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Building Out America Includes Our Cemeteries

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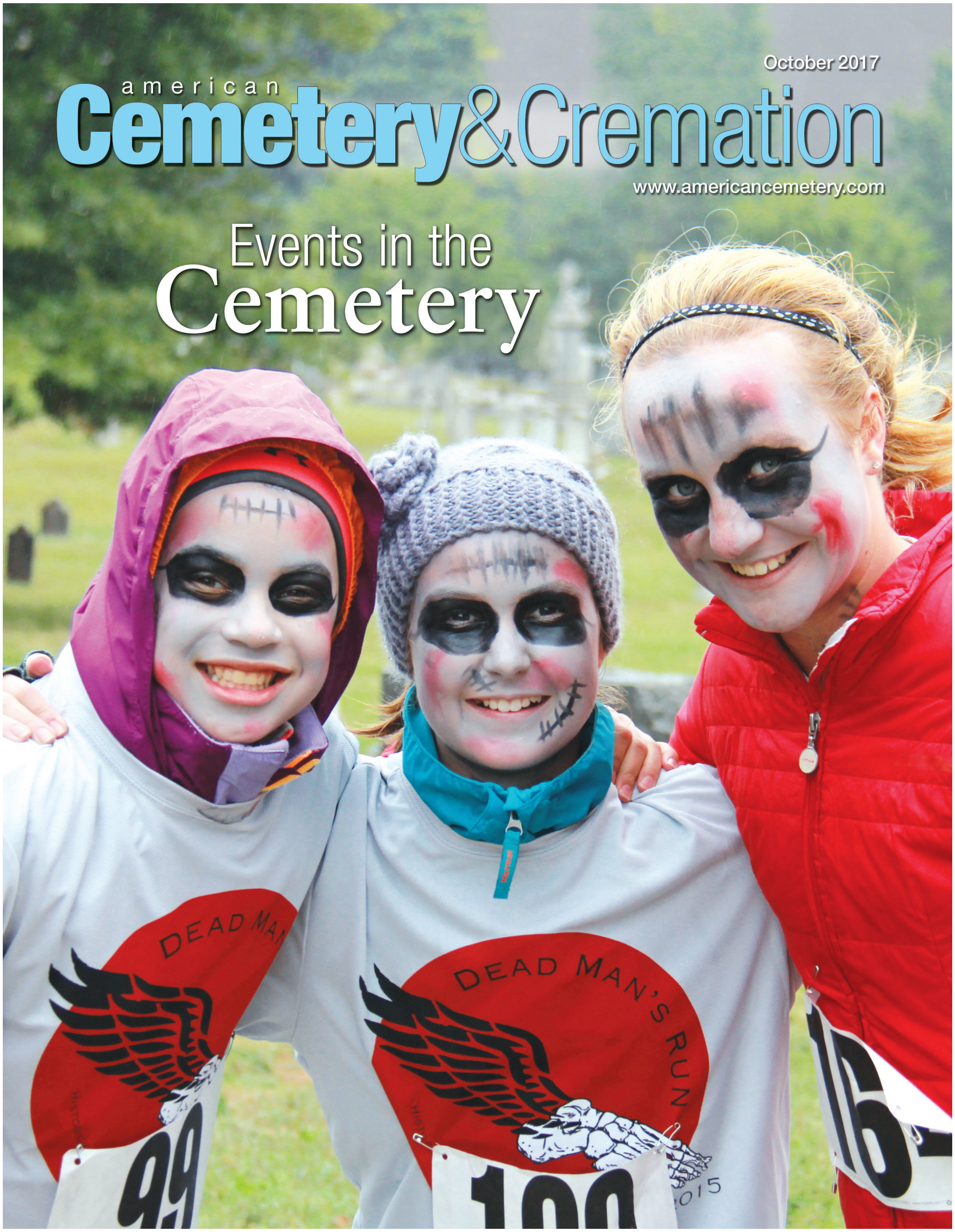

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Finance

By Todd D. Mannix

Building Out America *Includes Our* Cemeteries

As I sat in single-lane traffic on I-95 South in Connecticut for the third construction-related traffic jam from Boston to Madison, Connecticut, it was apparent to me that this country is spending a fair amount of money on infrastructure.

I had mistakenly thought a late flight would allow me a quick and relatively uneventful drive from Logan International Airport to our company's headquarters as I had done a hundred times prior. However, the 11 p.m. two-hour drive turned into almost three-and-a-half hours filled with brake lights illuminating tree-lined highways cutting through the Northeast corridor from Massachusetts to Connecticut. It gave me plenty of time to think about how, as painful as it is to spend money on infrastructure in hard economic times, this type of long-term planning and foresight is essential for maintaining our country's critical infrastructure.

I'm aware of the stimulus to the economy (more jobs, more money through the system, and lower unemployment – even if temporary) these projects create, but those are short-term impacts. The long-term vision is something that Dwight D. Eisenhower explained in his presidential address to Congress on the state of the union in January 1955 when he stated, "A modern, efficient highway system is essential to meet the needs of our growing population, our expanding economy, and our national security." Eisenhower saw past the short-term benefits to the bigger picture of our country's future needs. Despite how tiring red brake lights are to have glaring in your eyes at 12:30 a.m., it is hard to argue with Eisenhower's logic.

I was heading back from a Midwest trip where we had met with representatives from a cemetery that was operating in the red and wanted

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to know if there was a path to profitability. They had a decent-sized endowment fund, but they were lacking current income from operations. We were able to conduct a financial health analysis and discovered that by using some creativity to generate a small amount of income, combined with the right investments on their endowment fund and given their current expenditures, they would turn the corner into profitability in about 15 years. From a cemetery property perspective, 15 years is a blink of an eye. Cemeteries exist for centuries, so 15 years in the grand scheme may seem insignificant. However, if you are a cemetery operator and business person, 15 years is a lifetime.

To put this time frame into perspective, 15 years ago in 2002: Kelly Clarkson won the first season of "American Idol;" Apple released its second-generation iPod (which held a then-whooping 20 GB of storage space); the Sanyo SCP-5300 became the first cellphone with a built-in camera to be released in the U.S.; the New England Patriots won their first Super Bowl ever and would then go on to win a third of all Super Bowls since; and U2 played the halftime show at that same Super Bowl with a tribute to all those who lost their lives in the 9/11 attacks not six months prior. Fifteen years can seem like a long time, especially if you are running a business in the red for that long.

Many cemeterians entered into this business either through their family or community interests, and they remain in the business because they know they are providing a much-needed service to their communities. Nevertheless, a cemetery (even a not-for-profit) is a business, and those who run them still need to earn a livelihood to provide for themselves and their families. No matter how altruistic one may be, to absorb a loss for 15 years is just not logical nor fair for those dedicating themselves to managing the cemetery. In many cases, this is where cemeteries have been turned over to the local municipalities that govern the areas in which they exist. The sad truth however, is that in the majority of cases, municipalities look at these properties as an additional burden on the taxpayers and manage them as such. They become one more task to manage for an already tightly budgeted parks department. The endowment fund is either absorbed into a general fund with parks and recreation funds or, even if it is kept separately, it is invested with the only goal of not losing the principal. Growth and current income become secondary to holding the money.

In many cases, elected officials come and go, and few people get involved in town government for the purpose of managing the cemeteries better. It's some other ambition or altruistic purpose that generally motivates town officials to get involved and run for office, not

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managing the defunct cemetery. Not surprisingly then, cemeteries fall far down the list of their responsibilities. As such, it is easy to understand the "not on my watch" mentality of not investing the care fund properly and only seeking to preserve principal. People who are not in the industry don't understand cemetery management and as a result, the care fund objectives of growth and income are secondary to not losing the money through investing while they are in office.

Just think about an up-and-coming selectperson with aspirations of building a new school, or creating more greenspace, or helping the homeless. If these are the reasons they get into office, they certainly don't want to be derailed in their passion if the market has a down year and the cemetery funds are negatively impacted. With 24-hour exposure of social media these days, all it takes is one concerned citizen to paint the "negligently managing our town's cemetery" picture and the political ambitions of that person could be over. So, it's the easy path on a "nonessential" function to make sure the investments don't lose money.

Consequently, the care funds in many of the municipalities are managed conservatively with little growth and nominal income. Obviously, I'm speaking in generalities, and there are exceptions we have seen across the country. The biggest message to take away here is that by and large, it's safe to say that once the cemetery is turned over to the municipality, it ceases to be looked at as a business. This is a critical flaw in the municipality's mindset as the municipality is in a unique position to turn the business around and actually benefit the cemetery and the town by doing so. In order to do this, the municipality must have that Eisenhower foresight far into the future.

What would happen if the municipality took the same approach our firm did, by instead doing an analysis as to how to make the cemetery a viable and profitable business? The municipality is already absorbing a nonperforming (nonprofitable) asset on its books, so why not look at it as an opportunity – rather than a drag on the municipality's finances? The key difference between the cemetery owner and the municipality is that the municipality is capable of absorbing a 15-year turnaround. Albeit the municipality is covering the costs through the taxpayers, but because the cemetery has been turned over to the municipality, the taxpayers are going to carry this burden anyway.

The difference in mindset is

critical. What we see often is that the nonperforming cemetery becomes a tax burden that just becomes part of the town's expense entitlements (things that are already earmarked to spend before a single taxpayer dollar can go to future town business).

Let's say for the sake of argument that Marcus Lemonis of CNBC's "The Profit" – which I think is the most educational show on television for small business owners to watch – came into the town and decided that he could not only eliminate the drag on the town's coffers, but turn the cemetery into a cash-generating business in 15 years? The result would entail that the care funds would be managed with the long-term objective of eliminating the burden to the taxpayers. Growth and current income would once again be considered important investment objectives along with preservation of principal.

As with the cemetery we visited, if managed properly (and still relatively conservatively I might add) the endowment fund could grow enough to earn sufficient interest and dividends to cover its maintenance expenses — even after accounting for inflation.

Once the cemetery is turned around, the municipality can do one of two things with it. They could continue to manage it and use the cemetery proceeds to further beautify the cemetery as a landmark in the town. The second option would be for the municipality to sell the cemetery as a private business and get it off the municipalities books for a profit.

As with our country's infrastructure, we know that an investment today is going to allow us to continue to utilize the resources we have available to us because we have a long-term vision. We promote this same concept to cemeteries frequently when talking about their master plan. There is still a turnaround story for most cemeteries that have been following the endowment regulations by contributing to the care fund, even though they may not be profitable today.

It could actually be a win for the municipality as in most cases there is no cost (other than running it – and there is no choice in doing that) in taking the cemetery over in the first place, and it could end up being a profit center if looked at as a long-term business turnaround opportunity. Aside from the financial impacts to the municipality, the cemetery will once again become a beautiful, vibrant, and peaceful part of the municipality's landscape. Now imagine the growth of the selectperson who can tout that turnaround and the positive press it would create. •

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