

BUSINESS LOAN PROGRAM

CREDIT MEMORANDUM

CITY OF LONG BEACH
ECONOMIC AND PROPERTY DEVELOPMENT DEPARTMENT
333 W. OCEAN BOULEVARD, 3RD FLOOR
LONG BEACH, CA 90802

SEPTEMBER 27, 2016

LOAN OFFICERS: Andria Martinez & Diana Sasser - NDC

BORROWER: **McKenzie Crematory, Inc.**
1520 Seabright Ave, Long Beach, CA 90813
(Council District 2)

BUSINESS: Crematory and Burial Services

OWNERSHIP: The business is an S Corporation, owned 100% by Kenneth McKenzie

REQUEST: \$300,000 Revolving Loan

FUNDING SOURCE: EDA and CDBG funds are proposed subject to availability.

TERM & INTEREST: A 15-year, fully amortized loan with nine (9) months of interest only payments followed by monthly principal and interest payments of \$2,372.38. Interest rate will be fixed at 5.00%, which is the current WSJ prime rate plus 1.5%. Fees total 2% of the loan amount (\$6,000).

PURPOSE: To provide funds for working capital and furniture, fixtures & equipment.

PUBLIC BENEFIT: Job creation. Ten full-time employees will be hired within 24 months.

**SOURCES AND
USES OF FUNDS:**

| Sources: | City Loan | GAF Loan | Equity | Total Project |
|-----------------|------------------|-----------------|---------------|----------------------|
| | \$300,000 | \$1,065,000 | \$38,000 | \$1,403,000 |

| Uses: | | | | |
|---------------------------------|-----------|-----------|----------|-----------|
| Acquisition | \$0 | \$342,000 | \$38,000 | \$38,000 |
| Improvements | \$0 | \$517,000 | \$0 | \$517,000 |
| Contingency | \$0 | \$98,000 | \$0 | \$98,000 |
| Furniture, Fixtures & Equipment | \$100,000 | \$0 | \$0 | \$100,000 |
| Working Capital | \$194,000 | \$28,000 | \$0 | \$222,000 |
| Loan Fees | \$6,000 | \$80,000 | \$0 | \$86,000 |

| | | | | |
|---------------|------------------|--------------------|-----------------|--------------------|
| Total: | \$300,000 | \$1,065,000 | \$38,000 | \$1,403,000 |
|---------------|------------------|--------------------|-----------------|--------------------|

**SOURCES OF
REPAYMENT:**

- (1) Business Cash Flow
- (2) Liquidation of Assets

COLLATERAL:

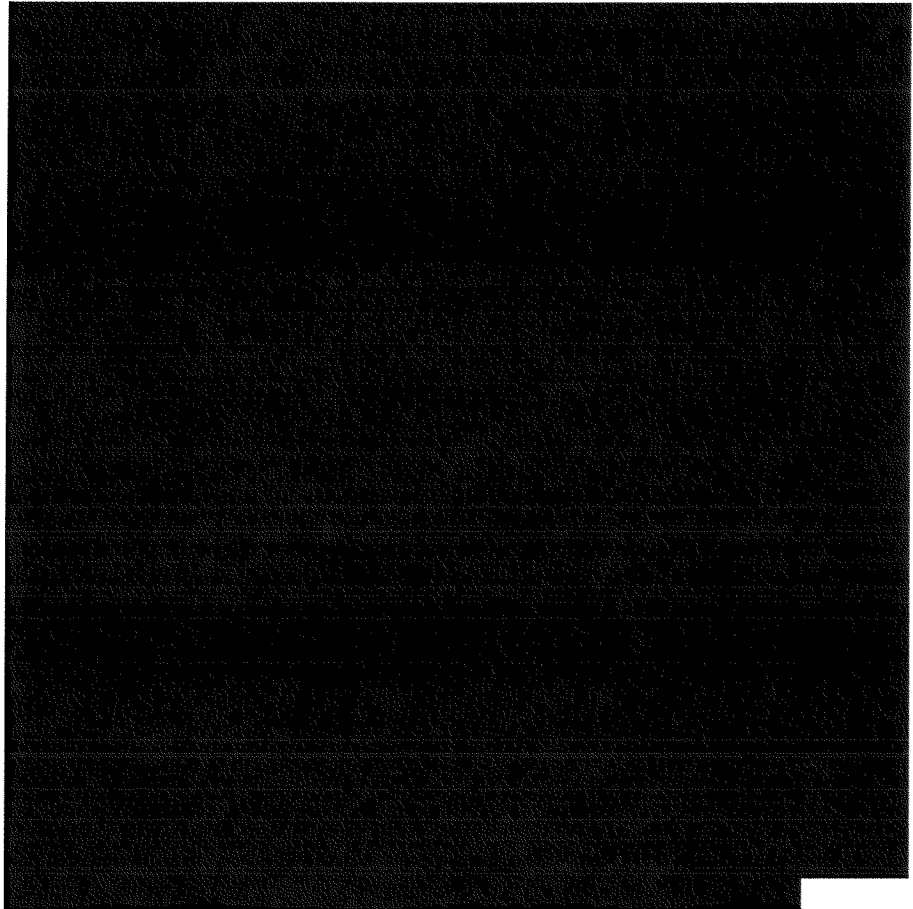
First position UCC Filing on all equipment purchased with the loan proceeds and a second position UCC-1 Broadform Filing on all other business assets, subordinate to the GAF Loan.

Second position deed of trust lien on commercial property located at 1520 Seabright Ave, Long Beach, CA 90813, subordinate to the Grow America Fund, Inc. loan in an amount not to exceed \$1,065,000.

**INTERCREDITOR
AGREEMENT:**

The City of Long Beach and GAF will enter into an Intercreditor Agreement regarding their respective rights to the collateral and guarantees outlined in this memo. Except for security on specific pieces of equipment purchased by City's loan proceeds, the City of Long Beach will be subordinate to GAF.

CREDIT REPORTS:



**GUARANTOR(S)
IF APPLICABLE:**

An unlimited personal guarantee of Kenneth J. McKenzie.

An unlimited Corporate Guarantee of the affiliate: McKenzie Cremation and Burial Services, Inc. (DBA McKenzie Mortuary).

A limited personal guarantee of Mr. Donald Donan, limited to his ownership interest in the affiliated company (corporate guarantor).

SITE DESCRIPTION:

McKenzie Cremation, will be the second location of an existing mortuary in Long Beach and will be located in the Westside industrial area of Long Beach which is approximately 4 miles away from the existing location at 3843 E. Anaheim Street.

**BACKGROUND
STATEMENT:**

Kenneth McKenzie became interested in becoming a mortician at the age of 12 when his father committed suicide. Working with grieving families came very natural to him, but he was uncomfortable with high funeral costs. After eight years at a Lakewood, California mortuary, in 1994 he opened McKenzie Cremation & Burial Services in Signal Hill, California and halved the price of funerals. On June 4, 2005, Ken McKenzie opened a new facility in Long Beach, California. For the past 22-years, McKenzie Mortuary has outsourced their cremation procedures.

The purpose of the project is to immediately implement a contract with McKenzie Mortuary to conduct all of its cremations. Then establish and operate a Funeral Home (DBA: Asian Gardens Mortuary) out of the same building which will allow the company to cater specifically to the Buddhist funeral traditions, which require Traditional Viewings with immediate Witnessed Cremations, all in one-location. The new crematory will be the only location that will offer Witness Cremations with the ability to follow specific traditions within a building, currently these traditions must take place outside on the street, in public view.

Currently, there are two establishments that conduct cremations in Long Beach. There is a high demand for Witnessed Cremations within the Cambodian community. There are close to 20,000 Cambodian residents within the city and their dominant religion is Buddhism. Buddhist Funeral rites include: preparing the body with embalming, two-days of viewing with praying by monks and a witnessed cremation. The witnessed cremation involves the family watching their loved one being placed into the cremation chamber. There is also a demand for traditional Catholic services followed by cremation. With the rise in cemetery costs more families are choosing cremation. However, in most cases the family wants to have a Viewing and Funeral Service before the cremation takes place. Most often this type of service is common within the Catholic Hispanic/Latino community and currently Long Beach demographic is 41% Hispanic/Latino.

The City Loan will be in conjunction with a GAF Loan in the amount of \$1,065,000 to purchase the property and complete improvements, including contingency in the amount of \$985,000 as well as provide \$80,000 in soft & closing costs. Three construction bids will be collected prior to selecting a contractor. GAF will do a thorough review of the selected contractor and cost estimates, per SBA rules, to ensure that the contractor has the capacity and that the cost estimates are in line with the project.

**BUSINESS
DEVELOPMENT:**

McKenzie Cremation will be a fully operational crematorium and funeral home. Unlike the two existing cremation facilities in Long Beach the

proposed crematory/funeral home will have three features: a beautiful non-denominational chapel with faint Asian inspired styles and decor, a specialized crematorium designed specifically for witnessed cremations where the chamber is situated in the middle of the room allowing the family and monks to circle with the casket around the chamber 3-times and a tranquil covered-outdoor reception area with all the necessary amenities. The chapel will cater to all faiths and religions and will be able to transform the nondenominational chapel to accommodate each family. The target market is the Cambodian community as it currently has only one option in Long Beach where they are able to conduct Service and Witnessed Cremations within one building. The difference is this building will allow them to circle the crematorium chamber indoors, not outdoors in public-view like the other provider, and it will have a special space for the Monks to eat and pray. The crematory itself will immediately begin operation with one chamber and will acquire the cremation business of McKenzie Mortuary Services, Inc. There will be room for second-chamber expansion. Additionally, McKenzie Mortuary Services will be able to market to their existing clientele who have the need for full services followed by witnessed cremation.

McKenzie Mortuary is privately owned and operated, offering a full range of products and services, such as, custom urns, caskets, burial vaults and cremation products. Each family receives personal and caring appointments with our licensed funeral directors. It provides embalming, funeral, memorial viewing services and celebration of life services in its chapel. It also arranges services with its clients preferred church, synagogue, or temples throughout Southern California. It provides graveside and military services with honors, along with headstone and VA markers. It is involved in the community and serves all ethnicities. Most small mortuaries serve just one ethnic group. Most of its competitors are corporate owned. McKenzie Mortuary is one of the few privately owned in the Long Beach area and it prides itself as one of the few with one on one service with up front consistent pricing. The crematory project will enhance McKenzie Mortuary Services by offering the cremation side of its industry. It will no longer need to outsource this service. The operations of the crematory will compliment and complete the services it currently offers. The nearby mortuaries are mostly nationally owned with little personal touches and can also be more expensive. McKenzie prides itself on providing reasonable prices with the personal touch that a family needs when a loved one passes away. The owner has written two books about the mortuary business and started a Men of Mortuaries Calendar for marketing purposes, but also to change the way people viewed the business. He is well known in the industry, in the greater Los Angeles area, being awarded many different "Outstanding Funeral Director" awards across the State. Ken has always targeted specific communities, such as the LGBTQ community or the Cambodian community. Ken started his own business after working for one of the large national companies because he was told to charge "certain" people more because they might have died from AIDS. He couldn't know if they had AIDS until he received a death certificate but had to give estimates to the family prior to receiving it. He asked how he was supposed to know what they died from and was told that if the person was a hair dresser or dancer, then charge them more. He was not comfortable with this and decided to start his own business. Since then, he has created relationships with families and buried many family members because of how he treats them.

PERSONAL FINANCIAL STATEMENTS:
REDACTED

ANNUAL INCOME & PERSONAL BUDGET:
REDACTED

PROJECTED FINANCIAL INFORMATION:
REDACTED

CASH FLOW ANALYSIS & COVERAGE RATIOS:
REDACTED

HISTORICAL FINANCIAL INFORMATION:
REDACTED

CASH FLOW ANALYSIS & COVERAGE RATIOS:
REDACTED

STRENGTHS:

- The owner, Kenneth McKenzie, has over 20 years of successful operating history as a funeral director and mortuary owner.
- Sales have been increasing over the past two years, about 15%. They are up at least 8% in the interim period. Some of that is due to small increases in prices and some if is due more deaths. More specifically cremations have become a big part of the business. It currently outsources cremation services, which some potential customers are not comfortable with (they don't want a body moved multiple times) and go to another funeral home that provides those services. McKenzie Mortuary has been able to grow without having this service in-house but it believes that it will limit its growth going forward if it doesn't add that service; and
- Adjusted cash flow for the most recent reporting period (2015) is strong at [REDACTED]
[REDACTED] Cash flow ranges from a minimum [REDACTED] (12/31/14 based on tax return) to [REDACTED] (06/30/16 interim financials); and
- [REDACTED]

WEAKNESSES:

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

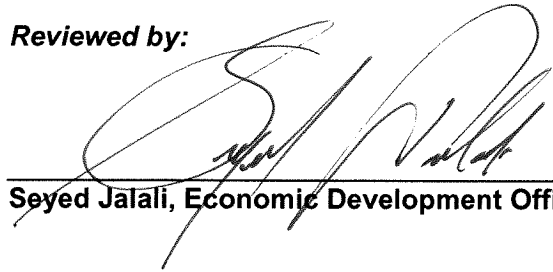
- Risk associated with a second location. The owner has realized that the need for cremation is on the rise. The owner believes that cremation may be required in the near future, due to the decrease in available land space for cemeteries. In addition, the bringing cremation in-house will save the company money, as it currently pays a fee to get a body cremated. It will be able to charge the same amount, yet keep the full amount of revenue. It also believes that it misses out on revenue due to the fact that it doesn't do cremation in-house.

This credit memorandum was prepared by:

D. Sasser

Diana Sasser, Grow America Fund Loan Officer

Reviewed by:



Seyed Jalali, Economic Development Officer

Approved for Loan Committee:



Kathryn McDermott, Interim Director of Economic and Property Development