

Upcoming Decisions Concerning The Central Project — March 26, 2023

This letter is going out to our Pathway church family. Until we make final decisions and are able to communicate them fully to our church, donors, and other connected parties, we ask that this is something we keep the discussion just between our Pathway family. This is a large decision which will affect outside support for the Central Project. The details of our decision, if spread publicly, could also affect our ability to negotiate effectively as we try to sell any of the property. Our business meeting is Sunday, March 26th.

The status of The Central Project has been difficult this year with the inability to sell the southern half of the property. Since we began this journey almost 18 months ago, there are four major changes in the economic & development climate that have impacted us negatively.

- 1) **The real estate market cooled quickly, and comparative sales have devalued our property.** A recent comparable land sale places the value of our southern half 2.25 acres at just under \$1.1 million compared to a valuation closer to \$1.3 million when we started.
- 2) **Development costs increased faster than anyone expected.** Both the price of materials and especially the price of labor have gone up. Our initial top-end estimate of \$500,000 in development costs have grown to at least \$600,000, and that only if we can utilize free labor from the mission builders, etc...
- 3) **Interest rates have continued to climb.** We were protected by a 1-year lock on our interest rate, but it recently jumped to 7.75% which is still below market rates for commercial loans (8.95%). We only have this locked in for 6 months. This made our average monthly interest payment of \$5,279.34 grow to what will be \$8,783.33 beginning in April. The interest rate will climb to 8.95% or higher in September.
- 4) Economic factors have pushed developers to move away from building low-density, high-end condos like the one bordering Central to the north as well as up Gregg Avenue. Instead **builders have moved to high-density apartment complexes** that are easier to fill in a down economy and create a higher probability of return on their investment.
- 5) Because of these factors, **we have not received an acceptable offer on the southern half of the property.** We had two early, verbal offers that were well below the value and below what we needed to make the project profitable.

As of the beginning of March 2023, we are only 6 months away from being out of money in our Central Project accounts. At that point, we will be running a deficit of \$5,371 per month. As the project goes on without a solution, and our commitments of donations from alumni end, we stand to lose an additional \$5,000 per month without outside support. This is not something that Pathway can handle financially, not even for a short period. Pathway expects our own loan payment to increase \$3,000 per month in January.

Staff and Central Project trustees have come to the decision that we must list the entire property for sale. I have consulted multiple realtors / developers, and everyone agrees the entire property would probably sell for between \$2.1—\$2.2 million. The number of interested buyers would also be higher because developers can do much more with 4.5 acres than they could with only 2.25 acres.

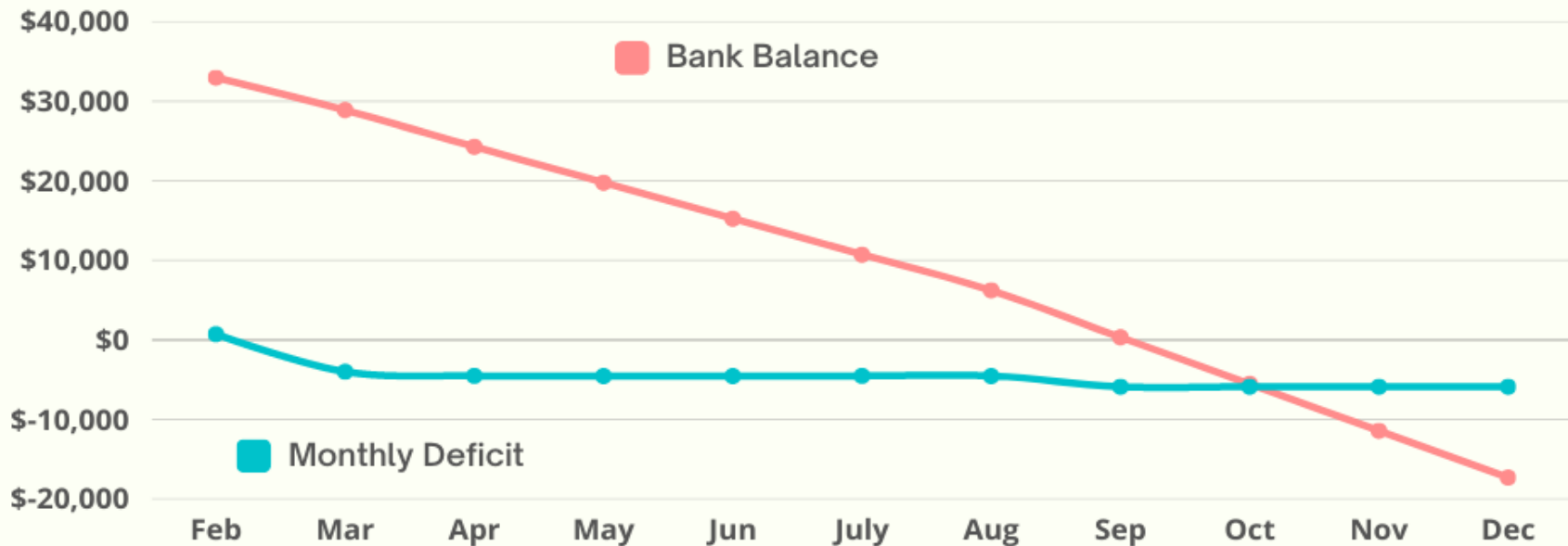
We wanted so much to save this property for everyone to whom it meant a great deal during their spiritual development, but we can't put Pathway, Thrive MBSF, or our trustees at risk for a plan where we can't see a positive outcome. God has commanded us to step out on faith, which we have. He has also commanded us to be good stewards. That's where I feel our decision lies now. God will bless us through this. I am proud to pastor a church that is willing to take large steps of faith when we see an opportunity to do big things. Sometimes God later directs us down a different path, which is what happened in the early days of Pathway's building project. Our plans may not always work out, or at least in the way we expect, but God rewards our willingness to try big things to expand the reach of the gospel!

Analysis of Cash On Hand with Increases in Expenses

The concern that we have with the future financial position for The Central Project has multiple variables, but is primarily impacted by the interest expense of carrying debt. Not only has the decline in property values and increase in development costs created a deficit in our future budget even if we are able to sell and complete the apartment build-out, the prospect of going through 2023 without selling the property is even more concerning. Not including any maintenance, design, or building costs, we will run out of money at the end of September. Our current discount rate is 7.75% with expected 8.95% minimum in September (current non-discount rate).

	March	April	May	June	July	August	Sept	Oct	Nov	Dec
Interest Payment	\$8,195.35	\$8,783.33	\$8,783.33	\$8,783.33	\$8,783.33	\$8,783.33	\$10,143.33	\$10,143.33	\$10,143.33	\$10,143.33
Insurance	\$960.79	\$960.79	\$960.79	\$960.79	\$960.79	\$960.79	\$960.79	\$960.79	\$960.79	\$960.79
Utilities	\$111.26	\$111.26	\$43.32	\$43.32	\$43.32	\$43.32	\$43.32	\$43.32	\$43.32	\$43.32
Total Expenses	\$9,267.40	\$9,855.38	\$9,787.44	\$9,787.44	\$9,787.44	\$9,787.44	\$11,147.44	\$11,147.44	\$11,147.44	\$11,147.44
Offerings	\$5,266.40	\$5,266.40	\$5,266.40	\$5,266.40	\$5,266.40	\$5,266.40	\$5,266.40	\$5,266.40	\$5,266.40	\$5,266.40
Loss	-\$4,001.00	-\$4,588.98	-\$4,521.04	-\$4,521.04	-\$4,521.04	-\$4,521.04	-\$5,881.04	-\$5,881.04	-\$5,881.04	-\$5,881.04
Bank Balance (end of month)	\$28,892.97	\$24,303.99	\$19,782.95	\$15,261.91	\$10,740.87	\$6,219.83	\$338.79	-\$5,542.25	-\$11,423.29	-\$17,304.33

Central Project Bank Balance



IMMEDIATE DECISIONS FOR THE CENTRAL PROJECT

As you will see from the financial statements, this Fall we spent over \$16,000 rebuilding the retaining wall which had caved in above the fellowship hall. Last month we selected an architect and agreed upon a price for his services. We have put all planning and development on hold at this time. Even if something were to happen to keep us in the property, we have already missed the timeline to have apartments open August 2023. This lack of rental income until August 2024 makes it even more difficult to move forward, even if we were able to sell at the full asking price of \$1.3 million.

INABILITY TO PROCEED EVEN WITH QUICK SALE OF THE SOUTHERN HALF

As stated, the immediate sell of the southern half still puts us out to August 2024 before we have rental income. Without an offer which is now above the comparable value given to our property, along with hundreds of thousands in donations to reduce the debt, we don't even have the ability to make simple interest payments for the next 17 months to get us to receiving rental income. We should also expect to lose some of the offerings we currently receive which were only committed to give through October 2023. If everything worked perfectly — (1) sale of land for \$1.3 million, (2) \$400,000 in outside donations, (3) outside offerings remaining steady until August 2024 — at that time we would still barely break even in our monthly budget with nothing left for maintenance or upgrades. Part of the appeal as we decided to move forward 18 months ago was the ability for this to help cashflow the remodel and even provide financial support to Thrive MBSF. It would be a very long time before either of those would happen.

OUR SUGGESTED PLAN MOVING FORWARD

At the beginning of this project when we had to vote on whether to purchase, we told Pathway that if things on the ground changed in such a way that we couldn't complete our plan, we had a path out that would protect Pathway and repay our obligations. That is still true. Multiple realtors / developers have said the property is now valued around \$2.2 million, possibly higher due to selling a larger parcel than the 1/2 we have attempted. Even if we needed to expedite the sale and accept a lower offer, we would be able to:

- Pay off our bank loan and repay our private loans with interest due
- Pay back every donation given, or forward donations to the ministry of the donor's choosing

If we receive a higher offer then, we could consider giving a portion to Central Baptist Church (some have mentioned this option), and we could set additional proceeds aside for a future capital campaign to build a new facility for Thrive MBSF in the future. We do not own the Brad's House property or building that we use on campus, but it might be possible in the future to build a larger, multi-story Brad's House on that location. However, our decision now must be made concerning the facts that we know: we don't have a path forward to complete this project, and we need to act quickly to ensure the financial safety of Pathway and Thrive.

TODAY'S DECISION: Vote whether to give Jeremy & Jack the authority to negotiate for the sale of the entire property of The Central Project. Right now, Jeremy and Jack have the authority to do so for only 1/2 of the property. We had initially planned to present this information leading up to our full Spring Business Meeting on April 16th, but we don't need to wait.

- ⇒ Any decisions on what to do with potential excess funds after the sale will be discussed on April 16th and at later meetings.
- ⇒ **We owe \$1,592,626.15** — \$1,360,000 in our bank loan; \$232,626.15 in private loans as of 3/31
- ⇒ The **property's estimated worth is \$2.2 million** with no value in contents or removable structures
- ⇒ Through February 2023, from both internal Pathway giving and outside offerings, we have received a total of **\$126,278.50 in contributions** that we would seek to refund or direct as requested.

QUESTIONS ABOUT OUR REQUEST

WHY NOW? WHY NOT WAIT?

Many commercial land sales take between 3-6 months to close, some much longer. The development next to the church took over a year. Even if we list it tomorrow and accept an offer next week, these time constraints may push us past the point where we run out of bank account funds before the land is sold. We don't need to delay.

The choice to delay also assumes that every financial factor will change to our benefit (sale of 1/2 property, lower interest rates very soon, larger donations than we have received) which is not realistic. When the harsh reality of the interest costs and the lack of buyer interest even after the push following the lot split / rezoning approval by the planning commission hit in February, we had to reevaluate. We have shown our faith in the willingness to attempt this project, but now we must show our stewardship.

WHAT ARE THE CHANCES WE CAN QUICKLY SALE THE ENTIRE PROPERTY WHEN THE HALF HASN'T?

We have already received a pending offer for the complete property. Developers who won't even place an offer on 1/2 have shown interest in buying the complete property. We will discuss this offer on Sunday, but it is above the conservative valuation of \$2.2 million. This offer is partially why we sped up the decision making process, but it could go away. Our decision can't be based on having an existing offer, it must be on the complete set of facts surrounding the project.

WILL PEOPLE FEEL LIKE WE MISLED THEM?

We can't control that. We haven't, and we know that. We have maintained and improved the property expecting future development. We have moved forward with architects. David Nix and BLEW engineering have completed the lot split and will have final approval next week for our rezoning, both done to try and make the southern half of the property more marketable. We haven't misled anyone. The economic and development factors beyond our control have changed in a worse way than expected by everyone and more than the allowances we accounted for.

WILL CENTRAL BE FRUSTRATED SINCE THEY SOLD IT TO US FOR LESS THAN THEY WOULD HAVE LISTED?

We can't control that either. They made the decision to sell to us in hopes that we could keep the property for ministry use. We have given it our best. If we receive an offer that gives us a substantial amount above what is needed to pay off debt & pay back donors, we would consider offering to give some of that excess to Central. The only requirement they had is that if we can't use the sanctuary, they wanted it torn down. This would have been done a year ago if we hadn't tried to save this property. We hope they appreciate our efforts.

DO WE HAVE ANY OPTIONS TO BUILD / BUY ELSEWHERE?

Not at the moment. As mentioned on the previous page, we have always looked at a future possibility of building a larger Brad's House in that location. We will keep watch for other properties near campus; however, there are no solid plans. Our decision has to be based on the financial outlook of our situation.

IF WE SELL AT \$2.2 MILLION, WHAT WILL THE FINAL NUMBERS LOOK LIKE?

A rough estimate of costs out of proceeds would be:

\$150,000—Realtor fee & closing costs
\$1,600,000—Loan payoffs
\$160,000—Return contributions
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\$290,000—Ending net gain after sale of property

The Central Project
Checking & Savings Accounts
September 2022 through February 2023

	<u>Sep 22</u>	<u>Oct 22</u>	<u>Nov 22</u>	<u>Dec 22</u>	<u>Jan 23</u>	<u>Feb 23</u>	<u>AVG</u>	<u>TOTAL</u>
Income								
Interest from Savings	2.49	3.87	0.00	14.33	0.00	0.00	3.45	20.69
Offerings	<u>4,899.24</u>	<u>4,043.74</u>	<u>8,638.59</u>	<u>2,973.54</u>	<u>3,224.14</u>	<u>7,819.14</u>	<u>5,266.40</u>	<u>31,598.39</u>
Total Income	<u>4,901.73</u>	<u>4,047.61</u>	<u>8,638.59</u>	<u>2,987.87</u>	<u>3,224.14</u>	<u>7,819.14</u>	<u>5,269.85</u>	<u>31,619.08</u>
Expense								
Bank Fees	0.00	0.00	27.50	0.00	0.00	740.00	127.92	767.50
Insurance Expense	960.79	960.79	960.79	1,027.60	960.79	960.79	971.93	5,831.55
Landscaping Expenses	0.00	0.00	0.00	265.00	0.00	0.00	44.17	265.00
Loan Payment	5,270.00	5,100.00	5,670.00	5,099.15	5,268.45	5,268.45	5,279.34	31,676.05
Repairs & Maintenance	0.00	0.00	16,096.86	882.39	0.00	0.00	2,829.88	16,979.25
Utilities								
Electric	19.41	29.38	30.22	32.62	44.43	33.71	31.63	189.77
Gas	13.94	13.94	13.48	151.30	188.84	96.26	79.63	477.76
Total Utilities	<u>33.35</u>	<u>43.32</u>	<u>43.70</u>	<u>183.92</u>	<u>233.27</u>	<u>129.97</u>	<u>111.26</u>	<u>667.53</u>
Total Expense	<u>6,264.14</u>	<u>6,104.11</u>	<u>22,798.85</u>	<u>7,458.06</u>	<u>6,462.51</u>	<u>7,099.21</u>	<u>9,364.48</u>	<u>56,186.88</u>
Net Income	<u><u>-1,362.41</u></u>	<u><u>-2,056.50</u></u>	<u><u>-14,160.26</u></u>	<u><u>-4,470.19</u></u>	<u><u>-3,238.37</u></u>	<u><u>719.93</u></u>	<u><u>-4,094.63</u></u>	<u><u>-24,567.80</u></u>

The Central Project
Profit & Loss
November 2021 through February 2023

	<u>Nov - Dec 21</u>	<u>Jan - Mar 22</u>	<u>Apr - Jun 22</u>	<u>Jul - Sep 22</u>	<u>Oct - Dec 22</u>	<u>Jan - Feb 23</u>	<u>TOTAL</u>
Income							
Interest from Savings Offerings	0.21 25,425.00	0.37 23,143.30	0.37 37,077.36	2.49 13,933.69	18.20 15,655.87	0.00 11,043.28	21.64 126,278.50
Private Loans Savings Deposit	0.00 1,000.00	219,985.00 0.00	0.00 0.00	0.00 38,311.44	0.00 0.00	0.00 0.00	219,985.00 39,311.44
Total Income	<u>26,425.21</u>	<u>243,128.67</u>	<u>37,077.73</u>	<u>52,247.62</u>	<u>15,674.07</u>	<u>11,043.28</u>	<u>385,596.58</u>
Expense							
Bank Fees	123.52	0.00	0.00	0.00	27.50	740.00	891.02
Closing Payment	0.00	259,929.95	0.00	0.00	0.00	0.00	259,929.95
Fund Transfer	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Insurance Expense	0.00	1,213.36	2,528.26	2,882.37	2,949.18	1,921.58	11,494.75
Landscaping Expenses	0.00	0.00	500.00	245.00	265.00	0.00	1,010.00
Loan Payment	0.00	4,760.00	15,640.00	15,640.00	15,869.15	10,536.90	62,446.05
Repairs and Maintenance	0.00	0.00	0.00	0.00	16,979.25	0.00	16,979.25
Utilities							
Electric	0.00	0.00	104.34	64.07	92.22	78.14	338.77
Gas	0.00	0.00	0.00	57.15	178.72	285.10	520.97
Utilities - Other	0.00	0.00	91.85	0.00	0.00	0.00	91.85
Total Utilities	<u>0.00</u>	<u>0.00</u>	<u>196.19</u>	<u>121.22</u>	<u>270.94</u>	<u>363.24</u>	<u>951.59</u>
Total Expense	<u>123.52</u>	<u>265,903.31</u>	<u>18,864.45</u>	<u>18,888.59</u>	<u>36,361.02</u>	<u>13,561.72</u>	<u>353,702.61</u>
Net Income	<u><u>26,301.69</u></u>	<u><u>-22,774.64</u></u>	<u><u>18,213.28</u></u>	<u><u>33,359.03</u></u>	<u><u>-20,686.95</u></u>	<u><u>-2,518.44</u></u>	<u><u>31,893.97</u></u>