

THE ISLA VISTA FOOD COOPERATIVE
Board of Directors Meeting Minutes
Wednesday, April 21, 2021
Held via Zoom Videoconference

Directors Present: Lisa Oglesby (LO), Kent McClard (KM), Jillian Tempesta (JT), Janet Stich (JS)

Directors Absent: None

Staff Present: Mark Mulcahy, Interim GM (IGM), Brittany Baird, Columinate Consultant (BB)

Owners/Community Present: Dana Hurt, Raphael Chinchilla, Jess Lizardo, Dana Hurt, Allison Baymiller, Sharon Tollefsen, Micah Meghreblian, Rebecca Roberts (RR), Cody Nunn, Nicole White, Lia Grippo, Matthew Strezpek, Angie

Meeting start time: 6:32 p.m.

1. Approval of Board of Directors Meeting Agenda for April 21, 2021

JS: Add Item 4b) Recording of email motion passed on 3/22/21.

***Motion to approve the Board of Directors Meeting Agenda for April 21, 2021 as amended: JT
Second: JS Passed: 4-0-0***

2. General Manager's Report: IGM: I have been working with Brittany Baird, doing an organizational assessment of the Isla Vista Food Cooperative. She will give an overview of her report so we can then move forward. BB: Introduced herself as a part of Columinate (a consultant), working as an expert in operations and finance for food co-ops. She stated she will summarize her report in this meeting and that the full report will soon be available to the staff.

Report Summary - BB: With reference to industry benchmarks, nationally a 1% profit margin is best for food co-ops. This is needed to be financially sustainable. Over the past 20-40 years, the potential for profit has become more challenging. I reviewed our "Annual Sales Growth" chart. The baseline for healthy sales growth is 2% (because inflation is 2%). The NCG operating benchmark for sales growth is 5%. Our 2019-2020 sales growth was moving toward a place of stagnation. In YTD 21, we see a significant drop in sales. So far, in two fiscal quarters, sales growth is -20% compared with previous quarters. This is significant. At this rate, we begin to burn cash which is where we are. A huge factor is the drop in campus population, however there is a longer-term trend prior to this. The "Sales Growth %" chart was reviewed. Quarter over quarter is relevant as it aligns with the swing in shoppers due to UCSB's academic schedule. With the exception of the COVID quarter, we have been in a state of flat or declining sales for about 7 quarters, with a big dip in Q1 and Q2 of 2021.

BB: The next metric to check is: "Days Cash on Hand" (DCOH). This is an expression of liquidity. (How much cash is available to spend on our expenses? If there is no revenue, how many days before our money runs out?) We always want to stay above 10 days of DCOH. There was a rush of cash infusion with the PPP loans and COVID panic buying. (See spike in DCOH chart) Now things are tapering off. Bottom of Western Corridor DCOH is 30 days. Since 2017, the IVFC has consistently been below 10. A comfort level with not having cash on hand has been developed. This is a key element of where we are and where we want to move towards, which is vitality and robust finances that allows us to reinvest in our cooperative. There is a way to exist that does not always feel like we are on the edge. Reviewed the "Cash Gain/Burn" section of the chart. Knowing there are seasonal swings, then we will have to have more than 10 days of cash for those times. In the past two quarters, we have "burned" 10 DCOH and 12 DCOH. This is related to percent of sales. With 10 DCOH, we can run the business (order/pay bills) with no squeeze and a sense of security. Anything beyond 10 days you can design what you want to spend your money on.

BB next explained a simplified version of “Profit and Loss” and explained “Cost of Goods Sold” versus “Goods Sold”. Our higher margin may be keeping sales down. Personnel costs are 26.59%. When employee benefits are added, the total personnel cost is 32.15%. Our Margin Minus Labor (MML) is 7.21%. Most coops need an MML of 15% to pay all operating costs. We also have a significant debt service, paying principle and interest (on the IVFC building mortgages.) This quarter we had to take \$85,537.48 from savings to run the store. IGM: What should personnel % be? BB: It should be 15%, although not one size fits all. Usually 16% to break even and 17% to make money. If we raise our margin to more than 39%, we’ll probably lose business. How can we improve our position? This will come from the labor side and from sales. MML has not consistently been at 15% and for last two quarters has been quite low. It is way too low to pay overhead. In reviewing margins by Department, it looks good. This tells me changing margins will not solve the problem.

The “Net Fixed Asset Value” chart was reviewed. In general for co-ops, making a positive net income allows reinvestment in equipment and facilities. Since the building was bought in 2015, there has been a low rate of reinvestment. There is a direct link between reinvestment and sales growth. We see the Net Fixed Assed Value going down. There is a domino effect of being in a place of scarcity. There are 2 tracks here (1. Urgent and, 2. Long/broad view of business.) IGM: The IVFC did reinvest with new freezer, and a new produce cooler in last year.. In spite of this, there has been a decline. There was an inability to do more with the economic state of the co-op. LO: A number of years ago, we did put on a new roof. That year we had a good year. and it was not a negative impact financially. This is an improvement that is difficult for the customer to appreciate. The co-op is an old structure, with lots to do.

Report overview/conclusion - BB: We need to work to increase sales. There is an awesome team on the ground to focus this driver. You can grow your way out of some of these problems. We want to give cost-of-living increases. Growth can have us maintain our financial stability. Increasing sales will take a ton of pressure off and it’s important to get into a consistent growth mentality. This will help us: 1) Pay staff more, 2) Increase MML, 3) Reduce debt service. We need to stay in compliance with loans. Now might be a good time to go to our lender for a refinance of our loan.

BB: A big piece to look at is organizational structure. Compliments to the staff. I had a great experience interviewing them. They are very insightful and honest, giving valuable reflections. Thank-you to the staff. The past organizational structure was presented. It is very administrator heavy for a co-op of our size. A full-time Operations Manager (OM) is an anomaly because it is difficult to afford at our size. An impact of this FT administrator position is that we then don’t have labor dollars for the sales floor., which we need. The current organization chart has an entry-level person possibly reporting to 4-5 people in one day, causing energy to go in many directions. We need clear lines of delegation and empowerment. There is a lot of wage compression being caused by this organizational chart, especially between entry-level workers and floor managers. Mid-level managers are earning 50 cents more per hour than entry level. Mid-level managers are doing significant management and are not being payed that wage. I have an idea of a more satisfying work structure for the staff. It is important to hear the staff’s voice and for staff buy-in. In this presentation, I am anchoring in financial outlook and staff satisfaction.

The themes of interviews with staff looked at the historic work culture. Staff has dealt with a lot. They need to air it out and heal. They want to see: 1) Fairness, 2) Outcome-based accountability, 3) all job applications to be posted internally for anyone to freely apply for and 4) The Board to audit its own systems for monitoring staff treatment. There is a need to have a structure in place for the future.

Next reviewed the “Staff Treatment and Compensation” sample in the report. BB: I would expect to see an external HR survey so the Board can have access to information and can respond and react

with a judicious timeline. It is important to have good GM/Board accountability. The GM is accountable to create a good work environment.

IGM: An example is what I used with my last client. I report to the Board what is on your list. I am meeting with LO and KM every week and also am meeting with staff. I'm sending notes to the staff every week. We're moving in the direction of having clear communication. We will also have more recommendations for the Board moving forward. BB: (In response to question about subsidized workers) 2017 data was just metric data, with no information on labor. Even if labor was offset, it wasn't enough to get out of financial trouble. IGM: I have worked with clients who used work programs to subsidize labor. This resulted in increased turnover. It did not result in a better culture. It wasn't sustainable as it was a revolving door. Retention wasn't long enough to equal the amount of benefit. RR: It's really cool to see all of this and it makes me very happy. I really miss the co-op. I'm happy to see that things are going to get better soon, so thank you to the consultants. BB: You have an amazing team. It's exciting to be working toward a vital mentality and have it be sustainable.

BB: Also, regarding the organization chart, we want to assuage fears: We're not coming from a place of "cutting jobs". We're seeing you're "admin heavy" and perhaps we can achieve the labor goals through attrition, for example, not filling the OM position, etc. We want to create direct lines of communication. We have some simple recommendations for you to review, e.g. more managers the floor rather than in the wings.

IGM: Thank you for the report. We have a lot to digest and I'm looking forward to becoming the best running co-op possible. BB: I wish you all the best and thank you to you. Feel free to ask any questions as you work through the report. LO: A big thank you to the IGM and BB for spending time with the co-op and producing such a cohesive report to get us on track toward improvement. IGM: The report and slides will be available.

3. Owner Input and Announcements: None

4. a) Resignation of Directors: LO: We need to record into the minutes that the Board Secretary has received Board resignations from LC and JR. At this meeting these resignations are officially accepted.

Motion to accept the letters of resignation from LC and JR: LO Second: KM Passed: 4-0-0

b) Recording into the minutes the email motion of 3/22/21:

Motion to authorize the Board President, Lisa Oglesby, to sign the contractual agreement between Columinate and the Isla Vista Food Cooperative and Mark Mulcahy to provide Interim General Manager services: LO Second: KM Passed: 6-0-0

5. Approval of March 17, 2021 Board Meeting Minutes:

LO: Prior to approving the minutes, I wanted to say it was a challenge to include verbatim all the information we received at the March meeting. We can, however, produce an audio file. If interested community members would like to listen to the community input by audio, this can be made available. We are going this route because it is difficult to get all comments perfectly, plus there may be legal considerations as well.

Motion to approve the March 17, 2021 Board of Directors Meeting Minutes as presented: LO Second: KM Passed: 4-0-0

6. Board Calendar

a) GM Hiring: Search Committee: The Board will conduct the hiring of the next GM through a Search Committee which will start immediately. The first step is to approve a charter. The proposed charter is on page 11 of this packet.. The Committee will be the full Board. Due to our compressed timeline, we will meet weekly. Included in the process is gathering input from the staff (item 2), which we'll do early on. For efficiency and by necessity, there may be other duties performed by the committee not listed on this charter. JT: For item 2 do you want to specify how to get this information? LO: I didn't specify because I'm not sure of the best way, but yes, surveys and meetings would be the process.

***Motion to approve and adopt the Isla Vista Food Cooperative GM Search Committee Charter: LO
Second: JT Passed: 4-0-0***

b) Finance Committee/Treasurer's Report: KM: I don't have much to add to what has already been covered in the meeting. The IGM, LO and I will meet with the NCB to work toward a plan to refinance our loans. One of the impacts we have after buying our building, is that every year we are putting cash into equity.. Now it's about \$62,000 per year. This means we need to make at least \$62,000 to make this equity. Refinancing the two mortgages' interest rates will reduce that transfer of equity. Equity transfer isn't part of a business loss. It's not on the P&L. It has to be looked at separately. We will report back to the full Board on this. IGM: We will present the NCB our sales growth plan so they can see we are creating a more stable business. This will be part of our conversation with them.

c) 2021 Board of Directors Election Committee Report: LO: Preparations for the election are ongoing. Most actions are in accordance with our current protocol with the exception of mailing postcards to owners. We are not mailing this year due to the expense and the amount of addresses that are likely to be inaccurate. The mailing list needs some work before we put resources into a mailing. The Marketing Coordinator has generated an election handout which will be going into bags at the register, into delivery bags, and placed on the IVFC information board. We will engage with the Owners this way. As always, we are using social media, the news, etc. Our customer count is lower so we may not get the same level of engagement as other years when we could table. Postcards were used to increase accessibility but have not proven to increase engagement. The handouts should offer accessibility for Owners who are not reached by electric communication at a lower cost. We always try to consider what is the best use of our resources.

We have two fabulous Board candidates, Raphael Chinchilla and Cody Nunn, for three open seats. They will take part in the Candidate Convergence event this Saturday, which is also the first day of voting.. We have 3 open seats and have 2 people running. We would like to see votes to show support for these candidates. We will go after every vote that we can and we have two weeks to get voting done. We hope Owners will vote and will tell their friends to vote. We will most likely develop some incentives to vote.

The Board needs to approve the sample ballot (Pg. 13 of the packet).

***Motion to approve the online and phone 2021 ballot as presented: JT Second: KM
Passed: 4-0-0***

Our Board is a Board of seven. I have one year left on my term. Three Directors came on last year during COVID and worked very hard until they were unable to continue. Two Directors moved out of town and lost their direct connection to the co-op. These three vacated seats have one year left on their term. At the start-of-term meeting (May, 2021), JT, JS, and KM will no longer be Directors after approving the election results and the seating of the new Board members. For the stability of the

Board, it is my recommendation that, if JS, JT, and KM are willing, they be appointed to the three one year slots. At end of meeting, we would then move forward with six Board members. JT: It takes at least a year for a new Board member to truly understand the role. KM: I concur with JT. JS: It is a busy time for the Board coming up.

d) Board Committee Update: LO: The GM Search Committee is such a jog that other ongoing committees of the Board requiring less attention will now be put on pause for the next two months. I do have some information about the Owners Filing Policy and will pass on this information to the POS/IT Coordinator.

7. Meeting Scheduling

a) May Board of Directors Meeting: Wednesday, May 19, 2021 at 6:30 p.m.

8. Closed Session

Meeting adjourned: 8:05 p.m.

*Minutes taken by Janet Stich, Executive Secretary
Minutes approved by the Board of Directors*