

Updates from SST & CCT

The closeout date for Phase A of our Capital Campaign has been changed to June 30.

Sale of our Current building

Continuing activity and showings.

We have an offer for this building, which we do not consider acceptable. We consider the offer too low, but will be continuing to talk with that potential buyer. We also had a showing on 3/26/16. It is likely that we will need to have a contract for the sale of our current building prior to purchasing the Military Highway property.

Inspections Update

- Our application for a Conditional Use Permit was approved by the Virginia Beach Planning Commission & City Council.
- A Title Search was completed. Our lawyer found no objectionable encumbrance on the title.
- A physical (ALTA) Survey was completed.
- Elevation Certificates were completed (for main building & utility building). They confirm that the buildings are not in a flood zone.
- A Phase I Environmental Site Assessment completed. It revealed 3 issues which warranted Phase II Assessments which were all completed.
- Phase II Environmental Site Assessments were carried out for asbestos, an Underground Storage Tank, and leakage of hydraulic fluid from elevator machinery in the building's crawl space. We are awaiting the final report, which should be ready within a few days. Field work performed during investigation of Underground Storage Tank and leakage of hydraulic fluid did not find any obvious contamination of the adjacent soil. Asbestos was found in the places we expected: "pop-corn" texture applied to plaster ceilings in various rooms, 9 inch square vinyl-asbestos floor tiles, and some pipe insulation in the crawl space and utility building.
- Our application for a variance from Virginia Beach's Chesapeake Bay Preservation Area Board has been submitted and we expect a ruling by the end of April.
- During our hearing regarding possible water and sewer connections to Virginia Beach municipal systems, it was revealed that the option to continue using the property's septic system might be viable. A test of that system will be conducted soon.
- Structural issues were analyzed and engineering was performed to devise a structural plan for appropriate handling of all loads.
- Heating, Cooling, Plumbing, and Electrical systems were evaluated by PACE Collaboratory, P.C. and by multiple contractors.
- Preliminary reviews of floor plans were performed by Virginia Beach's "Division of Permits and Inspections" for egress requirements, general code compliance, and Fire-Life safety Code.
- Another Virginia Beach department required certain modest changes to the building's entrance driveway.

- An inspection of the building roofs by Beck Roofing found the need for relatively minor repairs of the roof, gutters, and downspouts.
- An elevator inspection determined that the hydraulic machinery requires replacement and the new equipment can no longer be located in the crawl space. The controls also require upgrading to meet ADA standards.
- The building's masonry was inspected and very little work is required for masonry repairs.
- Johns Brothers Security prepared estimates for a fire alarm system, keyless entry system, and intercom.

Inspections and consulting have not yet been done for the sanctuary acoustics, septic system, wells, or fireplace.

COSTS

Since the beginning of our Due Diligence period, projected costs for the building renovations came into question and the costs for conducting our inspections has been greater than originally projected. Cost increases came about as a result of the inspections we required, issues which we had not anticipated which required additional testing, engineering work done for us, preliminary design review by the City of Virginia Beach, detailed price quotes from contractors, and by design changes we created. Due to these factors, our Cost Evaluation Team tasked our architect (with the help of a general contractor) to develop a new projection of expected costs, based on the current plans and price quotes from a variety of sub-contractors. The cost breakdown they produced came up with a total cost of slightly over \$1,800,000, which is 20 percent higher than our \$1,500,000 goal and does not include all of our expected costs.

Expenses left out of those estimates include:

- furnishings
- Kitchen equipment
- Audio-visual systems
- Internet technology
- a security system
- and moving costs

The new cost breakdown provides us with a powerful tool for making necessary adjustments while we are still in the design phase and will be taken into account to align our building design with our financial capabilities prior to tasking our architect with creation of detailed working drawings.

Our original financial plans included a contingency fund of \$100,000, which would have been 6.7 percent of the expected construction cost. Our Facility Design Team consulted with other churches that went through significant construction projects recently and were advised that a 10% contingency fund should be the minimum value we should consider and a greater value would be much safer. We have not established a new size for that fund yet.

The Sacred Space Team, Facility Design Team, and Design/Cost Evaluation Team are working to resolve these issues by a combination of the following:

- postponing certain renovations
- design modifications
- obtaining estimates from other contractors
- raising our Capital Campaign goal

There are various possibilities for trimming costs which are being explored, including:

- The use of the existing septic system,
- Use of wood instead of masonry to build the entrance ramp,
- Postpone the insulating of some outside walls.
- Leaving some vinyl-asbestos floor tile in place for now.
- We might postpone the installation of some new bathrooms.
- We could use a suspended ceiling in the sanctuary,
- and we could postpone replacement of some windows.

We wanted to make you aware of this process and prepare you to see design ideas which scale back the extent of renovations in our first phase. To some extent, the final balance of cost-containment measures will be determined by the level of funding by our congregation.

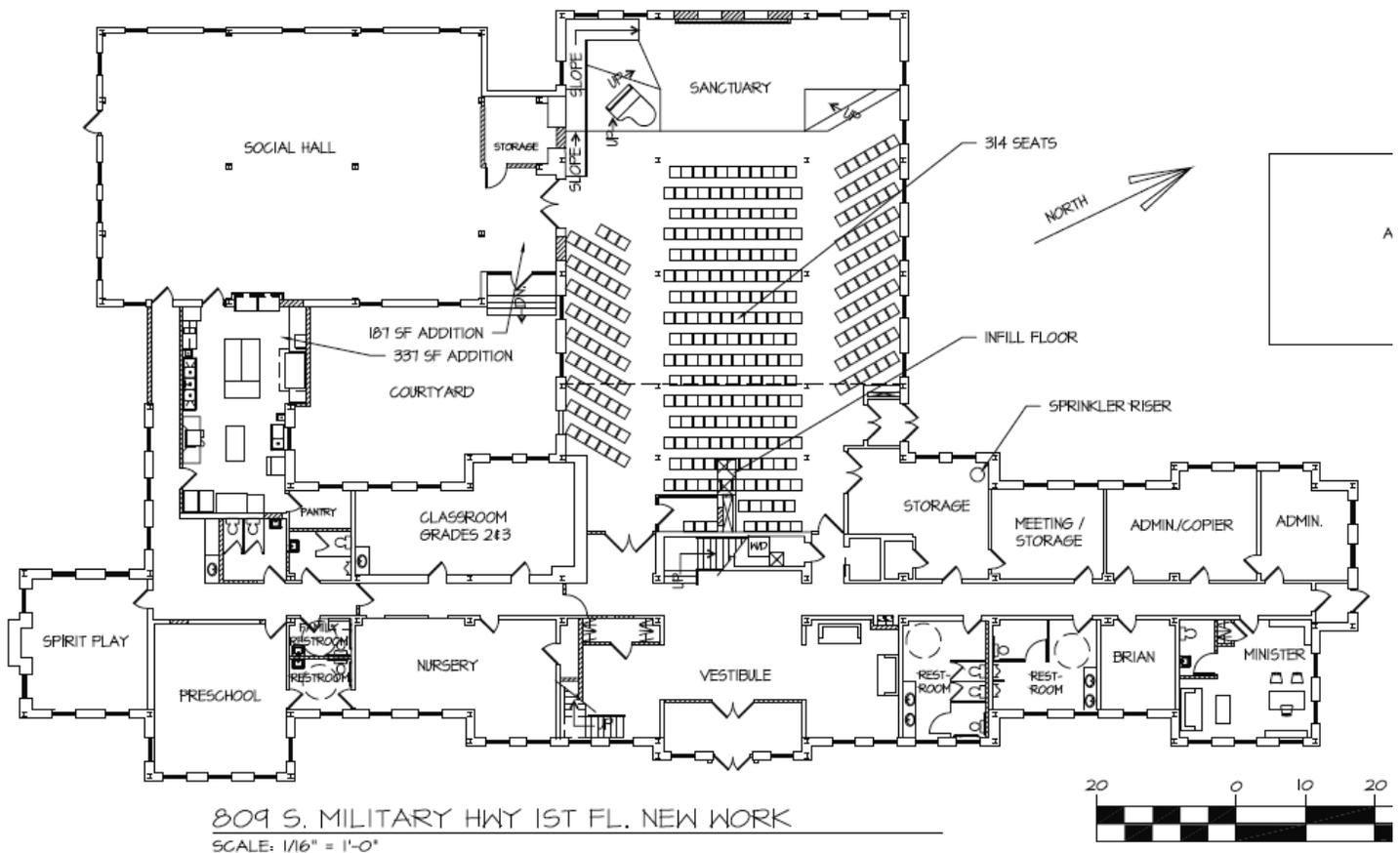
Design Progress

The Facility Design Team, headed by Judy Welp has been very actively engaged since the middle of January. The Team currently consists of Ed and Judy Welp, Nancy Duncan, Michael Geller, Anne Odell, Sharon Harrell, Garland Tillery, Megan Ritz, Pat Ives, Mark Fetterly, Ann Marie and Rob Curran, Kevin Ray, and Doug Throp.

The Facility Design Team began by reviewing the survey results, interviewing UCN staff and key members, and met with a number of church committees and groups. They visited a number of other churches which had done building renovations recently, including the UU churches in Williamsburg and Richmond.

The following building floor plans are our most recent set of plans. They are likely to change, but they do include most of what we hope to have eventually. We envision that our vestibule will be a very open bright cheerful place with some comfortable seating where people can gather and greet each other before services. Built-in coat racks or closets would be located at the left end.

One of the most significant cost cutting measures we are considering, is the preservation and upgrading of two existing bathrooms in the center of the building. That would shorten the length and diminish the seating capacity of the sanctuary by about 35 seats, but would allow us to postpone construction of the two new bathrooms shown on the first floor plans to the right of the vestibule.



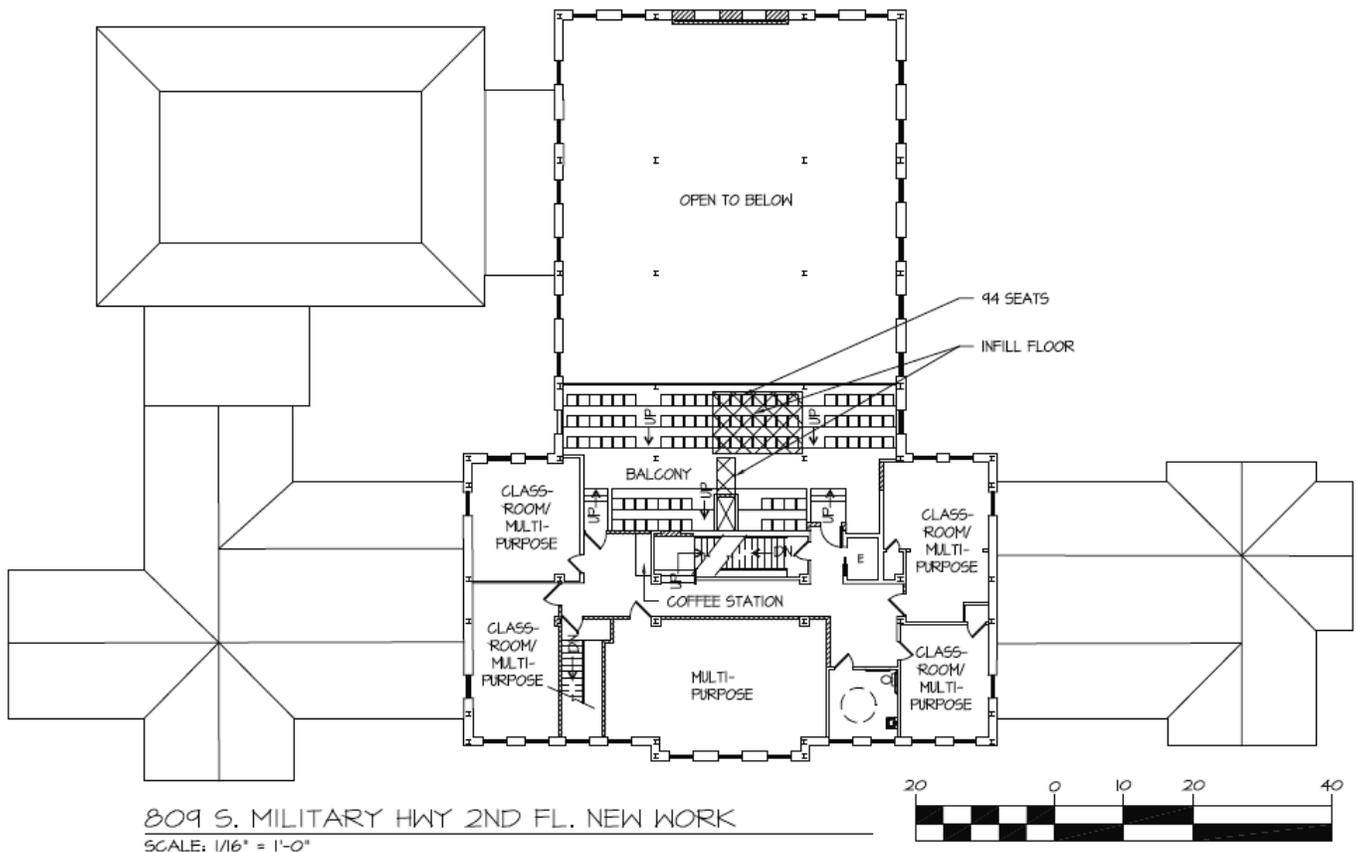
We envision a very attractive warm sanctuary. We are still toying with different aspects of the stage layout. We want to integrate a ramp into stage design. The use of chairs instead of pews will make the sanctuary more versatile for a variety of purposes. The plan shows a large storage room off of the sanctuary for the storage of tables or chairs.

The area shown between the sanctuary and social hall would be a small expansion of the current building footprint. Many of us consider this expansion of the current small hallway a necessary improvement to allow for the free flow of people into and out of the social hall. It would also make it possible to include a small storage space for audio equipment and social hall furnishings. When we ask for bids, we may ask for a separate price for this modification, in case we need to delay it to a later phase.

Connected to the social hall would be a new section connecting the two left hand wings of the building. It would house half of the nice sized kitchen. We aren't sure how completely we will be able to equip the kitchen initially, but we expect it to be functional for all our current needs. We will aim for it to meet all health standards required for commercial kitchens. Our application for a variance from Virginia Beach's Chesapeake Bay Preservation Area Board is required to permit us to install these two small additions to the building, because they are so close to the wetlands. Next to the kitchen would be a hallway, connecting the social hall with the Religious Education wing and a cluster of bathrooms.

There are four new bathrooms: men’s and women’s restrooms, a family bathroom, and one designed especially for young children between the nursery and pre-school rooms with age appropriate fixtures. As requested by our Religious Education staff, the classrooms for younger children are quite large.

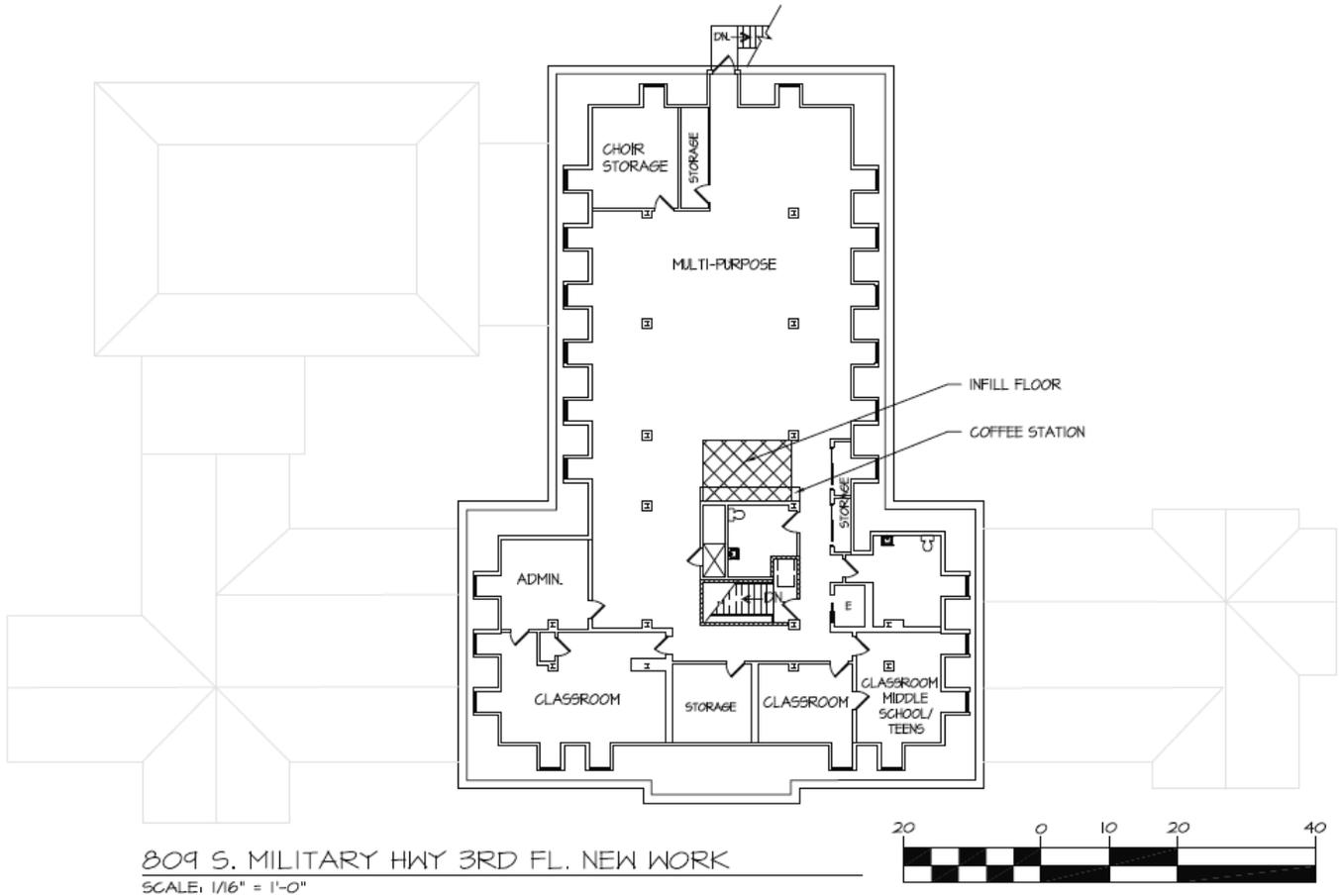
To the right of the vestibule, the two large rooms which are shown as bathrooms may take on other roles if we decide to retain the existing main bathrooms for a few years. The minister’s office is shown at the far right with its own small bathroom. That bathroom will probably be left out of our first phase.



The second floor would include 5 multi-purpose rooms, the balcony, and a single ADA compliant bathroom. [ADA-Compliant bathrooms are shown with a 5 foot diameter circle, indicating sufficient space for navigation of wheel chairs and motorized scooters.] A new stairway would join this level with the vestibule to satisfy emergency exit requirements and another stairway above the main stairs will provide access to the third floor from the second.

The third floor will likely have minimal floor plan changes during the first phase. Despite the labels showing for various rooms on the second and third floors, no specific room reservations are nailed down for certain at this time. We expect that most rooms will serve multiple purposes.

The third floor will probably have one ADA-Compliant bathroom initially. A second bathroom could be added later.



Overall Budget - David

Basic cost breakdown

Our goal is to move in for a total of \$3 million to \$3.3 million.
\$1.25 million to purchase the Military Highway property
\$1.7 million to \$2.0 million renovation cost
If total costs exceed \$3 to \$3.3 million, we would need to raise more money.

Sources:

- \$600K net from sale of current building.
- \$450K of reserves (not operating expenses) in the bank
- \$800K Phase A goal
- \$600K Phase B goal over several years

Totals \$2.3-2.4 million
The rest becomes the mortgage

Mortgage — The mortgage will likely start bigger because Phase B is spread out over several years after we purchase. Debt will go up during renovation and can come down as Phase B payments come in

Purposes of Phase B

- Help with renovations

- Help with added operating expenses

- When and if there are extra dollars, income can be used to pay down the mortgage.

- Our goal is to pay off the mortgage.

Update on the Capital Campaign

The Capital Campaign was launched in January 2016.

Phase A is cash for closing on the purchase.

We hope to Close on the purchase about October 2016.

Before Phase A contributions finish at the end of June, David thinks we will be at or above our \$800K goal.

We are now at about \$643,000 or about 80% of the \$800,000.

Phase B goal of \$600,000 is scheduled to come in over 3-4 years, starting the month we close.

We consider that to be conservative. Most people have pledged to both Phase A & Phase B.

We are already at about \$540,000 or 90% of the \$600,000 goal.

Phase B will continue accepting pledges for years. New people can participate as they arrive.

We believe that phase B will probably grow to be much bigger than \$600K.

If the move in cost exceeds the \$3.0 — \$3.3 million range, we would like for that increase not come from debt, but come from us.

Milestones

The Design Team will complete its “final first draft” in the near future.

Our architect will create working drawings based on that design. That is a several week very detailed process extending through the end of April.

Our 120 day Due Diligence period will be completed on April 29, 2016. The Board meeting on April 21 is expected to vote to walk away or extend our contract with Skanska. Each extension is for 90 days. We have the right to 4 extensions. We would like to only use two of them with a close on the purchase in October. Each 90 day extension costs us \$50,000. That money is not lost. It is an increase in the deposit for the eventual purchase of the property.

By June we will find 3 General Contractors who meet our requirements and are each completely independent. We will research each contractor.

We will get competitive quotes from them for all the work specified by the working drawings.

Then we will select one contractor in June (with two others in the wings).

So by June 15, Ed and David and a couple of others will have the contractor quotes as they go through the whole bank mortgage application process. Our goal will be to have our applications submitted to three banks. Our goal is to have them approve our credit.

Our Credit worthiness is determined by:

How much have we contributed

Appraised value of the property after renovations are completed. "As-Built appraisal"
(\$3 million hoped for)

Growth in pledging and pledgers

Cash flow

Maintained reserves

Bank will loan a percentage of the value — part of our appraised value (e.g. 50%) or most of our renovation costs. (whichever is lower)

Goals of our Due diligence period —

inspections,

congregational attitude,

design — will it work in this building

Capital Campaign - can we raise the funds

Goals of First extension —

three contractors — find good contractors who want our project

Contract for sale of UCN — confidence in ability to close

Lock up the loan approval

Money in the bank for the closing

Goals of Second extension -

Get it all together

Sale of UCN and purchase of Mike

Goal - not to own two buildings at one time

Where do we go if we close in October? We want the deal to allow us to stay in our current building until the new building is ready (or share if necessary).

After Close on purchase:

Renovations will take 6-8 months.

Goal - "Not to exceed" price quote and time quote.

Move in — maybe June 2017.

Capital Campaign getting a B+ (David's opinion)

Questions & Answers

We can close before October if we have a good offer on UCN.

Why third extension? If we need more time.

Why would we walk away from purchase of the new building?

If we find another building that does not need extensive repairs.
We would lose deposits — only if we cannot make our goal
Purchase price is fixed but there is financial logic.

Any additional votes required?

If we vote to use the Endowment Fund (now included in the \$450K available)
Vote to sell 739 Yarmouth St. Price, timing, etc need to be voted on to sell.

What if renovations will cost a lot more than we originally projected?
(Estimates so far don't include furniture, security etc.)

If contractors' bids come in much higher, we will have to rethink our process.
May have to defer some items for a few years.

Appraisal versus assessment....

We had an appraisal before we put the building on the market.
Appraisal is usually market value but our did not address the water nearby issues.
Appraisals and assessments for churches are not a reliable measure of market value.

Does congregation vote to walk away?

Communication would need to occur, but congregation authorized Board to make the ultimate decision.

What tests are still to be done /Completed?

Septic field
Chesapeake Preservation Area — approve changes
Inspection of wells
Inspection of fireplace
Postponed acoustical analysis — Real-time analysis or modeling capability with a 3-D rendering (David Hamby is exploring that possibility)

Where will sound booth be?

Upstairs in the balcony — because of the sight lines

How many seats are there in the balcony?

94 seats

Furnishings — how much will they cost?

Major cost will be 300 chairs for the sanctuary. \$20-300 each. Eric Strom sells office furniture and may be able to help us find used furniture. Some donations of furniture are possible if they are nice. All choir chairs (\$75 each) will go, as will risers. Some \$50 chairs were considered for the sanctuary.

Use old bathrooms on first floor — cost?

Difficult to compute. Composite figure. Probably \$60,000 — \$80,000.