



Thrift Shop & Recycling Center Remodel ROI

AB5766

November 2, 2020

Presentation Overview

- How did we get here?
- Purpose and approach of analysis
- Analysis results
- How can we use this information?
- Other considerations for discussion
- Recommendations for motion



How did we get here?

- Challenge – Youth and Family Services Budget
 - The Thrift Shop provides significant financial benefit to the City's YFS department
 - Covid-19 constraints on operations significantly reduced revenue for 2020
 - Thrift Shop closed for an unknown duration provided opportunity to explore improved alternatives
- June 16, 2020 – AB5711
 - An early concept was developed with the goal of increasing retail floor space at the Thrift Shop and relocating processing and donations operations to the former Recycling Center site.
 - Council authorized \$50,000 for architectural services to support an effort to investigate feasibility
- September 22, 2020 – AB5753
 - Staff returned to Council with an update and presented two conceptual options
 - Both options achieved the goals of the project proposed in AB5711 with different approaches
 - Following discussion by Council, Staff clarified the nature of the next update that would be brought back – to investigate the potential return on investment for each option

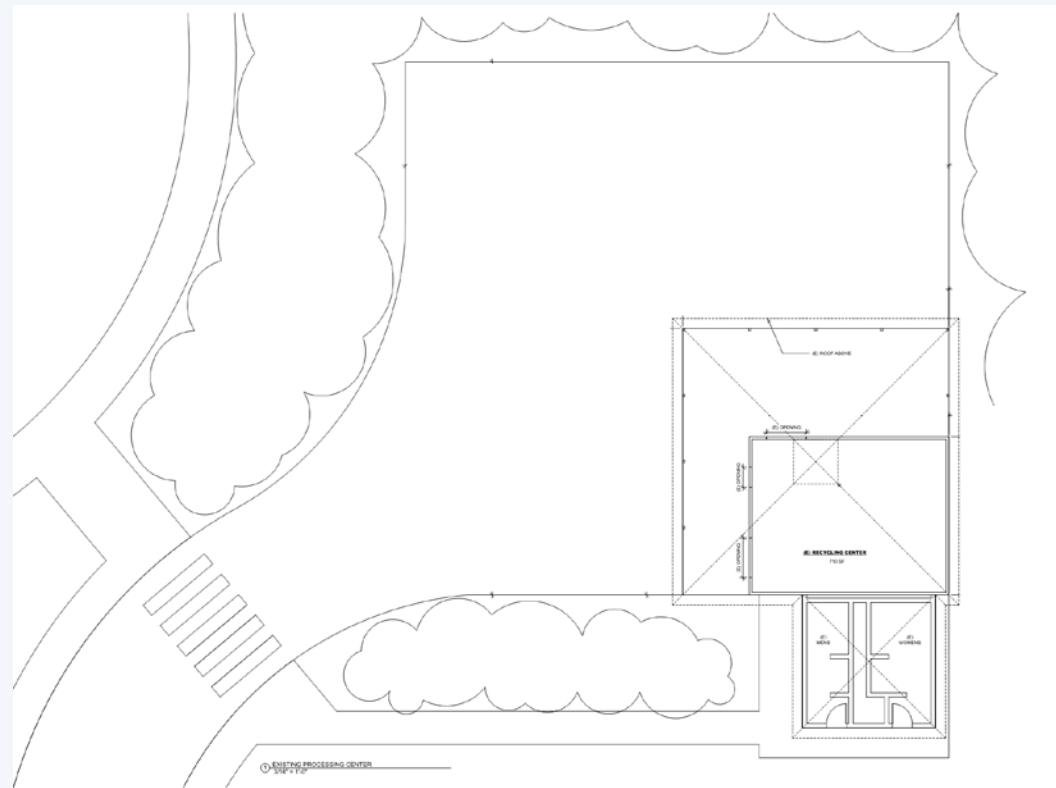


Review of Existing Facilities

Existing Thrift Shop



Existing Recycling Center



RETAIL



PROCESSING



MISC BOH

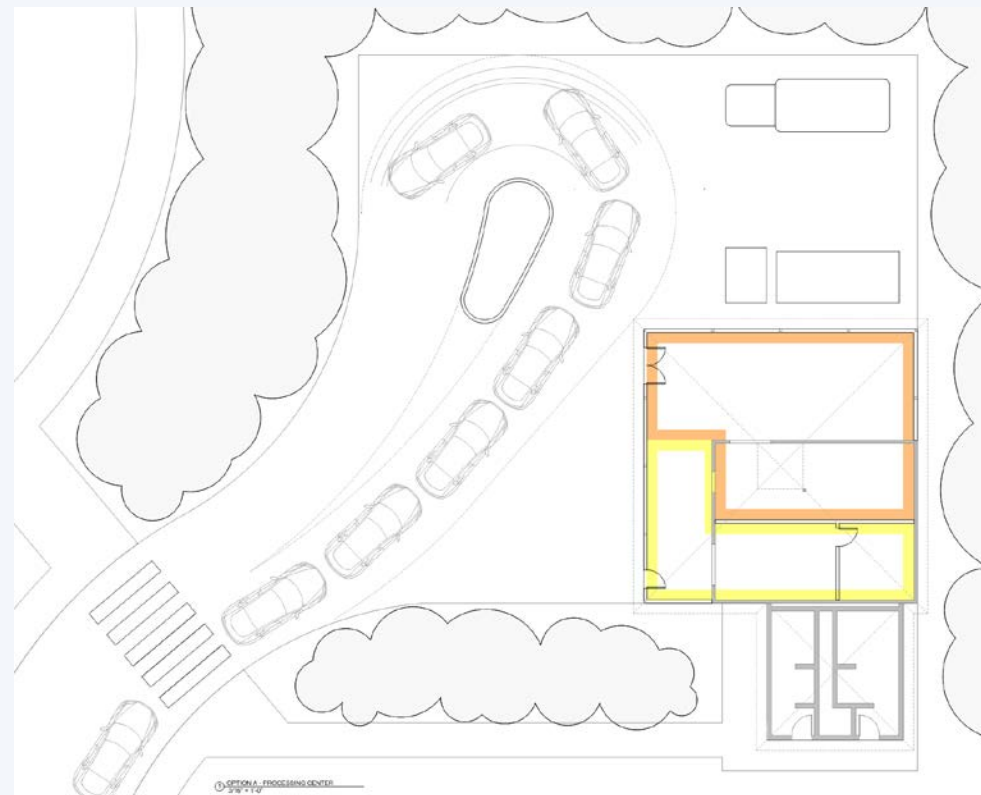


Review of Option A

Thrift Shop



Donations Center



RETAIL



PROCESSING



MISC BOH

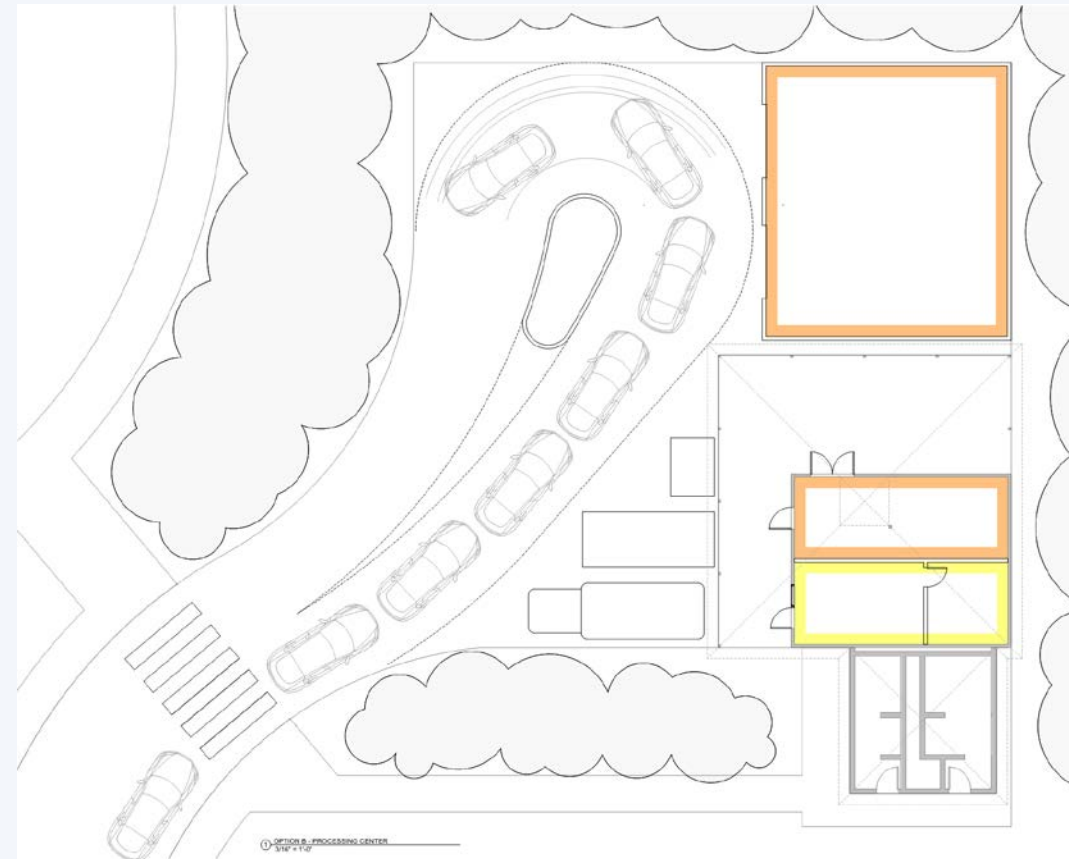


Review of Option B

Thrift Shop



Donations Center



RETAIL



PROCESSING



MISC BOH



Purpose and Approach

- Operations of the Thrift Shop going forward
 - New Two-building operation to accommodate off-site donation acceptance and processing
 - Interim/operations of the Thrift Shop proceeded in parallel with this analysis
 - The goal of the analysis is to determine the potential impact of either remodel option relative to a re-opening of the current facility
- Development of Methods & Model
 - Critical work on a financial projection for an expanded Thrift Shop was performed by Steve Frazier & Dave Vandembosch prior to the June Council meeting.
 - Dave Vandembosch: Specific expertise in Thrift operations, efficiencies, and markets
 - Steve Frazier: Broad resume of retail development (joining us tonight for Council's questions)
 - This June model scaled volume for the store to project revenue and margin.
 - To apply this projection model to the remodeled options, many of the assumptions made were converted into inputs based on the constraints of each floor plan



Purpose & Approach

Subjective Inputs:

- Retail Productivity
- Revenue/Unit
- Production:Retail

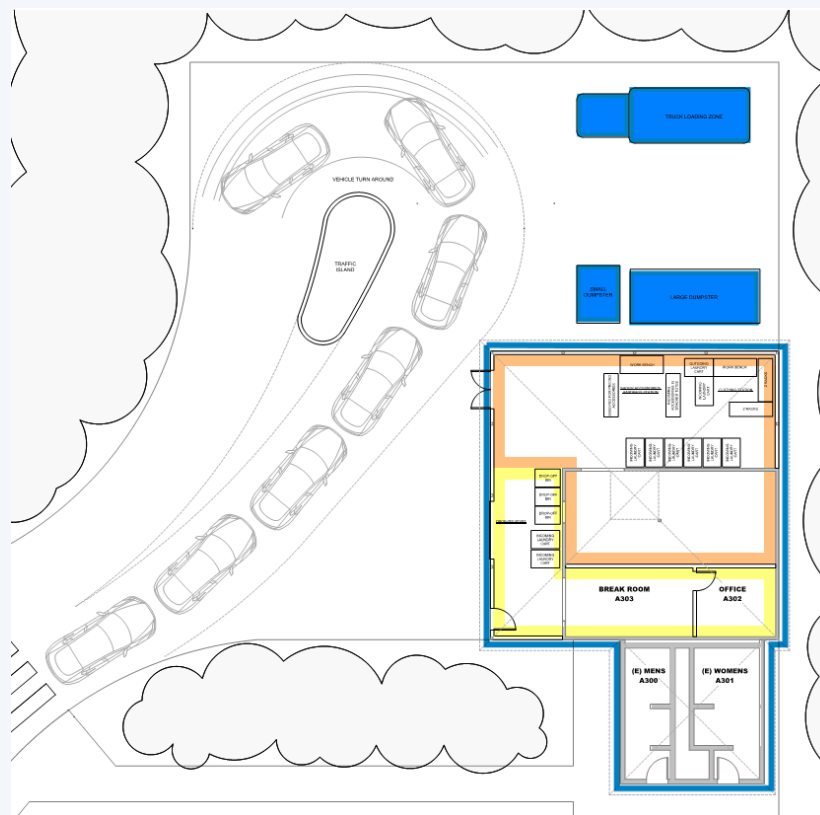
Data-Driven Inputs:

- Donation Availability
- Revenue Index by product category
- Physical areas

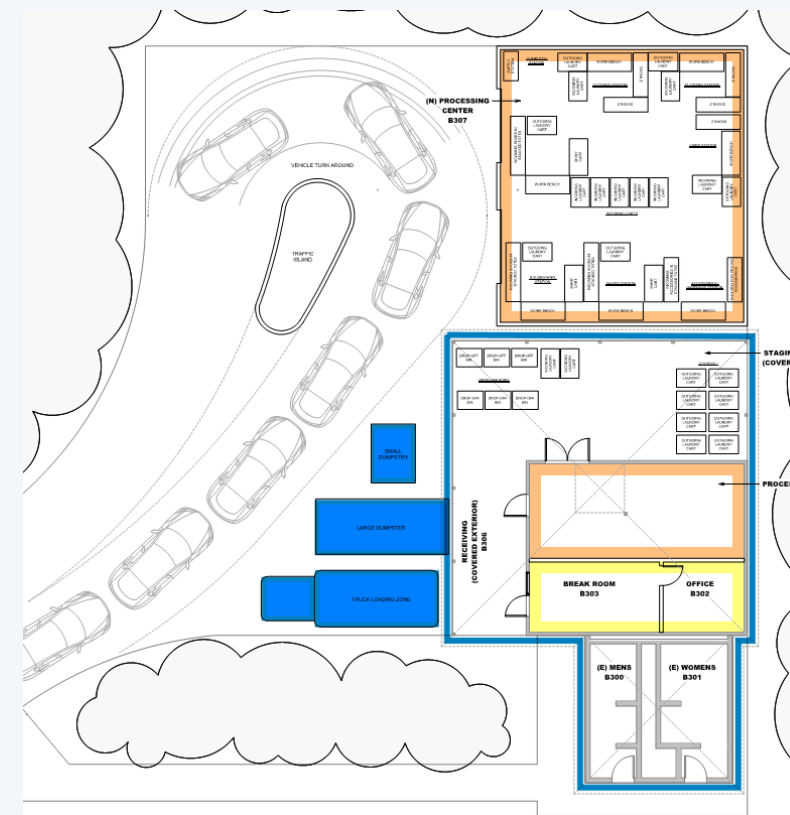
Choice-Driven Inputs:

- Store staffing
- Volunteer contribution
- Bulk Sales
- Donation Volume

Option A Production



Option B Production



Exercising the Model

Scenario Groups:

Sets of assumptions were developed to each of the three options (Status Quo, Option A, Option B)

- Group 1: No Staffing Boost, No Volunteer Changes, No Performance Changes
- Group 2: No Staffing Boost, 20% Volunteer Increase, Modest Increase in Revenue/Unit
- Group 3: 10% Staffing Boost, 20% Volunteer Increase, Modest Increase in Revenue/Unit
- Group 4: Aggressive Staff Rollout, 20% Volunteer Increase, Aggressive Donor Drive & Floor Optimization

Summary of Results of these groups were summarized in Exhibit 2 – Expressed in terms of revenue vs 2019

Groups with useful results from the revenue comparison were moved forward for ROI



Analysis Results

Return on Investment:

- Discussion of the Thrift Shop so far has referred to yearly revenue, and potential increase in yearly revenue
- To determine whether projected revenues are worth an investment, the total cost of that operation must be considered
- In the ROI calculation:
 - Return: The difference in Total Operating Margin between Status Quo and either Option A or B
 - Investment: The total cost of construction of either Option A or B
 - The timeline: Conventionally this would be presented as a number of years before an investment was fully recovered. Instead our results are presented as % recovery during the projected period (through 2024)



Analysis Results

Summary

- In no cases did Option A realize a revenue increase over 2019 levels
- Option A does not contribute to paying down the initial investment
- Depending on the scenario of assumptions, Option B could see a significant range of return from:
 - Not returning on the investment under conservative assumptions and constrained Choice-Driven Inputs
 - Recovering approximately 10% of the investment during the projection period through 2024 under conservative assumptions and moderate Choice-Driven Inputs
 - Recovering almost 90% of the investment during the projection period through 2024 under moderate assumptions and moderate Choice-Driven Inputs
- In cases where market conditions are favorable, and significant contributions are made to advertising, staffing, volunteer drives, and donor drives, Option B has the potential to increase revenue by 50% over 2019 levels (total operating margin and thus ROI are more difficult to predict in this scenario and have not been calculated)
- **The ROI indicates that if a remodel is to be considered as an investment, Option B is the clear starting point**



How Can We Use This Information?

Application

- This analysis is a challenge; we are changing many variables at one time
- These are estimates (not fixed financial models) developed to give Council a general background for decision making.
- Staff did not prepare this model to support a preferred option
 - Status Quo, Option A & Option B were all evaluated with the same common objective under the same conditions
- This presentation is only an ROI analysis... opportunities were raised for optimizing the current store operation.
 - Many of these were included in the “status quo” analysis used as a baseline assessment.
- Aggressive investment in Choice Driven Inputs will be required along with a favorable market for the Thrift Shop to surpass 2019 revenue without completing a remodel
- **Staff recommends appropriating funds and pursuing the original scope of work to develop design drawings for Option B, and incorporating this remodel into the 2021-2022 CIP.**



Recommendation for Motion

Staff recommends that Council Move one of the following alternatives:

- A. Direct the City Manager to authorize staff to perform additional design or analysis and return to a future City Council meeting.
- B. Appropriate \$773,045 from the 2019-2020 CIP for Option B of the Thrift Shop and Recycling Center Remodel Project and direct the City Manager to add the project to the 2021-2022 CIP for construction.



Questions?



Other Considerations for Discussion

- Questions regarding the methods, limitations, or considerations included in the modeling and analysis?
- Several council members have been involved along the way, but this study has largely adhered to the June agenda bill's goals. Are there other opportunities that should be considered?
- As this work has become a discussion point among various groups and organizations on the island, Council and Staff may wish to consider other additional proposals to include in the vision for this site
- Feedback and outreach for impact to the neighborhoods surrounding the sites

