

January 27, 2016

Telma Moreira
Principal Planner
Department of Conservation and Development
Contra Costa County
30 Muir Road
Martinez, California 94552

Subject: Peer Review of Market Feasibility Study,
Creekside Memorial Park; EPS #151124

Dear Ms. Moreira:

You have requested that EPS review the revised version of the subject Market Feasibility Study (undated), focusing on changes that have been made to the Study in response to our earlier peer review. On November 12, 2015 EPS prepared a letter to you summarizing the results of our peer review of the Market Feasibility Study. In summary, we found that the Market Feasibility Study credibly documents that: 1) potential demand in this location will support a new cemetery; 2) market demand should generate sufficient revenues (from interments, even if below those estimated in the Study) to finance construction costs, cover operating expenses, and provide a return to equity invested; and 3) the annual per-interment endowment fund contributions will accrue to an endowment fund that should be more than adequate to cover post-closure maintenance costs, especially given the premium offered on the minimum required per-interment payment.

As part of the original peer review we did specify that some additional analysis was in order to better document estimated future operating and maintenance costs and also to consider potential financial effects of not meeting market sales objectives, specifically:

- While the market analysis adequately documents favorable local cemetery supply and demand relationships, future market conditions will determine the rate of sales at the new cemetery. Actual demand will certainly vary from year to year given general economic conditions, emerging competitive supply, and changing market preferences, thus affecting annual revenue.
- Feasibility analysis in the Market Feasibility Study was limited to the implicit difference between the revenue forecast, at \$15 million per year, and the operating expenses, at \$12 million per year, resulting in a net operating income of \$3 million per year (20 percent on revenue), some of which is allocated to the endowment fund. Ideally, more project-specific financial information should be presented in a typical pro forma time-series cash flow analysis that arrays the phasing of construction costs and provides more detailed assessment operating costs.

The Economics of Land Use



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- Given market and cost uncertainties, we also suggested some "sensitivity analysis", reflecting variation of key financial factors such as annual revenue estimates (interment sales) or higher than expected construction costs, etc. and formal documentation of the resulting effects on return on equity investment.
- Finally, we suggested that there be some more details provided for the post-closure maintenance costs, notwithstanding the conclusion that the endowment that accrues over the operating period of the cemetery will be substantial.

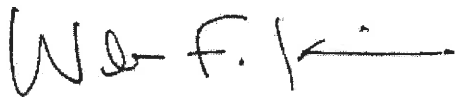
The revised Market Feasibility Report, by way of edits and additions prepared by the authors, responds to each of these concerns.

- 1) Additional comparable facility operating cost information has been provided supporting operating expense assumptions. Assuming that the subject cemetery is indeed comparable to these existing facilities this information increases confidence in the expense assumptions made.
- 2) A pro forma financial analysis has been added to the Study that arrays costs and revenues over the first five years of operation.
- 3) The pro forma financial analysis includes a "sensitivity analysis" of the key operating revenue and expense assumptions. A reasonable array of assumptions is tested that indicate the new cemetery would remain feasible from an operating perspective, even with somewhat higher expenses and lower revenues.
- 4) Some additional detail on post closure cost is provided, without any specific reference to site-specific conditions or circumstances. However, as previously reported, the endowment fund, as properly funded and maintained over time, will produce annual revenue significantly in excess of the \$200,000 per year post-closure costs assumed in the Market Feasibility Study, thus reducing concern about the veracity of this cost estimate.

We would be happy to answer any questions that you have regarding this peer review of the Creekside Memorial Park Market Feasibility Study or the revisions that have been made.

Sincerely,

ECONOMIC & PLANNING SYSTEMS, INC.

A handwritten signature in black ink, appearing to read "Walter F. Kieser". The signature is written in a cursive style with a horizontal line extending to the right.

Walter Kieser
Senior Principal