



# BUSINESS OF THE CITY COUNCIL CITY OF MERCER ISLAND

AB 5766  
November 2, 2020  
Special Business

## AGENDA BILL INFORMATION

<b>TITLE:</b>	AB 5766: Update on Thrift Shop Facility Study – Financial Model and ROI	<input type="checkbox"/> Discussion Only
<b>RECOMMENDED ACTION:</b>	Receive report, hear presentation, and provide direction to staff on next steps.	<input checked="" type="checkbox"/> Action Needed: <input checked="" type="checkbox"/> Motion <input type="checkbox"/> Ordinance <input type="checkbox"/> Resolution

<b>DEPARTMENT:</b>	City Manager
<b>STAFF:</b>	Jason Kintner, Public Works Director & Gareth Reece, Sr. Project Manager
<b>COUNCIL LIAISON:</b>	n/a
<b>EXHIBITS:</b>	1. Financial projection summary and example worksheet 2. ROI analysis for selected criteria 3. Potential production layouts for Option A and Option B
<b>CITY COUNCIL PRIORITY:</b>	n/a

<b>AMOUNT OF EXPENDITURE</b>	\$ 34,229
<b>AMOUNT BUDGETED</b>	\$ 50,000
<b>APPROPRIATION REQUIRED</b>	\$ n/a

## SUMMARY

The purpose of this agenda bill is to provide the City Council with an update on the Thrift Shop and former Recycling Center Remodel Project and to seek direction on the project.

### BACKGROUND

At the June 16, 2020 City Council meeting (see [AB 5711](#)), the City Council authorized staff to retain architectural services and begin the preliminary design for these two facilities. At the September 22, 2020 City Council meeting, two options (30% design) were provided for City Council consideration. Both options include relocating the existing production spaces (donation processing areas) from the Thrift Shop to the Recycling Center. A summary of the options developed for further analysis can be found in [AB 5753](#).

### PRELIMINARY OPERATIONAL PLAN AND RE-OPENING OF THE THRIFT SHOP

Over the past month, staff has refined the preliminary operational plan to re-open the Thrift Shop, utilizing a two-building operation to accommodate off-site donation acceptance and processing. A two-building approach increases space to accept, store/sanitize, process, and then transport saleable commodities to the Thrift Shop. Retail operations, currently at one day per week on Sundays, will gradually increase to a multi-day per week operation. Resuming a multi-day Thrift Shop operation will require restoring staffing and

volunteer hours to ensure continuity of operations and one-time start-up funds are included as a 2021-2022 budget proposal. A steady stream of donations is consistently needed to replenish the retail floor space with new commodities. Past experience indicates that one full day of donations is needed to sustain one full day of retail sales.

Donations processing has just recently resumed at the Mercer Island Community and Event Center (MICEC), which is being used as a temporary donations processing facility due to the impacts of the Pandemic. Donations will be accepted in an ongoing event-style drop off one day per week, currently scheduled for Saturdays through the end of 2020.

CDC Guidelines, as well as guidance from the Governor's Office, call for safety measures to be implemented to ensure a safe and comfortable experience for donors, staff, and volunteers. The most significant impact on donations processing is the need to store and sanitize donated goods before moving them to the retail store, increasing both processing turn times and facility storage needs.

### **FINANCIAL PROJECTIONS FOR THRIFT SHOP REMODEL OPTIONS**

A financial model was developed to estimate the performance of each remodel option against a baseline. The baseline projection is the anticipated performance of the Thrift Shop (revenues) through 2024 in its current physical configuration.

Potential revenue generation in a retail thrift store is impacted by several variables including:

- Size of the retail space;
- Size of the labor force (both staff and volunteers) to process, display, and rotate the product through a sales floor; and,
- The volume of donations.

All of these variables impact revenue generation for the Thrift Shop and were incorporated into the financial model. A summary of the financial projections for the scenarios considered thus far is presented in Exhibit 1 to this agenda bill.

### **RETURN ON INVESTMENT**

Per City Council direction, staff developed financial projections for three scenarios:

- Status Quo (Existing configuration)
- Option A (Thrift Shop Open Concept)
- Option B (Minimal reconfiguration of the Thrift Shop with additional processing space at the Recycling Center).

In addition to the three scenarios, assumptions were developed to compare performance between the three scenarios. Each "Group" of assumptions was run on each of the three scenarios above. Group 1 represents a conservative assessment of conditions around the operation of the Thrift Shop, Group 4 represents a much more aggressive and optimistic set of conditions, and Group 2 and 3 lie in between. These financial projections illustrate the expected change in revenue for each configuration compared to 2019 performance. To evaluate the return on investment (ROI), the difference in the Total Operating Margin for Option A and Option B is compared to the Status Quo.

A summary of the ROI analysis can be found in Exhibit 2 to this agenda bill.

Under no combination of assumptions did Option A project a positive ROI. Diminished processing space relative to the retail space significantly impacted the returns under this scenario.

The ROI for Option B during the period 2022-2024 ranged from 7% to 88% depending on the assumptions used in the model. Using conservative assumptions and the continuation of current store operations (Group 1), Option B is feasible considering an expected 13 to 15 year capital project lifecycle. Using moderate assumptions (Group 3), the capital investment is almost fully recovered within the 3-year projection period.

Based on this analysis, the staff recommendation is to consider Option B for further design and construction.

Included as Exhibit 3 are the schematic layouts of the production (donation processing) spaces for each option. These illustrations may assist the City Council in visualizing the operations in the remodeled areas.

### **CAPITAL RESOURCES FOR THRIFT SHOP FUNDING**

As noted in AB5711, several facility projects funded in the 2019-2020 capital program have been identified that will not be completed. The total available funding due to the suspension of these projects is \$773,045. Should this project move forward, staff recommends finishing the project design this year, and completing the Thrift Shop and Recycle Center project as part of the 2022-2023 Capital Improvement Program.

### **NEXT STEPS**

The financial tool used for the ROI modeling includes a number of assumptions and variables. The City Council may choose to direct staff to revise the analysis and continue this discussion at a future meeting.

Alternatively, the City Council may direct staff to proceed with the project, including finalizing the design and adding the Thrift Shop and Recycle Center project to the 2022-2023 CIP.

## **RECOMMENDATION**

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.