**Ferry Beach Park Association**

**Position Paper (FAQ) on Debt Position**

**May 6, 2014 (Created by the Ferry Beach Board for Ferry Beach Membership)**

**Executive Summary**

Ferry Beach Park Association has taken on debt at various times for specific reasons. This paper is to provide historic context to clarify the current position on debt and review strategies that the Board is exploring to reduce the debt position in the future.

**What is the debt position of FBPA?**

As of December 31, 2013, Ferry Beach Park Association financial statements reflected both short-term debt and long-term debt. Specifically, there is $100,000 in a Line of Credit (short-term debt) and $970,056 in term loans (long-term debt). \*

The short-term debt is secured by property at 21 Ferry Park Ave (Quillen) at a rate of 4.25% (prime plus one percent). The line was initially established (several years ago) to absorb seasonal cash flow fluctuations occurring in the winter months with the expectation of full payment each summer.

The long-term debt is as follows:

Note payable to Bangor Savings Bank maturing in 2030: $604,216

Secured by property at 21 Ferry Park Ave. (Quillen)

Rate 3.65% (resetting in 2018 to floating FHLB AA index rate plus 3 percent)

Notes payable to two FBPA members $365,840

Various maturities through 2032

Simple weighted average rate of 4.67%

Principal and interest expense to service the long-term debt was $93,601 for 2013 and represents 8.1% of total annual operating revenue.

**What are the implications?**

There is no doubt about it, while the estimated market value of Ferry Beach exceeds $20 million; the amount of debt our organization is carrying remains significant. That said, the debt was incurred to sustain and enhance FBPA. For the organization this is akin to a home mortgage. These loans were incurred with the expectation that FBPA will continue to meet its debt obligations as well as other operating expenses for the foreseeable future.

**Debt History - in brief**

The short-term debt (Line of Credit) is the result of recent operating losses spanning approximately three years (2010 – 2012). The line was initially established to absorb seasonal cash flow fluctuations occurring in the winter months with the expectation of full payment each summer. This has not routinely occurred in recent years. In 2013 we did not incur a loss and projections for 2014 through 2018 suggest that FBPA will remain in the black.

The long-term debt is the product of previously existing debt ($340 thousand), which included line of credit and credit card debt of $115 thousand. An additional $400 thousand of debt was incurred during the 2009-2010 capital improvements. The debt was consolidated into one loan with Bangor Savings Bank in 2010 and subsequently refinanced at a lower rate in 2013. These are commercial term loans with a 5-year fixed rate that will revert to a floating interest rates over time.

Notes payable to generous members are unique as the terms provide that some of the annual interest is donated back to FBPA due to the generosity of these members. Additionally, the remaining principal of these loans will be forgiven at the time of the member’s death. We are fortunate to have these stewards of FBPA and thank them for their continued generosity.

It is worth noting that, from time to time, FBPA has elected to sell parts of the property to generate funds rather than incur debt liability. The last such sale was the Manning Cottage in the 1995, a time when the Prime rate ranged from 9.5% to 10%, lending rate would have been even more. These difficult choices are driven by the financial sustainability provided by the membership as well as the interest rate environment. When funds are needed, the Board will carefully weigh several factors before formulating a recommendation either to incur debt or liquidate property assets.

**What is the impact of this debt?**

Management continues to make choices as annual budgets are prepared and expenses incurred. While there is a modest annual budget for maintenance, there are a number of projects that may be deferred to ensure FBPA meets its debt obligations. Management continues to evaluate the list of maintenance items and chooses to address projects based on urgency and need. It remains the discretion of management to make appropriate choices with available resources and for the Board to support these decisions within the annual budget and expense review process.

**What is being done about the debt load?**

Management and the Board agree on an approach of prudent debt reduction over the next five years. By this we mean reduce the debt principal in the following priority order:

1. Pay the $100 thousand outstanding line of credit in full in 2014. FBPA will retain the line for use as initially intended to cover interim year cash shortfalls.
2. Pay additional principal on the commercial loan through December 2017. This will reduce outstanding principal subject to the float rate effective in 2018 as noted through the 2030 maturity.
3. Continue to pay scheduled principal and interest to FBPA members who have lent the Beach money. The terms of these loans remain generous and it is in the best of FBPA to make the scheduled payments through stated maturities (2021 through 2032).

**What is the plan for stewardship programs?**

FBPA greatly benefits from the generosity of our donors. Many donors are now sustaining members, contributing monthly to help address seasonal cash flow shifts and better sustain the operations of the FBPA. We rely on the continued generosity of our members to advance our mission and ensure FBPA is here for generations to come.

In 2014 the Board is exploring the revitalization of stewardship activities to foster a culture of service and abundance. Finally, the Board continues to support a scholarship fund to assist those with limited means who seek to visit and participate in a scheduled conference. We aim to make FBPA accessible though these programs.

**How can I help?**

There are three main ways to assist FBPA at this time

1. If you are a donor to Ferry Beach, either annually or as a sustaining donor, we thank you. If you are not, please consider becoming a donor to Ferry Beach. Your gift is tax deductible and assures the future of Ferry Beach for generations to come.
2. The Board is seeking to establish a small financial advisory group comprised of interested member-donors with strong financial backgrounds. This group will serve as a sounding board to ensure financial matters remain transparent to our membership. With continued success, the Board would recommend that this group become a formal committee supporting the Treasurer and Board of FBPA.
3. The Board is developing a separate team and program to revitalize FBPA stewardship. There is much to be done as the Board seeks to establish a task force of interested member-donors to assist in prioritizing and communicating a culture of service and stewardship among members, friends and visitors.

If you are interested in assisting in one of these ways, please contact the FBPA office (ph 207-282-4489), or email the FBPA nominating committee with your credentials at (nominating @ ferrybeach.org)

\*Total debt represented 43% of total assets (recorded at historic cost) and approximately 5% of market value based on a $20 million estimated assessed value of the Association’s land and buildings.