



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