



Memorandum

MONTEREY REGIONAL WASTE MANAGEMENT DISTRICT

DATE: April 16, 2021
 TO: General Manager
 FROM: Last Chance Mercantile (LCM) Task Force
 SUBJECT: LCM Operations Recommendation Update

Reviewed by:  Date: 4/16/21
 General Manager

RECOMMENDATION: Authorize staff to initiate negotiations with the Veterans Transition Center of Monterey County for the re-opening of the Last Chance Mercantile.

BACKGROUND

At the outset of the Monterey County Shelter-in-Place order in March of 2020 for the COVID-19 pandemic, the District temporarily closed the Last Chance Mercantile (LCM) as it is not an essential service that would be allowed to stay open during the County's order. At the same time, the District was forced to re-examine and forecast a new budget for the Fiscal Year 2020/2021 that anticipated potential impacts of COVID-19 on the business activities of the District for the coming year. Due to concerns over decreasing business volumes, combined with OE3 union members overwhelming vote to decline wage concessions, the District chose to maintain the temporary closure of the LCM, lay-off the staff, and initiate an assessment of how to re-open the store in a financially sustainable manner.

The District's original decision to run the store itself came about only after former General Manager David Meyers was unable to find a community non-profit to operate it at that time (the early 1990's). Since then - over 25 years ago - store operations have essentially been unchanged. Staff viewed the pandemic-forced closure as a unique opportunity to examine the operations afresh; a chance to re-imagine an LCM that not only delivers on the District's core mission of diversion in a more financially sustainable manner but does so in a way that delivers optimal benefits to the community. We approached this project as a clean slate with no pre-conceptions as to limits or methods. In staff's view, this assessment has reflected our essential obligation to practice good stewardship of the public's interests, something expected of us by the ratepayers and the community.

The LCM Task Force has followed a deliberative, transparent process to understand the Board's objectives, examine options for meeting those objectives and explore ways to create an operation that could reach the full potential of the Last Chance. The analysis has involved Board members, former LCM employees, current union members and representatives, customers, and members of the public. To recap this process, we provide the following timeline:

- March 17th, 2020 - Closed the LCM and CRV Buy-Back program to meet requirements of Shelter in Place order and offered LCM staff the opportunity to work in other departments (Site and MRF) temporarily or to take a paid leave.

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- April 2020 – Management began to assess the impacts of COVID-19 on the FY 20/21 Budget and review ways to reduce expenses and programmatic losses. LCM program losses were identified as an area of concern and a review of options was begun. The Buy-Back program was determined to be shuttered for the foreseeable future until traffic concerns of customers coming to the site on foot and on bike could be addressed, and policy issues surrounding programmatic funding by the State of California could be remedied.
- May 2020 – Retirement eligible staff other than the General Manager and Directors were given the opportunity for an incentivized early retirement to help reduce costs for the FY 20/21 budget, minimizing the need to reduce staffing expenses through other means. Fifteen employees took the early retirement option. The General Manager and Directors agreed to pay cuts and a COLA deferral; the Management Unit agreed to a COLA deferral; and OE3 represented personnel were asked to agree to a COLA deferral to assist the District in presenting a budget with projected revenue reductions due to COVID-19 impacts.
- May 2020 – LCM staff returned to work to prepare the LCM for a COVID-19 conditional re-opening upon the assumptions that 1) Monterey County would allow for some restricted retail activities to commence, and 2) OE3 represented personnel would agree to defer their MOU prescribed wage increases (COLA).
- May 28, 2020 – Union membership voted to reject the proposal to defer pay increases. Staff was then informed that lay-offs would need to be implemented.
- June 2020 – Upon approval of the budget by the Board of Directors on June 22, 2020, the LCM staff (11) and three employees from other departments were given notice of layoff and the public was informed that the LCM would continue to be closed during COVID-19 until such time as the District felt it could be opened safely and after a review of how it should be operated in the future.
- July 2020 – The General Manager established the LCM Task Force and informed the Board that staff would work to re-open the LCM in coordination with both the Finance and Personnel Committees of the Board. Staff committed to bring a full update to the Board in September and to seek direction as to engaging community stakeholders in how to make the LCM function safely in a COVID-19 world and to be financially sustainable.
- August and September 2020 – LCM Task Force members held multiple meetings with former staff members, OE3 representatives, other reuse retail operations and thrift store operators to understand the challenges that thrift and reuse operations were facing during the pandemic and to gather their thoughts on how to make the LCM more financially sustainable.
- September 2020 – the Task Force consulted with the Finance and Personnel Committees to identify objectives, priorities and opportunities of the program and recommended the issuance of an RFQ to solicit the interest of other organizations in the community to operate the facility. In addition, staff informed the committees that it was developing an operating model for a District staff operated store. The committees supported both approaches and confirmed the primary objectives of the LCM being a financially sustainable operation (breakeven or better) that continues to achieve increased diversion of materials from the waste stream.

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- September 2020 – The full Board confirmed the objectives and priorities of the LCM as identified by the Board Committees, reaffirmed the District’s commitment to re-opening the facility, and approved the issuance of an RFQ to explore options available to the District in addition to a District staffed operation.
- October 2020 – Staff reviewed the timeline of issuing the RFQ with the Board committees. At the October Board meeting staff reviewed the RFQ and set the expectation that the Board would receive a full report of the responses at the January Board meeting. In both Committee meetings and at the full Board meeting, the LCM Task Force provided a review and opportunity for comment on the Board’s previously determined priorities and objectives of the project, reiterating the stated highest priorities being financial sustainability and continued waste diversion.
- November and December 2020 – the Task Force held meetings with the former LCM staff to exchange and discuss ideas for both cost savings and increases in sales activities. The Task Force also received, reviewed, and asked for further clarifications from the two respondents to the RFQ, Veterans Transition Services of Monterey (VTC) and Second Chance Thrift, a program of the Bridge Ministries. The product of this work was presented in subsequent Board meetings in January and February.
- January 2021 – At the full Board meeting, both Veterans Transition Center of Monterey County (VTC) and Second Chance Thrift Store, a program of The Bridge Ministries, made presentations about their organizations and the approach that each would take toward operating the LCM. The Board packet included the full RFQ responses from both organizations along with the staff’s operating plan for an LCM run by District personnel. Staff sought further feedback and input from Board members as to the assessment criteria and process to follow to bring a recommendation forward to the Board.
- February 2021 – At the Committee meetings and the full Board meeting, the Task Force provided a full financial model and operating plan of a District staff led operation, as well as an analysis of the three options under consideration. This analysis provided a side-by-side matrix of the various aspects of each proposal within five (5) areas of evaluation, along with a summary of the strengths and weaknesses of each proposal. Staff led a discussion about the weighting of the priorities against which the Board would like to have the proposals assessed as the staff developed its recommendation. There was continued concurrence that a financially sustainable model that provided the District continued increased opportunities for reuse diversion were the Board’s primary objectives. A third priority was identified through those discussions for having jobs that provided a Living Wage and giving consideration to the approach that impacted the broadest number of wage earners in the community.
- March 2021 – At the full Board meeting, staff presented their recommendation to commence contract negotiations with VTC for the operation of the LCM. This recommendation was based on a collaborative process of the Leadership Team to determine the option that best met the objectives and priorities as determined by the Board, and was in the best near term and long-term interests of the District and the community at-large. All three options were determined qualified and viable by the Task Force and the recommendation to the Board indicated that. At the meeting the Board asked for additional information to be provide at the April 2021 Board meeting

DISCUSSION

Restatement of recommendation

Staff believes selecting the VTC is the best option for the District. VTC offers the District the highest probability of meeting the main objectives established by the Board over the past nine months of deliberation.

- **Primary Objective (1)** – Continue the diversion of waste through the promotion and facilitation of material reuse:

VTC is best positioned to deliver on the District’s mission of diversion and reuse.

- More and higher quality donations – leveraging an existing donation network; offering donation pick up service; providing tax-deductible credits for donated items.
 - More customer services, such as a delivery service for customer purchases.
 - Expanded programs focused on re-use – VTC has the organizational experience of developing and funding new programs. If new programs, such as repair, can expand VTC’s training mission, they will be motivated to pursue them.
 - Secondary reuse diversion channel for unsold goods in different market operated by the Disabled American Veterans, Fresno.
 - Potential to draw in more customers – VTC’s many programs and deep community roots could help to expand LCM’s customer base.
- **Primary Objective (2)** – Operate the LCM in a way that is financially sustainable for the District:

The VTC provides the greatest opportunity to achieve financial sustainability for the District.

- VTC will operate the store at no cost to the District (except for costs related to relationship management, quality oversight and operations integration.)
 - A portion of VTC’s financial upside could be re-invested into the LCM; this is currently projected and conditionally offered at 10% of sales.
 - VTC has the resources and experience to generate donations and grant funding to support this project.
- **Secondary Objective (3)** – Support jobs having fair wages and benefits:

VTC will provide jobs that meet Living Wage standards to the greatest number of people.

- Wages and total compensation compare favorably with the District’s pay scale.

At the March Board meeting, concerns were voiced over the perception that VTC would not be compensating its LCM staff fairly. District staff shares the Board’s desire to ensure any partner we engage is compensating employees fairly. Upon hearing the comments at the meeting, VTC decided to raise the starting wage for its lowest paid positions. The “apples to apples” comparison presented in this report shows that, not only do the proposed VTC wages meet living wage standards, but for many positions, both wages and total compensation would be higher for VTC personnel compared to District staff. Please see the compensation analysis that follows.

VTC’s core focus is empowering vets to move from crisis to self-sufficiency. Part of this is achieved through job training, for which the LCM will become a central platform. Operating the LCM provides a way to extend the job skills and earnings potential for 5-10 Monterey County residents every year. VTC wages and wrap-around service benefits equate to significantly more than a Living Wage in Monterey County.

- **Secondary Objective (4)** – Maintain District control over its reputation in the community:

VTC is a highly regarded contributor to the well-being of residents in the community and has a reputation to protect.

VTC's reputation is hard-earned and a demonstration of their ability to meet the expectations of the community at large as well as of their partners. In all of its interactions with the District's staff, VTC has expressed a commitment to engaging the District in both on-site store operations and collaborative community outreach efforts that bring the benefits and importance of waste reduction and reuse to the public. The District and VTC will enter into a formal agreement that will establish expectations of facility performance and customer engagement and relations. Staff believes that a relationship with VTC will enhance the overall reputation of both organizations due to the broader range of benefits and services that this partnership offers to the community.

This recommendation is supported by the analysis staff provided for past Board meetings. In particular, the side-by-side option qualifications comparison and strengths-weaknesses summary provided in the February Board packet, and the staff memo that includes option ranking by both qualifications and objectives that was provided in the March Board packet show analysis that supports this recommendation. Staff provides these documents again in this packet for easy reference.

In addition, Board members requested more information on several topics, including those regarding the VTC's financial operations and their compensation, benefits, and client services. Staff addresses these topics below. In staff's opinion, this information further supports the recommendation.

Historical financial condition of LCM

A decade ago, the LCM was close to a break-even operation. Since that time, the District added several other programs under the LCM umbrella, mostly because of shared facilities and shared staffing. Those programs included e-waste recycling, a buy back center for bottles and cans and the staffing of a customer recycling drop-off facility. Revenues for those added programs fell short of costs. In the meantime, revenues for the re-sale store operation remained virtually unchanged while store staff compensation costs grew by 30%. By FY18/19 – the last full year of operations – the combined operations lost approximately \$670,000 (the LCM store portion of that loss was ~\$324,000).

To understand the costs associated with the re-sale operation alone, staff provides the following table showing historical and recent financial performance. Of the total loss, about half is attributable to non-store programs. In FY18/19, the store itself lost about 41 cents for every dollar of revenue.

LAST CHANCE MERCANTILE				
Business Unit Analysis - March 2021				
(\$000)	FY09/10	FY17/18	FY18/19	FY18/19 Store Only
REVENUE				
LCM Store	\$731	\$790	\$797	\$797
E-Waste Revenue	\$141	None	None	
Buy Back Center CRV				
CRV	Incl.	\$323	\$230	
Commodity values	Incl.	\$52	\$37	
Total BBC Revenue		\$375	\$267	
TOTAL REVENUE	\$872	\$1,165	\$1,064	\$797
EXPENSES				
LCM Store				
Personnel Costs	\$782	\$993	\$1,017	\$1,017
Operating Expenses	\$87	\$78	\$104	\$104
Subtotal LCM Store	\$869	\$1,071	\$1,121	\$1,121
Buy Back Center + E-waste				
Personnel Costs		\$253	\$266	
Operating Expenses		\$293	\$284	
Subtotal BBC + E-waste	\$0	\$546	\$550	
Other				
Z-Wall Attendant		\$60	\$63	
TOTAL EXPENSES	\$869	\$1,677	\$1,734	\$1,121
LOSS FROM OPERATIONS	\$3	(\$512)	(\$670)	(\$324)

Comparison of staffing and compensation – VTC and MRWMD-staffed LCM

Staffing

Under the proposed options, VTC plans to run the LCM using 10 full-time staff and 6 part-time staff, for a total of 16 positions. By comparison, the staffing plan that District staff believes has the potential of being financially sustainable involves using 6 full-time, fully benefited staff members and 5 part-time, non-union, non-benefited staff, for a total of 11 positions. VTC, a non-profit organization, is not a unionized workplace.

We remind the Board that in the fall, a group of the former LCM employees proposed to the District that all laid-off staff be hired back at 90% of the full time, fully benefited wage scale. After discussions with the union, these employees withdrew that proposal and instead proposed the staffing structure under consideration today. The table below shows the positions and headcount under the VTC and MRWMD options.

Not included in the District-run staff count – or in the financial projections – is the expectation that this option will likely take approximately 25% of the Director of Operations' time for the first 12-18 months to oversee the re-launch and oversight of the LCM and 15-20% of time thereafter. Also not included are any Public Education department staff time to support and promote the facility's activities, or any additional administrative expenses. While some District resources are also expected to be required to coordinate the VTC option, staff expects a significantly lower need.

VTC			MRWMD		
Position	FT	PT (%)	Position	FT	PT (%)
Director		1 (50%)			
LCM Manager	1		LCM Manager	1	
LCM Asst. Manager	1				
Supervisor	1		Supervisor	1	
Sales Associate	2		Sales Associate	1	
Sales Assistant	2	4 (50%)	Sales Assistant	3	5 (50%)
Driver Lead	1				
Driver Labor	2				
Admin. Assistant		1 (50%)			
TOTALS	10	6		6	5

Wages and compensation

The following charts compare hourly wages and total compensation between the VTC and MRWMD options. As is evident, while both hourly wages and total compensation are higher for MRWMD employed managers and supervisors, the VTC wage scale significantly benefits lower paid staff. After hearing the concerns raised by some board members at last month’s board meeting, VTC decided to raise the starting hourly wage for Sales Associates to \$21 and to \$18 for Sales Assistants. To enable VTC to make this increase work financially, VTC has proposed to make the shared reserve of 10% of revenue contingent upon receipt of grants and financial donations (assumed in their financial model). This shared reserve, part of the VTC proposal, is designed to be a jointly administered pool of funds to be reinvested into the LCM. No such reserve is assumed in the District-run financial model.



A detailed analysis of the compensation components that inform these charts can be found in Exhibit A at the end of this memorandum. As discussed at previous board meetings, an important part of the compensation provided by VTC is a mix of in-kind benefits provided to program participants who would be filling Sales Associate, Sales Assistant, and other positions. These benefits include housing, transportation, case management, career coaching, food and household supplies. The value of these benefits is outlined in the exhibit. The wages and benefits provided under the VTC proposal put all the identified positions well above the threshold for a ‘Living Wage’ in Monterey County.

Former LCM staff proposals to increase profit

In discussions with the Task Force, former LCM staff made a number of recommendations to both increase revenue and reduce costs at the store. For example, former staff surveyed area thrift stores and found comparable pricing to be anywhere from 10-300% higher. The former staff made specific pricing increase recommendations for various types of items. They also suggested offering “Sales Day” events for seniors and

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students at reduced costs and proposed conducting on-line sales and auctions through Facebook Marketplace, Craigslist, and other services.

On the expense side, the most significant cost-cutting proposal by former employees was to run the store using the staffing structure discussed above. This includes having a much smaller number of full-time staff and utilizing part-time, unbenefited positions.

A compilation of all the changes recommended by both current and former staff members can be found in the description provided in the February Board meeting packet – Last Chance Mercantile Reopening: MRWMD Staffed Operation. This document is included in this packet for easy reference.

VTC's approach to breaking even

VTC is projecting several ways to generate the income required to cover operating costs. These revenue programs are categorized as follows:

- Increase material sales (\$200k+ per year) by:
 - Raising average prices for all items in the store by 5-10%.
 - Increasing material (inventory) donations by leveraging existing and new collection services and VTC's non-profit charitable donation status (something not available to the District).
- Increase revenues through new activities (not previously done at the Last Chance):
 - Offering for-fee collection for donations and delivery services for purchases (\$200k+ per year).
 - Generating income through tax credits, foundation and other grant revenues (\$125k+ per year).

On the cost side, though VTC Management and Supervisory wages are lower than for MRWMD staff, total compensation for VTC employees is projected to be almost twice the amount paid in the District-run option. VTC is able to do this because the non-cash benefits provided to VTC program participants – housing, transportation, counselling, food, etc. – are reflected elsewhere on VTC's books. Said another way, VTC's homeless transition programs will subsidize store operations by over \$500,000 per year.


FINANCIAL IMPACT

VTC's proposed financial arrangement would not require any financial contributions by the District for the day-to-day operations of the facility. The District is committed to continue to invest in the maintenance of the grounds and buildings of the LCM. VTC is offering 10% of gross sales revenue to be placed in a Joint Reserve Fund for site and facility improvements that would be jointly determined, contingent upon receipt of foundation grants and individual donations.


With the selection of VTC there will be District staff time needed for the integration of the new operations and operator with existing MRWMD staff. This work will be done largely by Tim Brownell, Director of Operations, along with MRF operations team members. This will not require any additional staff to be hired, so there will be no direct costs to the District. There may be an undefinable "opportunity cost" of these activities should they require more work than anticipated by staff during the transition. Long-term, there will only be costs associated with the oversight of the contract and the collaboration on joint promotions.

CONCLUSION

As stated in previous Board meetings and reports to the Board, the District is in the enviable position of having three very viable options to provide this service to the community. The Leadership Team, using a collaborative decision-making process has determined that VTC was the option that rose to the top when weighted against the priorities that the staff and Board developed, discussed, and determined were in the best interest of the District and the community. After the discussions at the March Board meeting and upon review of the additional information provided in response to those discussions, the entire Leadership Team, to a person, supports the recommendation to the Board to authorize staff to initiate contract negotiations with the Veterans Transition Center of Monterey County for the re-opening of the Last Chance Mercantile.



Tim Brownell



Zoe Shoats



Peter Skinner

EXHIBIT A

VTC											
Position	FT/PT	Number	Hrly Rate	Ann. Hrs	Wages	Health/Ret. Benefits	PTO/Sick Leave	Other Benefits*	Total Position Comp	Ave. Hourly Comp.	Total Comp
Director	PT	1	\$45.00	1,040	46,800	\$4,590	\$2,768		\$54,158	\$52.08	\$54,158
LCM Manager	FT	1	\$30.00	2,080	62,400	\$7,620	\$3,690		\$73,710	\$35.44	\$73,710
LCM Asst. Manager	FT	1	\$27.00	2,080	56,160	\$7,308	\$3,321		\$66,789	\$32.11	\$66,789
Supervisor	FT	1	\$24.00	2,080	49,920	\$6,996	\$2,952		\$59,868	\$28.78	\$59,868
Sales Associate	FT	2	\$21.00	2,080	43,680	\$6,684	\$2,583	\$49,176	\$102,123	\$49.10	\$204,246
Sales Assistant	FT	2	\$19.00	2,080	39,520	\$6,476	\$2,337	\$49,176	\$97,509	\$46.88	\$195,018
Sales Assistant - Part Time	PT	4	\$18.00	1,040	18,720	\$3,186	\$1,107	\$49,176	\$72,189	\$69.41	\$288,756
Driver Lead	FT	1	\$24.00	2,080	49,920	\$6,996	\$2,952		\$59,868	\$28.78	\$59,868
Driver Labor	FT	2	\$20.00	2,080	41,600	\$6,580	\$2,858	\$49,176	\$100,214	\$48.18	\$200,428
Admin. Assistant	PT	1	\$20.00	1,040	20,800	\$3,290	\$1,230	\$49,176	\$74,496	\$71.63	\$74,496
TOTALS		16									\$1,277,337

MRWMD											
Position	FT/PT	Number	Hrly Rate	Ann. Hrs	Wages	Health/Ret. Benefits	PTO/Sick Leave	Other Benefits*	Total Position Comp	Ave. Hourly Comp.	Total Comp
LCM Manager	FT	1	\$45.00	2,080	93,600	39,366	\$12,240		\$145,206	\$69.81	\$145,206
Supervisor	FT	1	\$35.97	2,080	74,813	35,232	\$9,783	\$1,870	\$121,698	\$58.51	\$121,698
Sales Associate	FT	1	\$24.63	2,080	51,225	30,043	\$6,699	\$2,561	\$90,528	\$43.52	\$90,528
Sales Assistant	FT	3	\$17.07	2,080	35,500	26,584	\$4,642		\$66,725	\$32.08	\$200,176
Sales Assistant - Part Time	PT	5	\$16.80	1,040	17,471		\$2,285		\$19,756	\$19.00	\$98,780
TOTALS		11									\$656,388

*** Other Benefits**

VTC	Housing, transportation, case management, career coach, food, supplies
MRWMD	Longevity stipends

VTC Other Benefits

(Subsidized costs)

Housing/utilities	\$2,129
Transportation	\$752
Case Management	\$611
Career Coaching	\$176
Food	\$385
Supplies	<u>\$45</u>
Total per Month	\$4,098
Annualized	\$49,176



Memorandum

MONTEREY REGIONAL WASTE MANAGEMENT DISTRICT

Reviewed by: [Signature] Date: 3/15/21
General Manager

DATE: March 15, 2021
TO: Tim Flanagan, General Manager
FROM: Tim Brownell, Zoe Shoats, Peter Skinner
SUBJECT: Recommendation for re-opening of the Last Chance Mercantile

RECOMMENDATION: Authorize staff to initiate negotiations with the Veterans Transition Center of Monterey County for the re-opening of the Last Chance Mercantile.

SUMMARY

Staff is recommending the District engage the Veterans Transition Center of Monterey County (VTC) to operate the Last Chance Mercantile (LCM). Staff comes to this recommendation after an extensive evaluation of the options available to the District and following considerable internal discussion and debate. As staff discussed with the Board earlier, staff believes that the District could succeed with any of the three options under consideration. Each option presents unique benefits and risks. Staff has concluded, however, that a partnership with the VTC will provide the greatest opportunity to advance the mission of the District with the least amount of risk.

BACKGROUND

One year ago the State of California issued a Shelter in Place mandate in response to the COVID-19 pandemic and the District closed the Last Chance Mercantile. As the months progressed, and the endurance of the pandemic became apparent, along with its impact on customer and employee safety and on the District's operations and revenue, it was apparent that significant adjustments in LCM operations were required. In response, the District chose to keep the LCM closed and begin an evaluation of how best to re-open the store. The primary goals of the project were to re-launch the LCM in a way that met the District's mission, was safe for both employees and customers, and was economically sustainable.

In the intervening months, staff has developed and evaluated three alternative approaches. These include two options that have the retail operations run by a third party and one option that has the store run by the District. To assess third party interest, staff issued a Request for Qualifications, received two responses and conducted extensive due diligence to evaluate each party's interests, priorities, organizational capabilities, and operations. In addition, both parties were invited to present their organizations to the Board at the January Board meeting.

For the District run option, staff engaged a range of stakeholders, including former LCM employees, current District employees, union representatives and members of the community. Staff had multiple meetings with former LCM employees and the OE3 business agent to discuss ways to operate the store in a more financially sustainable manner. Staff reviewed cost assumptions and gathered ideas on how various operating changes could be made to reduce costs. The former employees also proposed a reduced store staffing framework, which was incorporated into the final model after discussion with the union. The former employees also provided ideas on new pricing strategies. With the help of all of this input, staff created an operating model designed to meet the project objectives.

A summarization of these three options was presented to the Board at the February Board meeting. This analysis included a detailed comparison of the qualifications related to each option and a summary of their strengths and weaknesses. In addition, at the same meeting staff confirmed with the Board the Board's priorities for the project.

DISCUSSION

Recommendation

Staff is recommending the VTC because the overall benefits their organization would bring to the District, and their proposed manner of operating the LCM, best meet the District's LCM re-opening project priorities. These benefits are summarized as follows:

- The VTC is best positioned to deliver on the District's mission of diversion and supporting reuse in the long term through the depth of their organization, the funding relationships available to them through a variety of governmental and community-based sources, and the breadth of their volunteer resources. The VTC has existing and planned activities and connections in the community for the expansion of both the quantity and quality of donations to the LCM that would enhance the LCM's visibility and sales. The VTC's mission also supports a close alignment with the District's commitment to running the LCM. The LCM provides an important foundation for the third leg of their focus, which includes: 1) providing housing to end homelessness of veterans in this region, 2) providing counseling and training to return vets to an independent and meaningful life, and 3) providing routine job-skill training so individuals can obtain fulltime employment.
- The VTC provides the greatest opportunity to achieve financial sustainability for the LCM. The VTC has a well-established history of delivering services through a range of programs. It has a deep volunteer base able to support its programs, as well as experience in seeking grant funding to expand operations. The VTC will operate the LCM at no cost to the District, except for costs related to relationship management, quality oversight and operations integration. A portion of the VTC's financial upside will be re-invested into the LCM, proposed at 10% of sales.
- The VTC's core focus is empowering vets to move from crisis to self-sufficiency. Part of this is achieved through job training, for which the LCM will become a central platform. Operating the LCM provides a way to enhance the job skills and earnings potential for hundreds of Monterey County residents.
- The VTC is committed to ensuring the District will have ample input in decisions and practices that might impact District operations or reputation. The VTC is a highly regarded contributor to the well-being of residents in the community. This reputation is hard-earned and a demonstration of their ability to meet the expectations of the community at large and their partners. In all its interactions with District's staff, VTC has shown a commitment to engage the District in coordinating on-site operations and has emphasized a priority of working collaboratively in the community to engage the public in the benefits of the program and the importance of waste reduction and reuse.

How staff evaluated options

Staff approached this decision from several directions in order to both inform and validate the conclusions. These included:

1. Option Ranking:

First, staff ranked the options against the five-part matrix of Qualifications that were presented to the Board at the February meeting. Second, staff ranked each option against the Priorities discussed at various times throughout the project, including at the February Board meeting. For the Priorities, staff assigned a weighted

value, based on the feedback heard from the Board. Both of these ranking assessments can be found in the attachment to this report.

While these attempts at a quantitative assessment of the District's options were instructive, the results were not conclusive. The results failed to produce a consistent winner and illustrated how close the alternatives were. This process did help validate staff's sense that the District had three very viable options from which to move forward with the re-opening of the LCM. However, the exercise did help to highlight the relative strengths and weaknesses of each option and where the trade-offs lie, making the recommendation of which option to move forward with a choice about the priorities and of the long-term vision of the LCM for the District.

2. Other considerations:

- a. Is retail core to the District's business? This is one of the fundamental questions that staff confronted throughout the process. The question is not one of whether the LCM should re-open or not, as the Board and community were very clear upon that issue. The question is whether the function of operating a retail store by the District's staff and management is consistent with the core waste management operations conducted on the site. The majority of District operations are focused on material acceptance, movement, recovery/recycling, equipment operations and environmental compliance. The product marketing, merchandizing, customer service and management skills required for a successful retail store are distinctly different from those other activities.

Yet the engagement with the public in such a manner brings benefits to the District's brand and to the entire staff's relationship with waste reduction. In the balance of the assessment, staff's recommendation is weighting the importance of having another organization focus on the retail fiscal and operational management while the District maintains the overall brand control with the LCM name and program still on the site, and management and staff focus our sights on the present and expanding recovery programs that the member agencies and surrounding region entrust the District with and expect it to achieve.

- b. If selecting a third-party organization to operate the facility, how do we value current competence versus future potential? With Second Chance, the District has the option to move forward with a well-seasoned operator that has a demonstrated track record of retail experience and success. The VTC offers a longstanding organization with varied funding sources, a deep volunteer base to assist in their program, and extensive relationships with local and regional governmental entities and organizations. In the recommendation that staff is providing, it is anticipating that the VTC can find the experienced management necessary to operate the LCM and will be able to access and engage a broader portion of the community than either other option.
- c. Ranked voting and collaborative decision making: The Leadership Team reviewed all the materials provided by the LCM Task Force and utilized a ranked voting process to see how the options were being viewed by the group as a whole. This process initially resulted in a three-way tie when the individual Leadership Team members first rated the options. It took several conversations to formulate a recommendation to be brought forward for the Board's consideration. Through a collaborative decision-making process, the Leadership Team discussed all the proposed options to determine which options garnered the confidence and support of all members of the group. After several conversations, the VTC was the option that had the greatest level of support from the General Manager in particular and the team in general.

Risks and risk mitigation

Staff views the greatest risk associated with selecting the VTC to operate the store is the organization's lack of thrift store retail experience. It is the VTC's intention to hire retail expertise immediately to oversee operations. There is risk that the VTC will encounter difficulty finding the right management level personnel to fill the need. There is also risk that it will take the VTC time to "learn the ropes" of operating a thrift store. This may reflect negatively on the District. Staff believes this risk can be mitigated by engaging experienced people to advise them on getting the new LCM off the ground expeditiously. Such resources are available, and staff will encourage the VTC to initiate this activity immediately.

FINANCIAL IMPACT

Staff believes the recommended option represents the greatest opportunity to deliver a vibrant, high-quality retail experience at the least financial risk to the District. The VTC has committed to operate the LCM at no cost to the District and contribute 10% of revenue to a reserve fund dedicated to investment in store operations and facilities. Nevertheless, the District will need to dedicate staff time to ensuring the store operates in a way that meets expectations. Staff time will be required for management oversight, contract/relationship administration and ensuring appropriate integration with related District operations. Such resources are expected to come from existing positions and personnel.

CONCLUSION

Staff is very pleased with the process, extremely thankful for the interest and effort of all of the parties and individuals involved, and appreciative of the Board for their direction and thoughtful input over the past year. As the Board can see from this report, this is a difficult decision when selecting from three very qualified options. If the recommendation for moving forward with the VTC is followed, staff will begin immediately to enter into contract negotiations with the hopes of having a contract prepared no later than for the May 21st Board meeting, with the intention of the commencement of operations of the LCM in beginning in July.

Attachment

OPTION RANKINGS

Staff created the following ranking framework to illustrate how the options compared with each other across a number of characteristics. The rankings are structured in two parts: 1) a comparison of the options against the key qualifications staff viewed as most indicative of potential success in operating the Last Chance Mercantile; these characteristics were all weighted equally; 2) a comparison of the options against key priorities of the Board; these categories were weighted by importance. Summaries are shown below, followed by the detailed rankings by staff. A lower score results from higher rankings.

QUALIFICATIONS	Second Chance	VTC	MRWMD
1. Organization qualifications & fit with District mission and objectives			
2. Operational approach			
3. Employment approach			
4. Benefits to District			
5. Risks to District			
TOTAL SCORE	39.0	42.0	40.0
AVERAGE	1.8	2.0	1.9
RANK	1	3	2

PRIORITIES	Weight	Second Chance	VTC	MRWMD
1. Diversion and reuse	40%			
2. Financial sustainability	40%			
3. Support well-paid jobs with benefits	10%			
4. District control over operations/reputation	10%			
TOTAL SCORE		21.0	18.0	17.0
WEIGHTED AVERAGE		1.92	1.88	1.97
RANK		2	1	3

Attachment

OPTION RANKINGS

QUALIFICATIONS	Second Chance	VTC	MRWMD
1. Organization qualifications & fit with District mission and objectives			
Organizational mission and program priorities	2	3	1
Experience in delivering services and programs (including reuse retail)	1	3	2
Key personnel qualifications	1	2	3
Performance record	1	3	2
Financial stability	3	2	1
Sub Total	8	13	9
Average	1.6	2.6	1.8
Rank	1	3	2
2. Operational approach			
Retail strategy – donations, merchandising, marketing...	1	3	2
COVID-19 safety approach	1	1	1
Innovation opportunities or potential	1	2	3
Sub Total	3.0	6.0	6.0
Average	1	2	2
Rank	1	2	2
3. Employment approach			
Staffing Plan	1	3	2
Pay	3	2	1
Benefits	3	2	1
Opportunities for former LCM Staff	3	2	1
Skill development and training	2	1	3
Sub Total	12.0	10.0	8.0
Average	2.4	2.00	1.6
Rank	3	2	1
4. Benefits to District			
Customer base and reach	3	1	2
Services	1	2	3
Financial	2	1	3
Reputational/Brand	3	1	2
Sub Total	9.0	5.0	10.0
Average	2.25	1.25	2.5
Rank	2	1	3
5. Risks to District			
Financial	2	1	3
Operational	1	3	2
Legal	2	2	1
Reputational/Brand	2	2	1
Sub Total	7.0	8.0	7.0
Average	1.75	2.00	1.75
Rank	1	2	1
TOTAL SCORE	39.0	42.0	40.0
AVERAGE	1.8	2.0	1.9
RANK	1	3	2

Attachment

OPTION RANKINGS

PRIORITIES	Second Chance	VTC	MRWMD
1. Diversion and reuse			
Reuse retail expertise	1	3	2
Potential for innovation	1	2	3
Sub Total	2	5	5
Weighted Sub Total	0.8	2.0	2.0
Average	1	2.5	2.5
Weighted Average	0.40	1.00	1.00
Rank	1	2	2
2. Financial sustainability			
Organizational depth	3	2	1
Revenue diversification	3	1	1
Financial risk/cost to District	2	1	3
Sub Total	8.0	4.0	5.0
Weighted Sub Total	3.2	1.6	2.0
Average	2.7	1.3	1.7
Weighted Average	1.07	0.53	0.67
Rank	3	1	2
3. Support well-paid jobs with benefits			
High wages and benefits for employees	3	2	1
Broad impact on community wage earners	2	1	3
Sub Total	5	3	4
Weighted Sub Total	0.5	0.3	0.4
Average	2.5	1.5	2.0
Weighted Average	0.25	0.15	0.20
Rank	3	1	2
4. District control over operations/reputation			
District control over employees	2	2	1
District control over operating practices	2	2	1
Integration with District operations	2	2	1
Sub Total	6.0	6.0	3.0
Weighted Sub Total	0.6	0.6	0.3
Average	2.0	2.0	1.0
Weighted Average	0.20	0.20	0.10
Rank	2	2	1
TOTAL SCORE	21.0	18.0	17.0
TOTAL SCORE - Weighted Averages	1.92	1.88	1.97
RANK	2	1	3



Memorandum

MONTEREY REGIONAL WASTE MANAGEMENT DISTRICT

DATE: February 12, 2021
TO: General Manager
FROM: Last Chance Mercantile Re-Opening Task Force
SUBJECT: Review of Re-opening Options

Reviewed by: [Signature] Date: 2/12/21
General Manager

RECOMMENDATION: For discussion and direction to staff.

The Last Chance Mercantile Re-Opening Task Force (Task Force) is providing the attached analysis of District options for re-starting LCM operations for review and discussion at the February 19 meeting. At this month's meetings of both the Finance and Personnel committees, staff reviewed project objectives and the process for rendering a decision. Committee members recommended that staff present a comparison of the three options under consideration at the upcoming Board meeting for a full review and discussion. The Committees further recommended deferring a final decision to the March meeting.

Project objectives

At the outset of this project, staff discussed with the Board the District's goals for the re-opening of the LCM. As the project has progressed, additional objectives and priorities have been raised. Staff used the Committee meetings this month to solicit further feedback on priorities and came away with the following top priorities, in order of importance.

1. Continue the diversion of waste from the landfill through the promotion and facilitation of material reuse.
2. Operate the LCM in a financially sustainable manner.
3. Support jobs having fair wages and benefits.
4. Maintain the District control over its reputation in the community.

At this meeting, staff seeks to confirm these other priorities or make changes as desired by the Board.

Option analysis

The attached analysis provides a side-by-side view of three re-opening options available to the District at this time: 1) the Second Chance Thrift Store, 2) the Veterans Transition Center, and 3) a MRWMD run operation.

Staff will review with the Board this analysis and be available for further questions and direction.

Also attached is an updated description of the District-operated option, together with a financial projection providing a multi-year view of this option. For details on the two third parties who made presentations to the Board at the January meeting, please see refer to the materials provided in the Board packet for that meeting.

1. Organization qualifications & fit with District mission and objectives

	Second Chance	VTC	District-Operated
Organizational mission and program priorities	<p><u>Mission (The Bridge):</u> "We exist to provide a residential setting for those struggling with addictions, providing safety, structure, discipleship and supervision for the purpose of restoring them back to God, family, work and community."</p> <p><u>Why LCM:</u> Two priorities: 1) expand vocational opportunities; and 2) increase reutilization of used goods. Operating LCM would address both goals.</p>	<p><u>Mission:</u> Empower vets to move from crisis to self-sufficiency.</p> <p><u>Why LCM:</u> Has had a goal of establishing own thrift store to support: 1) jobs for job training; 2) revenue diversification; 3) expand donor network/donations.</p> <p>LCM provides:</p> <ol style="list-style-type: none"> 1. established facility 2. job training 3. addl. revenue & diversification 4. leverage donor network 5. household needs for their clients 	<p><u>Mission:</u> "The mission of the District is turning waste into resources in the most cost-effective and environmentally-sound manner to benefit the community."</p> <p><u>Why LCM:</u> 1) To show the environmental stewardship and economic benefit that reuse and redistribution of reusables provides to our community; 2) to divert materials from the landfill; 3) programmatic embodiment of the highest level of solid waste hierarchy.</p>
Experience in delivering services and programs (including reuse retail)	<ul style="list-style-type: none"> • 16 years operating a growing number of rehabilitation and vocational training programs including: a culinary program, janitorial program, and thrift store operations • Serves 35 residents currently, capacity for 40 residents. • 10 years of operating Second Chance Thrift Store in Pacific Grove; second store added in Monterey in 2015. • Successful thrift store retail practices developed over years of operating current stores 	<ul style="list-style-type: none"> • 23 years operating a growing number of programs, including: sobriety programs, job training and placement, community housing, transportation, and clothing, furniture & food donation and distribution. • Capacity to serve 55 residents. • Large volunteer network • No direct used goods/thrift retail management experience • Experience in receiving and distributing donated items 	<ul style="list-style-type: none"> • 30 years of experience • Last Chance opened in 1991 as an auction and moved to its existing location in 1996.

Key personnel qualifications

- Leadership team of three (3) including: executive director, program/store manager and director of operations.
- Program/store manager has strong reuse retail and repurposing experience along with a personal passion for it.
- Seasoned management team
- Board of Directors made up of veterans; formal governance practices and procedures in-place.
- Influential local advisors & partners
- COO leaving organization; replacement will be hired if awarded.
- Do not have existing management personnel on staff for store.
- Leadership Team, management and administrative teams serving 116 employees.
- Director of operations who is experienced in starting and managing successful reuse retail operations.
- Experienced assistant manager with 23 years' experience
- Average Former LCM staff experience:
 - Mgmt./supervisors: 17 years
 - FT labor: 9 years
 - PT labor: 3 years

Performance record

- 16 years history of successful development, operation and growth of both rehabilitation programs and reuse thrift stores.
- Combined budget of Bridge Restoration Ministry and Second Chance Thrift Store ~\$1M.
- 2020 showed first loss in Second Chance operations due to maintaining payroll of staff during COVID-related mandated store closures.
- Budget growth from \$1.3 to 3.2M in past 4 years
- During the economic downturn because of the pandemic, VTC's budget increased \$1M.
- Named CA Nonprofit of the Year for 29th Assembly District in 2017
- Named Monterey County Service Provider of the Year twice by the Nonprofit Alliance of Monterey County
- Maintained steady revenues over past decade in face of increased reuse retail competition
- Growing operating losses
- Voted "Best Eco-Friendly Business" by Monterey County Weekly readers 5 years in a row (2015-2020).

Financial stability

- Funding derived approximately half from public donations and grants and half from thrift store revenue.
- Liquidity (current assets/current liabilities): 4.3x
- Operating efficiency (operating margin): 7.9% (entire organization)
- Diverse funding sources (22 in total)
- Multi-year contracts from 3 federal agencies (VA, HHS, HUD); 1 State agency (Dept of Corrections), Mo. County, and 3 cities (Marina, Seaside, Monterey)
- Liquidity (current assets/current liabilities): 1.4x
- Operating efficiency (operating margin): 20%
- Backed by District operations and rate-setting structure.

2. Operational approach

	Second Chance	VTC	District-Operated
Retail strategy – donations, merchandising, marketing...	<ul style="list-style-type: none"> • Will leverage proven thrift store retail practices developed in current stores, including: <ul style="list-style-type: none"> ○ Re-sale goods donations via drop-offs and pick-ups ○ In-store merchandising and product rotation ○ Product pricing policies based on age in store ○ Online sales through Amazon, Shopify, Poshmark, Mercari & Offer Up ○ Customer engagement practices that include use of social media, electronic customer alerts via e-mail and text for things like special promotions, coupons, and Community Corner, a consignment area for handmade and up-cycled goods. • Textile recycling/upcycling of unusable textile into rags and yarn balls. • Projections assume no revenue increase from historical, but their leadership believes revenues will increase based on sales and marketing strategies and maximizing large footprint of the store. • 501(c)3 donation credits eligible 	<ul style="list-style-type: none"> • Approach is to recruit an experienced retail manager to run the store. • Will build on existing VTC donor program; and add a fee-based pick-up service. • Use of promotions, such as Clothing Issue Day for discounted clothing. • Marketing strategy overseen by VTC marketing manager. • Assuming a 10% per year revenue increase, primarily due to increased donation flow. • 501(c)3 donation credits eligible 	<ul style="list-style-type: none"> • Building upon past experience operating the LCM, will seek to expand strategy to include: <ul style="list-style-type: none"> ○ Online sales ○ Budgeted 15% price increase • Engage consulting services from SCORE and Urban Ore or others to examine other ways to improve operations to increase revenue and diversion. <ul style="list-style-type: none"> ○ Merchandising ○ Pricing strategies ○ Online sales
COVID-19 safety approach	<ul style="list-style-type: none"> • COVID-19 safety strategy in-place in their current reuse retail operations including store 	<ul style="list-style-type: none"> • Utilize existing protocols in current operations from Federal, State & County agencies. 	<ul style="list-style-type: none"> • Plan developed by MRWMD staff in conjunction with In-Focus, a

occupancy protocols, customer sanitizing stations, staff safety measures, and quarantining of incoming items before they're placed for sale.

safety consultant under contract with the District.

- Customer limits based on State tiers.
- Temperature testing, hand sanitizers, plastic partitions for cashiers.
- Restocking at beginning and end of day to keep customers from lingering.

Innovation opportunities or potential

- Potential to introduce new, but tested retail strategies to LCM, including:
 - Merchandising
 - Rotation of goods through multiple outlets
 - Use of online sales
 - "Community Corner" upcycling/consignment program
 - Donation pick-up service
 - Collaboration with other thrift stores to recycle clothing and other materials through brokers to increase revenue and diversion for items that aren't sold.
- Other innovations taking advantage of large space.
- POS system (Lightspeed) in place.
- Donation strategy to increase availability & quality of goods through pick-up.
- Satellite donation drop-offs using containers.
- Delivery of sold items for a fee.
- Possible additional activities:
 - Bike and other repair services
 - LCM as platform for trade skills development in partnership with other entities
- Utilizing the facility for other programmatic purposes and cross promotional sales.
- Sales of products promoting sustainable living (e.g., reusable containers to replace single-use items)
- Landscape product displays to encourage purchasing.
- Reuse/repair cafes organized by District

3. Employment approach

	Second Chance	VTC	District-Operated
Staffing Plan	<ul style="list-style-type: none"> Plan for shared management of two senior leadership positions between two stores with a heavy presence to get store re-launched successfully. One dedicated store manager assigned at LCM. 7-10 FTE (paid) at LCM. Use of vocational program trainees (volunteers 12+ mos. duration) Other sources of workforce: <ul style="list-style-type: none"> Work Alternative through Monterey County & Turning Point through Monterey County Works 	<ul style="list-style-type: none"> 3.5 FTE management: COO (PT), store manager, asst. manager, case manager 5 FTE sales 4 PT sales: VTC residential program (6-12 mos. duration) + program alumni 1 ops + 3 pick-up service staff 0.5 FTE admin Potential use of military spouses, volunteers and/or temporary staff. 	<ul style="list-style-type: none"> Director of operations ¼ to ½ time dedicated to store for first year (time not incl. in operating costs) Asst. manager in first year LCM store manager for second year and beyond 6 FTE (incl. management position) 5 PT employees
Pay	<ul style="list-style-type: none"> Current projected average \$16.88/hr. at both stores, minimum rate \$14.50/hr. \$2.50/hr. average burden Plan to bring employees closer to \$20/hr. average as store's financial performance stabilizes. 	<ul style="list-style-type: none"> Average management wage \$23.50/hr. (excl. COO) Average labor wage: \$15.00/hr. min. No prescribed COLA or benefit increase. 	<ul style="list-style-type: none"> OE3-negotiated pay rates for FT & PT employees (excl. Dir. of ops) <ul style="list-style-type: none"> Average management/supervisor wage: \$36.25/hr. Average labor wage: <ul style="list-style-type: none"> FT \$21.00/hr. PT \$17.35/hr. Annual COLA and step increases
Benefits	<ul style="list-style-type: none"> Worker's comp & taxes Dental, vision, life insurance benefits with no out-of-pocket expenses for employee Most employees covered by Medi-Cal or Covered California Seeking to provide employer-health benefit without high-deductible. 	<ul style="list-style-type: none"> Group health insurance plan 401k with 5% match Paid vacation & sick leave Program participants receive housing, food, transportation and clothing in addition to counseling while in program. 	<ul style="list-style-type: none"> OE3-negotiated benefits for 6 FT employees: <ul style="list-style-type: none"> CalPERS pension Medical Dental Life 457b 2-7% step match Sick/vacation time EAP counseling No benefits for PT employees

- Program participants receive housing, food and clothing in addition to counseling and classes for a minimum of one year while in program.

Opportunities for former LCM Staff

- “Former LCM employees would certainly be considered for positions under our management should they choose to apply with us.”
- Soft skills relative to management and motivation of residential clients strongly preferred.
- “While our goal is to employ current formerly-homeless veteran clients, their spouses and our alumni, VTC will consider priority employment be given to former LCM staff.”
- Separate case managers assigned (funded by other VTC program).
- 6 of 10 hired back (7th already re-hired for Site Crew under call back program)
- 3 others offered PT opportunity.
- PT employees eligible for in-house promotions in same or other departments

Skill development and training

- Primary focus of mission is vocational training to help people become independent.
- Builds self-esteem and a sense of accomplishment in the area of work ethics.
- Receive training to provide job skills and stability themselves and their families upon graduation from the program.
- Primary focus of mission is vocational training to help people become independent.
- Give veterans tools and training they need to overcome physical and mental traumas to move out of homelessness through on-the-job training.
- Work with 3rd party consultants to expand in-store activities and systems and help develop staff skills.

4. **Benefits to District**

	Second Chance	VTC	District-Operated
Customer base and reach	<ul style="list-style-type: none"> • Tax deductibility could expand customer base. • Expanded reach for donations through pick-ups • Online sales and multiple outlets increase probability of sale/diversion of an item 	<ul style="list-style-type: none"> • Tax deductibility could expand customer base. • Expanded reach for donations through pick-ups and satellite drop-offs. • Hard-to-sell items (60 days) transferred to Disabled American Veterans (DAV) in Fresno thrift store. 	<ul style="list-style-type: none"> • Existing relationship with current customer base would be maintained. • Expanded online sales activity would be an expectation.
Services	<ul style="list-style-type: none"> • Store operation 6 days/week • Pick-up of donated items 	<ul style="list-style-type: none"> • Projections based on 5 days/week but could expand to 6 days/week dependent upon increased transaction volume. • Pick-up of donated items • Delivery of purchased items for a fee 	<ul style="list-style-type: none"> • 5 days/week sales, 6 days/week donations • Expanded online sales. • Streamlined process for staff and customers to ensure consistency of pricing (stop staff-hopping by customers to get best price) • Removal of CRV Buyback Center, e-waste, and landscape product sales to focus staff on LCM activities. • Potential for other reuse programming and District services/promotions in a staff-run facility.
Financial	<ul style="list-style-type: none"> • Open to discuss revenue/profit sharing. • No added cost to the District except cost of contract manager/district liaison. 	<ul style="list-style-type: none"> • 10% of revenues would go to a jointly controlled reserve fund for facility and program improvements. • No added cost to the District except cost of contract manager/district liaison. 	<ul style="list-style-type: none"> • Staff will be engaged in and accountable for financial performance of LCM. (They had not been responsible or empowered prior to LCM closure.) • A financially sustainable operation long-term

Reputational/Brand

- Community benefit organization with reputation for operating high quality programs for at-risk populations and retail stores.
- Potential to extend the District's impact with faith-based communities.
- Potential to expand the District's impact on the community by association with this partner.
- Community benefit organization with reputation for operating high quality programs for at-risk populations.
- High-profile org with relationships with local and regional decision makers.
- Potential to expand the District's impact on the community by association with this partner.
- Maintain the current positive public experience of the LCM.
- District control over in-store messaging as it relates to sustainability practices site-wide.

5. Risks to District

	Second Chance	VTC	District-Operated
Financial	<ul style="list-style-type: none"> • Small organization without ability to absorb significant financial setbacks. <ul style="list-style-type: none"> ○ Access to The Bridge reserves for small Second Chance/LCM deficits 	<ul style="list-style-type: none"> • Potential for reconsideration of involvement should projections not be met and experience financial losses. 	<ul style="list-style-type: none"> • Regular price increases would be required to keep pace with District labor costs. • Potential for union pressure to eliminate part-time positions in future negotiations
Operational	<ul style="list-style-type: none"> • Dependence on small management/leadership team subject organization to key-person risks. • Adding LCM would represent significant growth, increasing staffing and budget by ~150% • May be unfamiliar with needs of existing LCM customer base. • Expected turnover (12 months) of program participants could impact customer relations. • Potential use of volunteers may impact customer experience. 	<ul style="list-style-type: none"> • No direct thrift store experience. • May be unfamiliar with needs of existing LCM customer base. • Expected turnover (6-12 months) of program participants could impact customer relations. • Potential use of volunteers may impact customer experience. 	<ul style="list-style-type: none"> • Due to recall policy for laid-off employees, the LCM staff would be predominately the same as before. There will be new expectations and skillsets (online sales, profit/loss responsibilities) that will be new to staff.
Legal	<ul style="list-style-type: none"> • Potential legal liability from customer/staff interaction not under District control. • Customer injury or accident exposure. • Need to establish guidelines to ensure adequate church/state separation. 	<ul style="list-style-type: none"> • Potential legal liability from customer/staff interaction not under District control. • Customer injury or accident exposure. 	<ul style="list-style-type: none"> • Same legal liabilities as other aspects of MRWMD operations.

Reputational/Brand

- Transition to a third-party operator may have an impact on our customers.
- Staff conduct not subject to District control.
- LCM fails to meet operator's objectives and District is required to change operations again.
- Transition to a third-party operator may have an impact on our customers.
- Staff conduct not subject to District control.
- No historical focus on waste reduction activities.
- LCM fails to meet operator's objectives and District is required to change operations again.
- LCM operations fails to evolve as desired/expected and District is required to change operations again.

LCM - DISTRICT STAFFED AND OPERATED OPTION

All \$\$ in Thousands	3-Year Average	FY 2021 Budget Pre-COVID*	Q4 Apr-Jun 2021	Q1 Jul-Sep 2021	Q2 Oct-Dec 2021	Q3 Jan-Mar 2022	Q4 Apr-Jun 2022	Fiscal Year 22/23	Fiscal Year 23/24	Fiscal Year 24/25
OPERATING REVENUES										
Baseline Revenue	\$790	\$800	\$200	\$230	\$230	\$230	\$230	\$920	\$948	\$976
Price Increases			15%	0%	0%	0%	0%	3%	3%	3%
New Revenue Baseline			\$230	\$230	\$230	\$230	\$230	\$948	\$976	\$1,005
Re-start Ramp-up			65%	75%	85%	100%	100%	100%	100%	100%
TOTAL REVENUES	\$790	\$800	\$150	\$173	\$196	\$230	\$230	\$948	\$976	\$1,005
OPERATING EXPENSES										
PERSONNEL EXPENSES										
Full time employees		15	6	6	6	6	6	6	6	6
Part time employees			5	5	5	5	5	5	5	5
Wages	\$922	\$910	\$118	\$123	\$123	\$127	\$127	\$527	\$542	\$559
Taxes & Benefits										
Healthcare	251	264	\$34	\$34	\$34	\$36	\$36	\$148	\$153	\$157
CalPERS	99	155	\$17	\$18	\$18	\$18	\$18	\$75	\$77	\$80
Workers Compensation	71	85	\$12	\$13	\$13	\$13	\$13	\$53	\$55	\$56
Other Benefits	20	12	\$1	\$1	\$1	\$1	\$1	\$5	\$5	\$5
Taxes	12	13	\$2	\$2	\$2	\$2	\$2	\$8	\$8	\$8
Total Taxes & Benefits	452	529	\$66	\$67	\$67	\$70	\$70	\$289	\$298	\$307
SUBTOTAL	\$1,374	\$1,438	\$184	\$190	\$190	\$198	\$198	\$816	\$840	\$865
NON-PERSONNEL EXPENSES										
Contractual Services	\$12	\$20	\$4	\$4	\$4	\$4	\$4	\$16	\$16	\$17
Gasoline, Oil & Fuel	\$1	\$2	\$0	\$0	\$0	\$0	\$0	\$1	\$1	\$1
Office Expense	\$3	\$6	\$8	\$8	\$8	\$4	\$4	\$15	\$15	\$16
Operating Supplies	\$13	\$15	\$1	\$1	\$1	\$1	\$1	\$5	\$5	\$6
Professional Services	\$11	\$12	\$8	\$8	\$8	\$7	\$7	\$28	\$28	\$29
Repairs & Maintenance	\$37	\$30	\$7	\$7	\$7	\$7	\$7	\$29	\$30	\$31
Safety Equip/Supplies/Training	\$12	\$10	\$2	\$2	\$2	\$2	\$2	\$10	\$10	\$11
Training/Meetings/Education	\$0	\$0	\$1	\$1	\$1	\$1	\$1	\$3	\$3	\$3
Other Expense	\$1	\$1	\$0	\$0	\$0	\$0	\$0	\$1	\$1	\$1
SUBTOTAL	\$90	\$95	\$32	\$32	\$32	\$26	\$26	\$108	\$111	\$114
TOTAL OPERATING EXPENSES	\$1,464	\$1,533	\$216	\$222	\$222	\$224	\$224	\$924	\$951	\$980
NET INCOME (LOSS)	(\$674)	(\$733)	(\$66)	(\$49)	(\$26)	\$6	\$6	\$24	\$25	\$26
Cumulative Net			(\$66)	(\$116)	(\$142)	(\$136)	(\$130)	(\$106)	(\$81)	(\$55)

* Pre-COVID budget assumed no BBC and no landscape product sales

LAST CHANCE MERCANTILE RE-OPENING: MRWMD STAFFED OPERATIONS

FEBRUARY 12, 2021

Summary

The LCM Task Force has been reviewing the historical operations of the Last Chance Mercantile to assess the feasibility of creating a District-run operating plan that would meet the goals of re-opening safely during and after the COVID-19 pandemic and doing so in a more financially sustainable manner. This process has included talking with other facility operators and organizations, as well as meeting with former staff members to solicit ideas and feedback.

The following is a preliminary summary of possible adjustments and assumptions that could be made to meet those objectives, as desired by the District's Leadership Team and Board of Directors. This is a working document, provided to the Board to show staff's current thinking regarding the feasibility of this option. The success of a District-run operation will be dependent upon achieving a range of conditions. The Task Force is continuing to refine these conditions and assumptions and will provide further analysis in February.

Key Program Adjustments and Assumptions

Program Reductions

The activities and responsibilities of the LCM staff would be reduced to the sole functions of:

1. Receiving and processing customer-donated and MRF-recovered reusable items for resale;
2. Pricing, stocking, and display of items for sale;
3. Customer assistance and service for sales and material handling; and,
4. Online sales, store promotions and other marketing, and other customer engagement activities

The activities that would no longer be conducted by the LCM staff are as follows:

1. The Container Redemption Value (CRV) Buy Back Center: The CRV Buy Back Center was closed because of the State and County Shelter in Place orders in March, and due to significant safety concerns raised by pedestrian and bicycle traffic on Charlie Benson Rd. In addition, the lack of CalRecycle funding to support the operations (loss of approximately \$300k/yr.), contributed to the closure decision. A new CRV buy back center has subsequently opened in Seaside.
2. Electronic Waste (E-Waste) acceptance and processing: With the temporary closure of the LCM, this activity has been handled by the Household Hazardous Waste (HHW) facility. The HHW staff have proven to be well-equipped to accept and handle these materials and this activity within the other operations of the facility. It has not required any additional staff to be hired for the HHW.
3. Staffing of the public Recycling Drop-Off station ("Z-Wall"): For many years the District had positioned a staff person at the Z-Wall to direct the public to the appropriate containers and to monitor the materials that the public wanted to drop off. This was certainly needed when the District was selling and/or delivering the materials to other material processors. However, since the opening of the MRF, the District has more capacity to process marginally contaminated materials over the MRF sort lines. Staff will continue to monitor the materials to assure that there is no "illegal" dumping of materials in the containers for avoidance of paying disposal fees. If in the future the quality of the materials becomes a problem, regardless of how the LCM is

LAST CHANCE MERCANTILE RE-OPENING: MRWMD STAFFED OPERATIONS

FEBRUARY 12, 2021

operated, either the MRF or Site Operations staff will take on the responsibility of staffing the Z-Wall operations.

4. Landscape Product Sales: Landscape product sales are in the process of being transferred from the MRF staff to Keith Day Company. Keith Day will have the ability to sell and load both bag sales and bulk sales of compost, topsoil, and woodchips. Additionally, they will be adding additional compost and soil options, aggregate materials (stone/rock), and various colored woodchip options for the public. This change will free up time and costs at the LCM and enhance the options for the public for landscaping products on the site.

Staffing Reductions and Costs

Due to the changes and reductions in the scope of the services and activities of the LCM staff, the Task Force believes that the staff can be reduced from 15 full-time staff members to 6 full-time and 4 or 5 part-time employees. This staffing should support maintaining retail store hours of Tuesday through Saturday and accepting donations Monday through Saturday.

1. Total staff reduced from 15 to 10 or 11.
2. Eliminated positions vacated due to retirement and not replaced due to reductions of LCM activities:
 - a. LCM/HHW Manager
 - b. 1 -Sales associate
 - c. 1- Sales assistant
 - d. 1- Z-Wall attendant
 - e. Associate operator
3. Staff suggestion: Operate with a staff of 6 FTE's and 4 PT (non-benefitted) staff members. This would include the following positions:
 - a. 1 Asst manager
 - b. 1 Supervisor
 - c. 1 Sales associate
 - d. 3 Sales assistants – Full-time
 - e. 5 Deputy sales assistants – Part-time up to 28 hours/wk. each (5th position is to backfill for vacation/sick/WC needs)
4. Laid off employees called back according to needs defined by re-calibrated job descriptions. Call-back prioritization based on job requirements and seniority.
5. Compensation aligned with existing pay schedules. PT staff would receive rate of pay at existing pay schedule, including step increases, but would not be union-represented or receiving benefits unless working an average of greater than 30 hours per week on a permanent scheduled basis.
6. To prevent personnel costs from escalating beyond what the store can support, full-time positions will be capped at 6. Additional staffing needs will be addressed by using part-time deputy-level staffing.
7. In year two, the asst manager position in the OE3 Operations Unit would be replaced by an LCM manager position represented by the Management Unit. This will result in an approximate 15% increase in funding for the change in position responsibilities.

LAST CHANCE MERCANTILE RE-OPENING: MRWMD STAFFED OPERATIONS

FEBRUARY 12, 2021

Store operations

1. Store hours unchanged. Open 5 days per week – Tuesday through Saturday.
2. Store staff on site Tuesday through Saturday. Asst. LCM manager on site Monday through Friday. Supervisor would oversee the Saturday operations.

Stock inventory twice per day: morning and end of day. Will eliminate need for customers to linger waiting for new goods to arrive.

COVID-related safety

1. During the pandemic, safety protocols limit the number of customers in the facility to the percentage of facility capacity based on the Monterey County Health Department directives.
2. Implementation of the comprehensive COVID-19 safety plan and protocols developed for the LCM, with review and assistance from InFocus, the District's safety consultant.
3. Sanitation protocols incorporated into employees' duties.
4. Assume pandemic impact is removed by October 2021.

Operating expenses

Operating expenses have been adjusted due to the programmatic reduction of activities that the LCM will be undertaking. Operating expenses other than staffing make up approximately 15% of the overall programmatic expenses. Staff related expenses make up approximately 85% of the operations costs.

Notable Operating Expense Highlights:

1. Investment in staff training expected during first year of operations, utilizing resources at SCORE for general retail operations training and an organization like Urban Ore, experienced in re-selling used goods.
2. Other operating expense projections tied to historical costs, increased by a 3% inflation factor annually.
3. Cost savings :
 - a. Reduction of vehicles to one. Remove P/U truck and one flatbed
 - b. Reduction of fuel expenses, minimal forklift use
 - c. Reduction of operating supplies with elimination of soil sales and sales receipt books for those transactions
 - d. Eliminate temporary staff support

Facilities and Other Capital Investments

1. Improve heating system. (This will be required regardless of what entity operates the facility going forward.)
2. Remodel rest rooms; make available for staff only. Provide portable toilets for customers.

LAST CHANCE MERCANTILE RE-OPENING: MRWMD STAFFED OPERATIONS

FEBRUARY 12, 2021

Revenue Increases

This is where the greatest risk exists for the creation of this operating model. The facility has not increased the prices of items in any consistent or meaningful way over the past seven years. A price list was established in 2014 and has been unchanged since that time. Overall revenues for the LCM have been remarkably consistent for the past 10 years. The Task Force envisions a pre-opening 10-20% increase in prices (15% average). It is not known how this will be accepted by the current customer base, many of whom are resellers of the items that they purchase. The former staff has researched and presented to the task force their findings of price comparisons with multiple other thrift stores in the regions, and the LCM is significantly (25-300%) under their pricing, depending on the items. So, there is plenty of room for price increases but the impact on sales of those increases is unknowable at this time.

Also, there will be a lag time for the return-to-normal sales activity, both due to the County's COVID restrictions as well as the impacts of the year-long closure of the facility.

1. Volumes projected to begin at 65% of historical volumes due to length of current closure and COVID limitations
2. Return-to-normal volume increase projections:
 - a. 75% after 3 months
 - b. 100% after 12 months
3. Price increase assumptions:
 - a. 15% at re-opening
 - b. 3% annually after first year
4. Other revenue enhancement strategies:
 - a. Special promotions:
 - i. Senior days
 - ii. Student discount time periods
 - b. Online product promotions on Facebook; hold items for pick up on Friday.
 - c. Increase clothing prices
 - d. Establish simplified price list
 - e. A uniform price haggling approach. This would be accomplished through only two staff members being (one for inside sales and one for outdoor sales) being authorized to set prices during any shift. Eliminates the ability for public to price check with multiple staff members. [This is controversial. Many staff believe it should be continued as it is a distinguishing characteristic of store.]

Overall Impact of Changes

Initial analysis suggests that if all of the assumptions and adjustments to the costs/expenses and revenues are achieved, it may be possible to build a financially sustainable program that is break-even after the first 12 to 18 months of operations. Reaching that break-even point may require an additional investment of \$100,000 - \$200,000 in the first year.

SUMMARY OF STRENGTHS AND WEAKNESSES

Option	Second Chance	VTC	MRWMD
Strengths	<ul style="list-style-type: none"> • Knowledgeable leadership team with many years of program creation, sustenance, and expansion • Established organization addressing needs of at-risk populations • Deep thrift retail experience <ul style="list-style-type: none"> ○ able to hit the ground running, requiring little District guidance ○ Immediately improve LCM store operations and retail effectiveness • Strong commitment to environmental mission of reuse, repair, repurposing used goods • Strong reputation of providing valuable services to community/county • No cost to District beyond management oversight & coordination 	<ul style="list-style-type: none"> • Knowledgeable leadership team with many years of program creation, sustenance, and expansion • Established organization addressing needs of at-risk populations • Strong financial foundation, likely enabling on-going program investment • Experience developing/managing used goods donation program • Solid compensation plan for workforce • Strong reputation with extensive support of many local politicians and public benefit organizations • No cost to District beyond management oversight & coordination 	<ul style="list-style-type: none"> • Workforce is knowledgeable of District operations and store mechanics • Workforce is committed to operating store in financially sustainable way • Relationships with existing customers and experience with their needs and expectations • High pay scale for all workforce; rich benefits program for FTEs • Financial backing of the District would allow for continuous operations • Strong commitment to reuse, repurposing used goods that is aligned with organization's mission
Weaknesses	<ul style="list-style-type: none"> • Thin management team; subject to key leadership risks • Lightly capitalized business; subject to economic volatility risks • Lower wage scale, limited benefits 	<ul style="list-style-type: none"> • No thrift retail experience; will have to hire expertise and learn business • Potential higher need for MRWMD involvement in start-up phase • Weaker linkage to District mission 	<ul style="list-style-type: none"> • Requires investment (\$100k-\$200k) to get to break-even operations • Compensation structure guarantees annual cost increases regardless of store performance • Workforce has no history of continuous program innovation or cost management practices

Last Chance Mercantile Re-opening

Presentation to Board of Directors
April 23, 2021





Additional information requested by the Board of Directors

1. Summary of staff recommendation
2. Historical breakdown of LCM losses
3. Comparison of staffing and compensation between VTC and the District run option
4. VTC's approach to breaking even
5. Staff suggestions to increase LCM profits



Staff recommendation

1. **Primary Objective (1) – Diversion of waste through material reuse:**
 - Existing donation network; donation pick up service; tax-deductible credits
 - More customer services, e.g., delivery service for customer purchases
 - Expanded re-use programs: Pursue funding for repair/expanded training
 - Existing Secondary diversion channel for unsold goods - Disabled American Veterans, Fresno
 - Potential to draw in more customers – VTC’s many programs and deep community roots

2. **Primary Objective (2) – Financial sustainability for the District:**
 - Resources and experience to generate donations and grant funding to support project
 - Will operate at no cost to District
 - (except relationship management, quality oversight and operations integration)
 - Potential for upside to be re-invested into the LCM



Staff recommendation (continued)

1. **Secondary Objective (1)** – Support jobs having fair wages and benefits:
 - VTC jobs meet Living Wage standards for the greatest number of people
 - Wages and total compensation compare favorably with the District's pay scale
 - Operating the LCM provides a way to extend the job skills and earnings potential for **5-10** Monterey County residents **each year**
 - VTC wages and wrap-around service benefits equate to significantly more than a Living Wage in Monterey County

2. **Secondary Objective (2)** – Maintain District control over reputation:
 - VTC's reputation is hard-earned and a demonstration of their ability to meet the expectations of the community and its partners

Breakdown of historical financials



(\$000)	FY09/10	FY17/18	FY18/19	FY18/19 Store Only
REVENUE				
LCM Store	\$731	\$790	\$797	\$797
E-Waste Revenue	\$141	None	None	
Buy Back Center CRV				
CRV	Incl.	\$323	\$230	
Commodity values	Incl.	\$52	\$37	
Total BBC Revenue		\$375	\$267	
TOTAL REVENUE	\$872	\$1,165	\$1,064	\$797
EXPENSES				
LCM Store				
Personnel Costs	\$782	\$993	\$1,017	\$1,017
Operating Expenses	\$87	\$78	\$104	\$104
Subtotal LCM Store	\$869	\$1,071	\$1,121	\$1,121
Buy Back Center + E-waste				
Personnel Costs		\$253	\$266	
Operating Expenses		\$293	\$284	
Subtotal BBC + E-waste	\$0	\$546	\$550	
Other				
Z-Wall Attendant		\$60	\$63	
TOTAL EXPENSES	\$869	\$1,677	\$1,734	\$1,121
LOSS FROM OPERATIONS	\$3	(\$512)	(\$670)	(\$324)

Comparison of positions and compensation – VTC & MRWMD option



VTC			MRWMD		
Position	FT	PT (%)	Position	FT	PT (%)
Director		1 (50%)			
LCM Manager	1		LCM Manager	1	
LCM Asst. Manager	1				
Supervisor	1		Supervisor	1	
Sales Associate	2		Sales Associate	1	
Sales Assistant	2	4 (50%)	Sales Assistant	3	5 (50%)
Driver Lead	1				
Driver Labor	2				
Admin. Assistant		1 (50%)			
TOTALS	10	6		6	5

Comparison of positions and compensation – VTC & MRWMD option



VTC											
Position	FT/PT	Number	Hrly Rate	Ann. Hrs	Wages	Health/Ret. Benefits	PTO/Sick Leave	Other Benefits*	Total Position Comp	Ave. Hourly Comp.	Total Comp
Director	PT	1	\$45.00	1,040	46,800	\$4,590	\$2,768		\$54,158	\$52.08	\$54,158
LCM Manager	FT	1	\$30.00	2,080	62,400	\$7,620	\$3,690		\$73,710	\$35.44	\$73,710
LCM Asst. Manager	FT	1	\$27.00	2,080	56,160	\$7,308	\$3,321		\$66,789	\$32.11	\$66,789
Supervisor	FT	1	\$24.00	2,080	49,920	\$6,996	\$2,952		\$59,868	\$28.78	\$59,868
Sales Associate	FT	2	\$21.00	2,080	43,680	\$6,684	\$2,583	\$49,176	\$102,123	\$49.10	\$204,246
Sales Assistant	FT	2	\$19.00	2,080	39,520	\$6,476	\$2,337	\$49,176	\$97,509	\$46.88	\$195,018
Sales Assistant - Part Time	PT	4	\$18.00	1,040	18,720	\$3,186	\$1,107	\$49,176	\$72,189	\$69.41	\$288,756
Driver Lead	FT	1	\$24.00	2,080	49,920	\$6,996	\$2,952		\$59,868	\$28.78	\$59,868
Driver Labor	FT	2	\$20.00	2,080	41,600	\$6,580	\$2,858	\$49,176	\$100,214	\$48.18	\$200,428
Admin. Assistant	PT	1	\$20.00	1,040	20,800	\$3,290	\$1,230	\$49,176	\$74,496	\$71.63	\$74,496
TOTALS		16									\$1,277,337

MRWMD											
Position	FT/PT	Number	Hrly Rate	Ann. Hrs	Wages	Health/Ret. Benefits	PTO/Sick Leave	Other Benefits*	Total Position Comp	Ave. Hourly Comp.	Total Comp
LCM Manager	FT	1	\$45.00	2,080	93,600	39,366	\$12,240		\$145,206	\$69.81	\$145,206
Supervisor	FT	1	\$35.97	2,080	74,813	35,232	\$9,783	\$1,870	\$121,698	\$58.51	\$121,698
Sales Associate	FT	1	\$24.63	2,080	51,225	30,043	\$6,699	\$2,561	\$90,528	\$43.52	\$90,528
Sales Assistant	FT	3	\$17.07	2,080	35,500	26,584	\$4,642		\$66,725	\$32.08	\$200,176
Sales Assistant - Part Time	PT	5	\$16.80	1,040	17,471		\$2,285		\$19,756	\$19.00	\$98,780
TOTALS		11									\$656,388

* Other Benefits

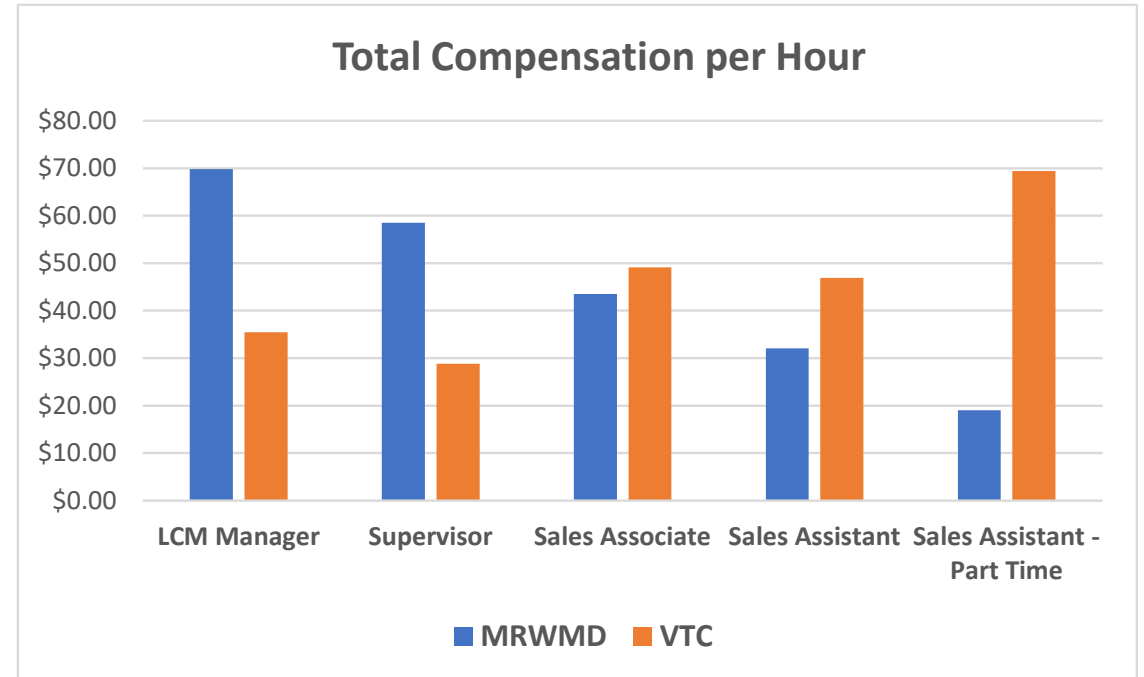
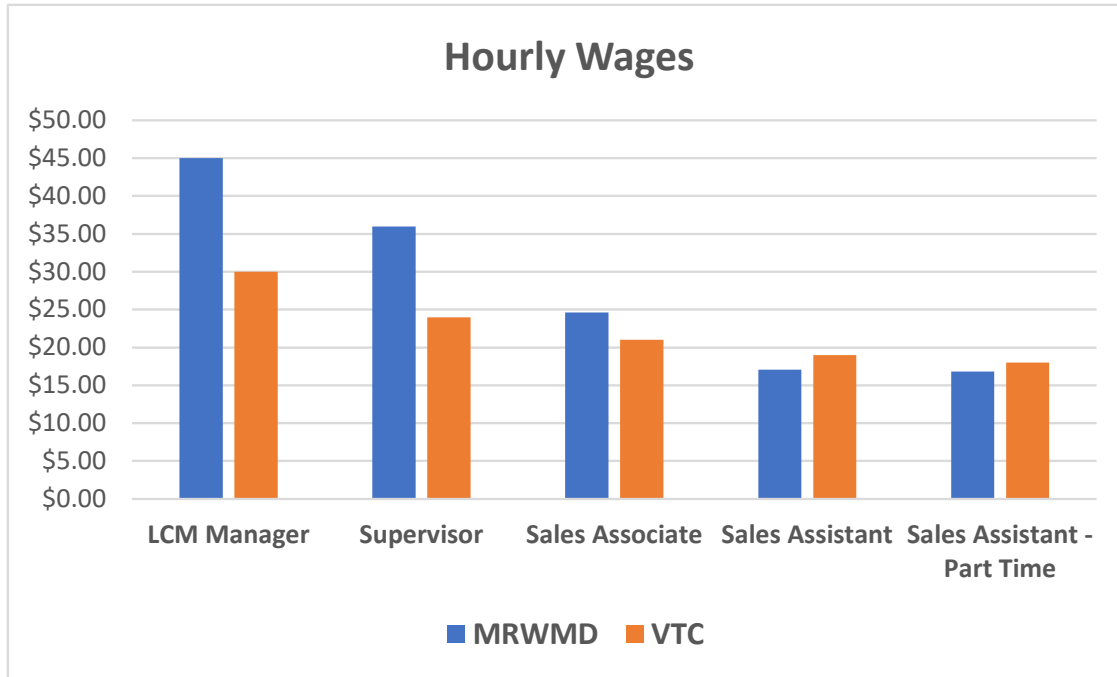
VTC

Housing, transportation, case management, career coach, food, supplies

MRWMD

Longevity stipends

Comparison of positions and compensation – VTC & MRWMD option



Comparison of positions and compensation – VTC & MRWMD option



VTC											
Position	FT/PT	Number	Hrly Rate	Ann. Hrs	Wages	Health/Ret. Benefits	PTO/Sick Leave	Other Benefits*	Total Position Comp	Ave. Hourly Comp.	Total Comp
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TOTALS		16									\$1,277,337

\$540K

MRWMD											
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Sales Assistant - Part Time	PT	5	\$16.80	1,040	17,471		\$2,285		\$19,756	\$19.00	\$98,780
TOTALS		11									\$656,388

* Other Benefits

VTC

Housing, transportation, case management, career coach, food, supplies

MRWMD

Longevity stipends



How does VTC's proposal close the gap to breakeven?

- Increase sales by \$200k+ per year:
 - Raise average prices for all items in the store by 5-10%.
 - Increase Donations through collection services and non-profit charitable donation status
- Increase revenues through new activities:
 - For-fee collection for donations and delivery services for purchases (\$200k+/yr)
- Tax Credits, Foundation and Other Grant Revenues (\$125k+/yr)
- Management and Supervisory wages are lower scale than MRWMD staff
- Creates potential Net Income of \$300k, for use in following:
 - 5% VTC reserve
 - 10% shared reserve (conditional)
 - \$150k returned to VTC support services



Former LCM staff suggestions to increase profits

- Raise prices for all items in the store. (Not increased since 2014)
 - Former staff surveyed area thrift stores and found comparable pricing to be anywhere from 10-300% higher.
- Offer “Sales Day” events for Seniors and Students (ie. 10% off)
- Expand on-line sales and auctions through Facebook Marketplace, Craigslist, etc.
- Reduction in operating expenses through program eliminations (Buy-Back, Landscape Sales), and staffing changes. Resulting in a staff decrease from 15 FTEs to 6 FTEs and 5 PT staff