the next round of labor cuts should we need to make them. We know we'll need to take corrective actions in the new year, we just don't know what that is yet.

- Diane – I notice nothing regarding interest.
 - o Melanie – we don't have the terms for the loan yet. Barney is looking at it and it will be discussed at the November Finance Committee meeting.
- Melanie - we no longer are employing security guards. We aren't sure how this will go. We know we will see more theft. Our biggest concern is the safety of staff and shoppers. We have talked to local law enforcement to help us with trainings to keep us all safe. If this doesn't work, we can consider hiring security in the future.
 - o Joel – Lyndsi and I stopped a shoplifter today.
- Don – is the Co-op remaining open solely if we get the loan?
 - o Melanie – no

- Don – what does it mean to defer employee benefits?
 - o Melanie - employees have spurred us to have a conversation to discuss benefits. We'll meet with the Union to discuss this. No decisions have been made.
- Michael – this handout shows \$6,250 monthly for consulting?
 - o Melanie – that is our new time keeping and payroll software. There is a monthly fee based on the number of employees we have. That software is allowing us not to fill our HR Generalist position.
- Michael – on the merchant card processing you have the same estimate even though you have different revenues for each period. Is this just a ballpark?
 - o Melanie – that was in our original budget. We took the card expenses for the year and divided it by twelve months. Costs could be lower since sales are down.
- Michael – are you PCI compliant?
 - o Jason – that is something we take very seriously. We have absolutely no way at the top level of the network for things to come in on our point of sale. PCI is a moving target that changes all the time. We do want to integrate the use of the chip but that has been postponed due to the current financial situation. It's in the plans.
- Michael – at the last board meeting, more than just me wanted to start a consumer education program around cost of credit cards. You should be taking action on this.
 - o Mara – I know at least one person in this room that is not taking his employee discount. I also see some employees using more cash and checks. I personally don't think employees should wave their discount, but it does show how much that person cares. I think we could offer a 1% discount if paying with cash.
 - o Melanie – this has come up several times. This is on a list that I will be reporting back on at the December board meeting.
 - o Jason – we actually get a really good rate on our credit card fees. We are within a group of co-ops that negotiate for the rate we have which is about as good as it gets. Yes, it's still is a lot of money.
 - o Michael – if this were a traditional buying cooperative that works on small margins then you would have to charge fees that you pay for credit card transactions. That embodies the spirit of the coop. you are using a form of payment that costs the co-op money then you are punishing everyone else.
 - o Melanie – there is a lot of consideration that needs to be given to this topic and we will continue this discussion.
 - o Ed – charging a surcharge to take a credit card is federally illegal. Surcharges to credit and debit cards are prohibited by California law. This was challenged in a California appeals court in 2013 and for only four companies is it legal to charge.
 - Michael – you are out of date. I've researched this myself and know it's legal.
 - Ed – it's on the state of California website that I checked this morning.
- Gil – nobody knows the crisis the Co-op is in. You should put up a note at each register to let people know we are in a crisis.
- Vince – if there is a potential for usage of a \$149K credit line and you are requesting up to \$500K. With interest paid on that there would be no profit at the end of the year.
 - o Melanie – that is correct, potentially. We are talking about cash projections next.

Cash Projections

I've plugged in numbers into projections. The big crunch time comes after paying employees for the Thanksgiving holiday and Solstice bonus in early December. We also have rent due for the Eureka store (\$48K) and the Ten Pin building (\$8K) in early December, along with some tax payments. I've talked with our landlords before and gotten positive feedback when asking to defer payments. I hope this will be the case again. I believe we have at least \$50K of payments to vendors that we could push back. These would be large vendors, not small local vendors. When we were going into the remodel, I had already established this type of relationship and so I feel confident they will respond well again at this time. I believe we can squeak by with changes to our expenses, between pushing off rent and other vendors and drawing on current \$149K line of credit. It's not comfortable but I think we can do it. The extended line of credit of \$500K would be more comfortable. I'm focused on getting us through December and into the new year. The conversation about leveraging the Arcata store - the store would have to be reappraised and it could take up to six months. We don't have the money to do this right now. I will take steps to get us towards that possibility but it's not a short-term solution. Right now, we need to replenish our reserves for operating cash and health care expenses.

- James – the projections you have here make up the loss we’ve sustained for this fiscal year. If we continued this moving forward, we would see a positive cash flow. Once we get past this scenario, we won’t be going back to how we used to operate.
- Melanie – we are prioritizing what is the most critical thing to work on at this moment. I want to work with the Controller on different projections with targets and timelines.
- Diane – when NCG came in for the peer audit they recommended a \$600K drop in inventory. Can we pare down inventory that isn’t essential for the holiday season? We are only down half the recommended amount.
 - o Melanie – there is a combination of things going on with inventory. We already had orders placed, like pallets of wine with our in-house label, prior to the audit. The stores are still buying down warehouse inventory. The merchandise team is working with a new program to plug in different margins for different products to see what the contribution to margin will be. We are working with NCG on purchasing guidelines for the buyers. Buyers and merchandising are working with more tools to identify best purchasing practices to keep inventory down. Operations Manager Alanna Labelle is working on sales forecasting and labor projection tool to help with scheduling as sales change. It’s a work in progress.
 - o Alanna – it’s a fine balance. We tell staff to lower inventory and then we get holes on the shelves and customers asking for product. Some deals you have to buy cases to keep the margins low.
 - o Ed – the \$295K reduction of inventory was in September. We only take inventory quarterly, and thus inventory could be down further since then.

Melanie – as far as cash projections, Model 1 is to use a \$500K line of credit which should get us through but will also cost us money. Model 2 is to extend payments to existing vendors and tap into our current \$149K line of credit if we need to, but ideally not. Model 3 is to increase sales.

Conclusion/Positives

With all the recent media coverage we’ve seen an outpouring of support. We had more than \$7K in shares purchased just last week. We anticipate that folks will shop more now that they know the Co-op is at risk. We have yet to tap into our cooperative community, such as asking for cash/loans from other co-ops. We’ve done this for other co-ops in the past and I’m looking into what that process would be. North Coast Co-op has seen many challenges the last two years, culminating in a weakened cash position as we enter a county-wide economic decline. The impending holiday season puts further strain on cash resources. The Co-op’s management has taken corrective action, and will continue to make adjustments as necessary, which will result in positive net income and build cash.

Member Engagement Presentation – reported by Laurie

This proposal is to respond to the suggestions of informing and engaging our members and customers about the Co-ops situation and giving them ways to support the Co-op. We want to do this in a way that is not alarming or disrupts shoppers. We came up with an approachable plan that is financially feasible for most people and self-promoting. We plan to implement in-store displays that show three ways to support the Co-op: 1) Shop, 2) Invest, and 3) Decline Your Discount. These will be represented on a display table with laminated cards that can be taken to the register during check-out. Facilities Manager Travis Morgan had noted at a recent board meeting that if we could increase basket size by ~\$0.70 it would bring sales back to budget. We are proposing to ask people to spend \$0.73 more a shopping trip. It’s a memorable number because it’s the year the Co-op started and it’s a doable amount for most people. We want to order buttons that say, “I support the Co-op” and sell those buttons for \$0.73 to increase basket size. It’s an awareness that we are asking people to dedicate their shopping to the Co-op. We can include information about using cash instead of credit cards. One of the laminated cards will be for investing. Jason has made a card that can be scanned at the register for a \$10 share to be added to your membership investment. \$10 is the smallest share amount we can legally sell, and of course people could buy one or as many shares as they want. The third laminated card is to decline your monthly or senior discount to take to the register with your purchases. So, if the cashier gets the card, they won’t ask the person if they want their discount. These three laminated cards with options of supporting the Co-op, would be at a table with more information about supporting the Co-op and about being a member and investing in the store. We plan to advertise this on social media as well.

- Gil – what about rounding up at the register?
 - o Laura – we have a round-up program right now that goes to the Cooperative Community Fund. We would need to set up a separate system and it would be complicated to implement. We also have rounding up for Share the Spirit in November and December.

- Michael – I haven't heard anything proposed to have a storewide sale in January when sales are down. I don't think I've seen a storewide sale ever. If people had a chance to go in and go crazy you could reduce inventory. The whole reason the Co-op got started was to do good for the members, not just asking members to give.
 - o Laurie – we will do some Thanksgiving promotions and we are testing out some new print advertising with \$5 off coupons. It's not a member only opportunity. We are looking at other promotional opportunities to test in December to promote sales.
- Alanna – a good piece of news is that we recently beat Eureka Natural Foods pricing on turkeys and produce. That should hopefully help get more people to our store. We had a brainstorming session and with some initiative we got a stack of chips next to the salsa, stacked private label wine in front of the stores, and holiday displays will be out at the end of the week to promote great sales.
- Alisha – a lot of ideas are coming from Department Heads and action is being taken quickly which is great.

4. Plan moving forward – reported by Melanie

The plan is to make cuts, corrections, and adjustments to at least break even by the end of the fiscal year. We will do everything we can to manage cash to avoid tapping into our line of credit while making sure we have enough of a line of credit to get us through in case we need it. Staff will continue with brainstorming and implementing new ideas to increase sales while letting members know how they can help.

- Colin – there is short term cash management to get us through the holiday. What about breakeven through the fiscal year? There will need to be additional adjustments after the holidays, correct?
- Melanie – the management team will be on the sales floor next week. After that I'll be jumping in with our Controller and looking at longer projections and adjustments that will be needed.
- James – what we looked at tonight is basically a mid-year review which is on the agenda for the Finance Committee on November 29.
- Mary Ella – we need to look at sales and stay on top of it to make any needed changes.
- Vince – the responsible thing to do is look at real numbers and not just averages across the board. Projecting month by month realistically will serve our members better.
 - o Melanie – I do plug in the actuals once the period is closed which adjusts everything down the line so we can see where we are. Period 7 should be closed by the end of November.
- Colin – we'll revisit a long-term plan at the Finance Committee meeting or at the next board meeting.

5. Communication – reported by Melanie

The information I handed out today I handed at both Department Head meetings this morning. I don't know that sending it out to folks with no explanation is helpful.

- Kirsten – some employees didn't understand that they can share that information with other members and employee members, even though you did state they can, they just can't be shared with non-members.
- Diane – I think more needs to be told to the cashiers on a regular basis. A friend told me that a cashier told her that the store is closing. I like getting all the employees together to explain what is going on.
- Colin – James did email all staff with an explanation of what happened at the last meeting as well as printed and posted in the stores for staff.
- Melanie – I want to work on how to communicate faster with employees.
- Diane – each department could have a meeting, instead of getting everyone together.

6. New business

The board will meet next for the Finance Committee meeting on November 29, 6:00pm at the Ten Pin building.

7. Regular meeting adjourns

Consensus reached to adjourn the November 14, 2018 meeting at 7:24pm and go into Executive Session.

Minutes by Emily Walter

**North Coast Co-op
Board of Directors Executive Session Minutes
November 14, 2018
Ten Pin Building – 793 K Street, Arcata**

Present at the meeting:

Board Members: Colin Fiske (Board President), Robert Donovan (Vice President), Leah Stamper (Secretary – via phone), James Kloor (Treasurer), Cheri Strong, Ed Smith, Mary Ella Anderson

Absent Board Members: None

Approved guests: Melanie Bettenhausen

No reportable action.

Executive session ended at 8:55pm

Reported by Leah Stamper