



Memorandum

MONTEREY REGIONAL WASTE MANAGEMENT DISTRICT

DATE: September 11, 2020
 TO: Board of Directors
 FROM: Director of Operations
 SUBJECT: Last Chance Mercantile Re-Opening Process

Reviewed by: [Signature] Date: 9/11/2020
 General Manager

RECOMMENDATION: That the Board authorize staff to develop and issue a Request for Qualifications to ascertain whether there are non-district organizations that would be interested, qualified, and have a viable plan to operate the Last Chance Mercantile (LCM) in a manner that meets the MRWMD's mission of "Turning Waste into Resources" while doing so in a financially sustainable model. Staff will bring back to the Board of Directors in early December a recommendation of how and when to reopen the LCM and whether it should include using a qualified outside organization.

BACKGROUND

In response to the COVID-19 pandemic and the resultant impacts on the District's FY 20/21 budget, the LCM has been closed since mid-March. During the past several months an LCM Re-Opening Task Force (Task Force) of the Leadership Team (Tim Brownell, Zoe Shoats and Peter Skinner) has been developing a process to review the objectives of this program, the priorities of the organization in regards to how it reopens and operates into the future, and the various operating models that we might explore to meet those objectives.

Over the past several years the LCM operated with a staff of 15, and in addition to the LCM retail activities the facility and staff also processed/packaged electronic waste, operated the CRV Buy-Back program, and sold landscape products. The breadth of these activities have expanded over the past 10 years, which have added to the costs of operations. This, combined with an average annual increase in staffing costs of approximately six percent (6%) and flat sales revenue, have resulted in the LCM going from operating at breakeven in 2010 to operating at a deficit of \$700,000 in FY 18/19.

DISCUSSION

The Task Force has been looking at the overall core functions of the LCM and is talking with stakeholders both within and outside the District to review the purpose and opportunities of this program.

Last Chance Mercantile 1.0 fit with the District's Mission

By providing waste diversion and waste reduction through the support of reuse, the LCM has directly supported the District's mission. Additionally, the LCM has served to enhance the public's awareness of the District's work and its contributions to the community and our environment.

Core functions of LCM 1.0:	Secondary Benefits:
<ul style="list-style-type: none"> Harvesting goods from the waste stream 	<ul style="list-style-type: none"> Supports a vibrant reuse economy in nearby disadvantaged communities
<ul style="list-style-type: none"> Accepting donations (and reducing disposal costs) 	<ul style="list-style-type: none"> Provides a visible, familiar representation of the District's services and its role in our communities/enhances the MRWMD brand
<ul style="list-style-type: none"> Resale of goods via the LCM store 	

Last Chance Mercantile 2.0 - key strategic questions

- What are the objectives and priorities of operating the LCM?
- How should it support the District's mission?
- What are the community's needs and interests?
- What economic conditions or guidelines should the District adopt?
- In the time of COVID-19, what safety structures and practices are required?

Considerations for addressing these questions are addressed below in the context of the District's Pillars of Sustainability.

Pillars of Sustainability	District Objective	LCM 1.0	LCM 2.0 Considerations
Environment	Environmental stewardship that promotes a sustainable community	<ul style="list-style-type: none"> Diversion + donation Resale Training, workshops & other education 	Add: <ul style="list-style-type: none"> Repair Serve as resource for other eco-friendly products Increase education focus and goals
Community	Services and programs that are responsive to the unique needs of our community	<ul style="list-style-type: none"> Low-cost goods that support a commercial re-use ecosystem Support for students, artists, hobbyists/DIYers 	<ul style="list-style-type: none"> Continue focus on re-use ecosystem Develop non-waste related benefits such as job training

Finance	Striking balance between community needs, cost containment & environmental protection	<ul style="list-style-type: none"> • Cost center • Minimal capital investment 	<ul style="list-style-type: none"> • Operate at profit, break-even or loss • Facilities improvements • Enable tax deductibility for donations
People	An engaged and talented workforce that supports the District's mission <ul style="list-style-type: none"> • High performance/safety-oriented culture 	<ul style="list-style-type: none"> • Staffing – District only • Safety – Not compliant with COVID-19 operating guidelines 	<ul style="list-style-type: none"> • Staffing – District only, partnership, hybrid • Safety – COVID-related safety goals; physical requirements; operating protocols • Partnership – org. characteristics; legal considerations
Innovation	Be an early adopter of programs and processes that serve the needs of the District and the community	<ul style="list-style-type: none"> • Early adopter at inception • Expansion in '90s 	<ul style="list-style-type: none"> • Replication only • Reinvention

As part of the process of redefining the objectives, the Task Force has also been exploring the options of how the LCM could be operated either by our own staff or by other entities to meet these desired outcomes. This process has included conversations with our former LCM staff members, with another longstanding Reuse retail operation (Urban Ore) in Berkley, CA, and with several local workforce development and thrift store operation organizations. These conversations have been useful in gauging the interest of other organizations to operate on our site, as well as the issues that the District would need to address to develop a sustainable operation on the site under any operation model scenario.

The Task Force has identified three possible models for operating the LCM (see attachment 1). These include:

1. District Staff Operation – This would consider reduced staffing levels, reduction of sales days to four days per week, and potential redefinition of job functions
2. Third Party Organization Operation - Third party takes over all aspects of store operation: management, staffing, donations, inventory, pricing, and financial sustainability
3. Hybrid Operation – The LCM would be managed by the District and staffed by another organization that engaged in the workforce or community development arena.

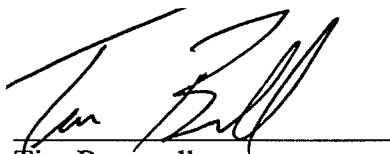
In order to further explore these options and operating models, staff would like to solicit responses from organizations throughout the community as to their interest in either of the options #2 or #3. We feel that issuing a Request for Qualifications (RFQ) would provide those organizations the opportunity to express their interest, experience, and expertise in operating or partnering on the LCM. It would provide the District with a filter by which we can assess other organizations' seriousness and ability to take on an operation of this nature.

Based on the responses to the RFQ, staff would rank the organizations based on their qualifications and their program plans, and bring them to the Board to consider, in addition to a District staff option.

Staff feels that we could issue an RFQ in early October and bring back to the Board a recommendation of how to proceed either in early December or January, depending on the level or response.

CONCLUSION

Staff recommends that the Board authorize staff to move forward with the development and issuance of a Request for Qualifications for the operation of the Last Chance Mercantile and to bring back to the Board options and a recommendation as to how to reopen the facility in a manner that meets the objectives of the District.



Tim Brownell
Director of Operations

Last Chance Mercantile Reopening Project Plan

July

- Define mission
- Develop operating models
- Define potential objectives
- Begin conversations with possible third-party operators
- Begin conversations with other re-use entities
- Review third-party consultant recommendations for COVID-19 safety planning
- **July Board Meeting:** Report plan/progress in General Manger's Comments

August

- **August Finance & Personnel Committees:**
 - Review of Project Plan
 - Review of historical finances
 - Discussion around top-of-mind objectives: What do Board members like about past LCM? What they would like to see in the future?
 - Goal: Review potential operating models and how they relate to potential objectives with Board members and receive general feedback (no formal direction)
- Engage stakeholders (TAC & former LCM employees)
- Continue conversations with possible third-party operators
- Continue conversations with other re-use entities

September

- Continue conversations with possible third-party operators
- Continue conversations with other re-use entities
- **September Finance & Personnel Committees:** Provide project status update in General Manager's Comments
- **September Board Meeting:** Provide project status update and high-level analysis of various operating models. Seek approval for third-party request for qualifications (RFQ) process.
- Analyze financial sustainability of a staff-operated model
- Engage stakeholders (community members & LCM customers)

October

- Issue third-party operator request for qualifications (RFQ)

November & December

- **November/December Board Meeting:** Present results of third-party operator RFQ and analysis of a staff-operated model. Provide recommendation to Board.
- Work with former employees or third-party operator as to contract specifics
 - Develop operating standards
 - COVID-19 safety plan integration
 - Legal considerations/review

OPERATING MODELS

District Criteria

- Meet diversion objectives – through waste stream re-directions and donations
- Promote re-use within communities
- Maintain financial sustainability – keep operations at or close to break-even

Model	Operating Structure	Benefits	Risks	Notes
MRWMD Staffed	<ul style="list-style-type: none"> • 100% staffed by MRWMD employees • Staff level reduced to align with revenues • Store hours reduced to match reduced staffing • Retain “LCM” name 	<ul style="list-style-type: none"> • Achieves MRWMD objectives of diversion and re-use • Re-hire laid off employees • Staff knowledgeable of operations and clientele • Staff knowledgeable of integration with District operations 	<ul style="list-style-type: none"> • Difficult to keep labor costs in line with revenues over time • Revenue under reduced hours may not meet plans • Price increases may drive some customers away 	<ul style="list-style-type: none"> • May have to restructure compensation to maintain financial sustainability
3rd Party Staffed	<ul style="list-style-type: none"> • 3rd party takes over all aspects of store operation: management, staffing, donations, inventory, pricing, financial sustainability • MRWMD continues to divert waste to store • 3rd party leases facility from MRWMD • MRWMD maintains building, yard (and mobile capital equip?) • Retain “LCM” name 	<ul style="list-style-type: none"> • Achieves MRWMD objectives of diversion, re-use, and cost control • Broadens benefit to community to include 3rd party’s mission (beyond diversion); e.g., job training • May inject new vigor into LCM retail experience 	<ul style="list-style-type: none"> • District loses control of store operations • 3rd party may find it unsustainable over the long term • 3rd party may be unable to provide adequate staff • Limited District control over 3rd party staffing policies and procedures • Potential District exposure for 3rd party actions 	<ul style="list-style-type: none"> • District Staff will continue to salvage materials from the MRF public tipping area for diversion and resale at the LCM
Hybrid Staffing	<ul style="list-style-type: none"> • Operations managed by MRWMD • Staffing provided by 3rd party • Facility, equipment owned & maintained by District • Retain “LCM” name 	<ul style="list-style-type: none"> • Achieves MRWMD objectives of diversion and re-use • District maintains control of operations • Broadens benefit to community to include 3rd party’s mission (beyond diversion); e.g., job training • 3rd party staffing may enable adequate cost control 	<ul style="list-style-type: none"> • Lack of control for 3rd party may undermine its commitment • 3rd party may be unable to provide adequate staff • Limited District control over 3rd party staffing policies and procedures • Potential District exposure for 3rd party actions 	<ul style="list-style-type: none"> • District Staff will continue to salvage materials from the MRF public tipping area for diversion and resale at the LCM