



2012 Grant Report

April 1, 2013

Dear Friends of the Harold Alfond Foundation:

We are pleased to share this Grant Report summarizing the work of the Harold Alfond Foundation in 2012.¹ For updates throughout the year as well as additional information on the Foundation's work, please visit our website at www.haroldalfondfoundation.org.

Financial Data and 2012 Grant Funding

Net of all grant payments, the Foundation closed the 2012 calendar year with assets of just over \$611 million, up from approximately \$576 million a year earlier. The Foundation's investment portfolio benefited from strong equity markets, which continue to climb as this letter posts to our website. **Berkshire Hathaway**, a major holding that underperformed the market in 2011, reversed course, outperforming the market in 2012 and leading the portfolio's climb.

The Foundation's overall investment return for 2012 was just north of 14%. We can always hope the history of 2012 repeats itself in 2013 and future years, but we will remain disciplined as we aim to prudently preserve and grow our spending power over time for the benefit of charitable organizations.

Speaking of spending, we paid out nearly \$28 million to 31 organizations in 2012. Of this amount, 91% was awarded to Maine-based organizations. Harold Alfond was a resident of Central Maine and, consistent with his preferences, over two-thirds of the Foundation's 2012 grant funding was directed to organizations based in Central Maine, including significant support to those in the **City of Waterville**.

While the number of organizations receiving funding increased slightly over last year, grant funding remained highly concentrated on fewer organizations. In fact, the Foundation awarded 92% of its funding to just eight organizations. This approach is consistent with the Foundation's interest in supporting large scale projects with the potential for high returns on investment.

¹ The Foundation is committed to operating in a transparent manner, and this letter is being shared with you as one of several means by which we distribute information about our grantmaking and other significant financial, operational, and programmatic activities.

Future Commitments

The Foundation closed the 2012 calendar year with binding grant commitments—money payable to charitable institutions in future years—of about \$43 million, down from \$67 million a year earlier.² This 36% decrease in our favorite form of “debt” can be attributed to sizeable payments made for large ongoing projects, such as **MaineGeneral’s new hospital** and the **Kennebec Valley Community College’s new campus** at **Good Will-Hinckley**, and, as planned, our refrain from making new commitments.

Grantmaking Preferences

Looking ahead, we can offer two points of guidance to charitable organizations seeking grants from the Foundation.

- First, the Foundation remains ‘overspent’—as the \$43 million in unpaid grants committed significantly outweighs the \$28 million or so we are required to spend in 2013. Given this dynamic, the Foundation is unlikely to make new grant commitments over the next year and, even if they are made, they will be structured such that payments will not be required until 2014 at the earliest.
- Second, and more importantly, given the Foundation’s capital base and interest in high returns on our philanthropic dollar, we will continue to have a preference for large scale grants with the potential to have transformative impacts in Maine. This second point of guidance warrants a brief historical detour.

Philanthropic ‘Return on Investment’

From his earliest days in philanthropy, Harold Alfond treated charitable grants as investments on which a high return should be sought. This approach appealed to him as a businessman and as a long-time Mainer who knew that, with the state’s limited financial resources, every dollar needed to count. He saw great opportunity for high returns in the area of education. Never having attended college himself, he knew well the benefits an education can provide young people and the importance of an educated citizenry to our well being as a society. Accordingly, he supported educational causes by helping to construct athletic and academic facilities at many Maine colleges and universities, and by establishing scholarship funds to ensure more of Maine’s young people could access higher education. Today, the Alfond name is found statewide on arenas, fields, gymnasiums, dormitories, classroom buildings, student centers, and even one “Forum.” In addition, nearly 1,000 students have attended college with the help of an Alfond scholarship.

In his final years, as he considered the many challenges facing the state and the considerable resources his Foundation would have to help, Harold Alfond began to focus his Foundation’s work on large, entrepreneurial grants with the promise of making significant, long-

² The Foundation’s \$43 million of unpaid grant commitments does not include the long-term commitment to the [Harold Alfond College Challenge](#) and collateral for [MaineGeneral Medical Center’s](#) “Debt Service Reserve Fund” surety bond (commentary on both to follow).

lasting contributions to the state. He made clear that his Foundation trustees should favor such transformative and high-returning projects in the future, and he personally initiated two of them to serve as examples of what he meant by “large” and “entrepreneurial.”

- First, the Foundation made the lead commitment to **MaineGeneral Medical Center** to build a state-of-the-art center for cancer care. As someone who had battled cancer for years, he knew the benefits the new facility would provide for area cancer patients and their families. And, as a businessman and philanthropist who sought opportunities for high returns, he saw the cancer center grant as a down payment on a major investment in improving the quality of life for Maine people. Finally, he saw the grant as a prequel to the Foundation’s 2011 grant to help construct MaineGeneral’s \$322 million new regional hospital located on the same tract of land. The new hospital is scheduled to open this fall.
- Second, he approved the **Harold Alfond® College Challenge**, the Foundation’s ongoing program that offers a \$500 college scholarship to every Maine baby. He loved the idea of how these \$500 accounts would grow in the market for 18 years; how the program could be used to educate families on the importance of higher education and family savings for education; how children who have savings accounts are more likely to go to college; and how earnings over a lifetime of those who attend college far surpass those who do not.

As these examples suggest, Harold Alfond’s idea of philanthropic investing sets a high bar for our future grantmaking. To ensure we are raising (not lowering) the bar for high returns, we will look to the College Challenge and MaineGeneral Medical Center grants as our measuring sticks.

Harold Alfond College Challenge

Approximately 11% of the Foundation’s 2012 funding was sent to the **Alfond Scholarship Foundation** to fund the **Harold Alfond College Challenge**. The only program of its kind in the country, the College Challenge was launched as a pilot in 2008 and statewide in 2009. It is designed to raise aspirations for and improve access to higher education for Maine’s young people by offering a \$500 grant to every Maine resident baby for “qualified higher education.”³

The College Challenge was created with the understanding that higher education attainment leads to personal and economic growth. The program is of special need in Maine, where researchers estimate that about 60% of jobs in five years will require some postsecondary education, and where Maine workers with postsecondary degrees will earn far more than those with only high school diplomas. The program also recognizes that those who have college savings are not only in a better position financially to pay for college by replacing debt with savings but are also better motivated to prepare for and attend college. According to a 2012

³ Qualified higher education encompasses a wide range of educational options from business courses at a four-year college to welding classes in a certificate program.

study, 71% of four-year college graduates in Maine went into debt to earn their degrees—the 5th highest percentage in the country. Their average debt was \$26,046—the 18th highest in the country.⁴

The College Challenge program has three strategies: (1) to enroll all Maine babies in the \$500 program; (2) to provide 18 years of educational messaging to those families enrolled in the program; and (3) to encourage college savings by families. As we review the program’s progress over the past five years, we see both success and room for improvement.

- **“SUCCESS.”** Since the program was piloted in 2008 and launched statewide the following year, nearly all efforts have focused on Strategy #1—to enroll all Maine babies. To date, over 18,000 Maine children have received the \$500 grant. Comparing the 18,000 enrolled babies to the annual state birth rates over this period, we have reached roughly 40% of those eligible. Maine’s “take rate” of 40% is far better than the 3% or so nationally participating in 529 savings plans.⁵ It is also much higher than the approximately 4% of Maine families with “NextGen”⁶ 529 accounts (for children of all ages) prior to the College Challenge.

Although efforts have focused almost exclusively on encouraging enrollment, good progress has been made with Strategies #2 and #3—educational messaging and family savings. Every quarter, the 18,000 Maine babies and their families enrolled in the program receive our personalized account summaries in the mail. The quarterly summary shows—in a manner designed to be much more attractive and engaging than your typical investment account statement—just how the account is doing. While the account summary draws the parents’ attention to the money saved, it also provides (on the same single sheet of paper) educational messages in one of four themes: Finances, Literacy, Science & Math, and Health. As the child ages, the educational messaging changes to be age appropriate.⁷

The account summaries also include a detachable “contribution coupon” to enable family members to easily make their own contributions to the account. Through this method, or automated electronic funding, nearly 30% of enrolled families have made at least one contribution to their child’s account.

- **“ROOM FOR IMPROVEMENT.”** Even as we marvel at the 18,000 accounts created for Maine children, we see the program is falling short of its goal—to provide every Maine baby with a college account. Let’s take a look at just how the program is coming up short.

⁴ “Student Debt and the Class of 2011.” An Initiative of the Institute for College Access & Success. October 2012. http://projectonstudentdebt.org/state_by_state_data.php.

⁵ GAO – Report to the Chairman, Committee on Finance, U.S. Senate. “A Small Percentage of Families Save in 529 Plans.” December 2012. <http://www.gao.gov/assets/660/650759.pdf>

⁶ “NextGen” is the State of Maine’s 529 Investing Plan, administered by the Finance Authority of Maine (FAME) and managed by Merrill Lynch. Because enrollment in the NextGen program is a requirement to receive the \$500 from the College Challenge, FAME and Merrill Lynch are key partners.

⁷ You can view a sample Summary by clicking [here](#).

Since 2010, enrollment in the College Challenge has been flat at about 5,000 new babies, or 40% of eligible babies, per year, despite aggressive marketing initiatives being deployed at escalating operational costs.

That only 40% of the state's newborns are being enrolled in the program means that 60%, or 7,500 babies per year, are being left behind. This is especially disappointing because research shows that those not participating are from families who would benefit most from our program. Such families have lower incomes and include parents who are not college graduates themselves and who are not saving on their own for their children's higher education. And they are not receiving our personalized "money with message" quarterly statements.

To address the program's enrollment shortfall, targeted strategies are being implemented to reach more families, including working more closely with pediatric practices and the state's **Department of Health and Human Services (DHHS)**.⁸ We are hopeful such measures will materially increase enrollment rates, but the findings of respected researchers of our program (and those in the related area of retirement plan enrollment⁹) leave us concerned that our goal of enrolling every Maine baby may still fall short.

Specifically, research conducted by experts at the **Center for Social Development** at Washington University in St. Louis has suggested that, if universal enrollment is the College Challenge's policy goal, an "opt in" strategy may not do the job.¹⁰ At the same time, the Center found that the very presence of a college savings account had positive impacts on families' aspirations for and optimism about their children going to college.¹¹ So, the Center has raised serious questions about our program's underlying "opt-in" structure while reinforcing its overarching mission.

Over the next year, we will be taking a closer look at the program's structural design and how to improve it. So stay tuned.

Areas of Giving: Education, Health Care, and Youth Development

In addition to the dollars allocated to support the College Challenge, we fund charitable institutions in three broad areas of giving: Education, Health Care, and Youth Development. In most cases, the Foundation deploys matching challenge grants to inspire and leverage additional giving by others—a technique Harold Alfond favored because it encouraged teamwork and enhanced the return on investment.

⁸ In fact, legislation has recently been introduced to our state legislature that would require DHHS to enroll babies whose families seek state assistance.

⁹ This research is summarized by Jason Zweig in "How to Save More for Retirement Without Really Trying." *The Wall Street Journal*. March 29, 2013.

¹⁰ Huang, J., Beverly, S., Clancy, M., Lassar, T., & Sherraden, M. (2013). "Early Program Enrollment in a Statewide Child Development Account Program," *Journal of Policy Practice*, 12:1, 62-81.

¹¹ Gray, K., Clancy, M., Sherraden, M. S., Wagner, K., & Miller-Cribbs, J. E. (2012). "Interviews with mothers of young children in the SEED for Oklahoma Kids college savings experiment" (CSD Research Report No. 12-53). St. Louis, MO: Washington University, Center for Social Development.

Of the three areas of giving, Education has long been the Foundation's principal focus, as noted earlier. In 2012, funding for Education accounted for 45% of all grant making, not including the College Challenge.

Education

The top Education grant recipient in 2012 was the **Maine Community College System** (MCCS), which the Foundation assisted in purchasing 13 buildings and 600 acres from **Good Will-Hinckley** to be used as a second campus for the **Kennebec Valley Community College** (KVCC). Additional dollars were also awarded to the MCCS to begin making improvements to the new campus, which will enable the College to serve an additional 2,500 students.

The grant had the dual benefit of supporting the rebirth of Good Will-Hinckley, as Good Will used the real estate proceeds to help launch and support the operations of the new **Maine Academy of Natural Sciences**, Maine's first charter school.

At a time when the need to prepare young people for the workforce is more important than ever, we are particularly excited about our support of these two institutions. The Community College System is truly leading the way in higher education in our state,¹² and the Foundation's funds will help KVCC to meet immediate capacity needs. Good Will has a century of history educating and serving youth. The school's new vision for education—one that is more hands-on and theme-oriented, focusing on farming, forestry, and the environment—will expand educational opportunities for young people across the state.

In 2012, we also celebrated the opening of the Harold Alfond Forum at the **University of New England** (UNE). The Forum is an athletic and student life center on UNE's Biddeford Campus that includes an ice arena, basketball gymnasium, classrooms, a café, and a fitness center. The Forum and a nearby residence hall are part of a strategic growth plan for the University that expands the Biddeford campus geographically and, in the process, creates a new hub of student activity. To christen the Forum, UNE's women's basketball team won the league championship in its first year in the building. Now *that* is return on investment!

The Foundation's commitment to UNE includes funding for both construction of the new Forum and an investment in inter-professional health care education at the school. With the Forum complete, our attention is now turned to the health care component. We have encouraged UNE to strengthen its partnerships with Maine health care providers to create high-quality clinical training opportunities for its students, helping to ensure those providers will have a quality supply of health care workers. We look forward to providing an update in next year's report.

The support of the MCCS, Good Will-Hinckley, and UNE represents grants with the potential for major statewide impacts. The same can be said about our most recent support for **Colby College**. The Foundation has helped fund the expansion of the Colby Museum of Art to

¹² We recommend the "State of the Maine Community College System," as delivered to the 126th Maine Legislature by Dr. John Fitzsimmons, MCCS President, on March 7, 2013, which can be found [here](#).

display an art collection given to the school by Peter and Paula Lunder. We are delighted to support the museum expansion because it will further establish the City of Waterville (also home to the Waterville Opera House) as a major destination for the arts. Further, the Lunder Collection is one of the nation's largest and most important collections of American art ever given to a college or university. As such, the expanded museum is yet another hallmark of excellence for Colby College and the state of Maine.

In 2012, we also made our second payment toward an exciting project in Winter Park, Florida, home to **Rollins College**. As we noted a year ago, while the Foundation is focused on funding Maine institutions, Rollins is an exception for two reasons: the College was long a favorite of Harold Alfond, and we just could not pass up this entrepreneurial grant opportunity. The "Alfond Inn", scheduled to open this summer, will be owned by the College and function as much-needed lodging and conference space just a block from campus. Importantly, profits from the Inn will be directed to a permanently endowed fund to support scholarships for top Rollins students. As the Inn achieves business success, the scholarship program's impact will continue to grow. We hope this venture will serve as a model elsewhere, as financial variations of the Rollins project may provide even more attractive opportunities for other institutions.

To close out our discussion on Education grants, below are brief updates on other projects.

- The Foundation continues to make payments to **Thomas College** for the construction of a new academic center and the establishment of the Harold and Bibby Alfond Scholarship Fund. The building is on pace to be completed in 2014. If you have not seen the Thomas campus lately, we encourage you to stop by. You will like what you see.
- We continued to support the **University of Maine Football Program** in 2012. Last year, this support was in the form of a matching grant commitment requiring the University to match every one of our grant dollars with a dollar raised from other UMaine supporters. We said we would be looking for ways to assist the program in broadening and strengthening its donor base. To our delight, UMaine met our challenge by increasing the dollars raised from alumni of the program by 26% and the total number of gifts to Black Bear Football by over 300%. We will keep holding UMaine's feet to the fire. And we are sure 'Coach Cos' would not want it any other way.
- Lastly, payments toward our \$2.3 million gift to **Kents Hill School** for the new Akin Learning Center were completed in 2012. Support for the center was led by our esteemed trustee, Steve Akin, and his family. The center is centrally-located, beautifully-designed, and constructed to serve students with mild to moderate learning differences. This gift furthered the Foundation's historical support of Kents Hill, and paid tribute to the long-time outstanding leadership of former headmaster Rist Bonnefond.

Health Care

In 2012, Health Care funding represented nearly 37% of the Foundation grant making. Nearly all of this was paid to **MaineGeneral Medical Center** to support the construction of its new regional hospital in North Augusta. We have devoted many words in previous reports to this project. We hope you will forgive us if we add a few more.

The Foundation's \$35 million grant commitment for the MaineGeneral project was announced back in May of 2010. The grant includes a core Foundation commitment of \$25 million to be matched by the hospital's contribution of cash to the project from its own balance sheet, and an additional Foundation grant commitment of \$10 million payable as a match on dollars the hospital raises from the community.

In addition, when the project received regulatory approval in 2011 and advanced to finalizing the debt financing plan, the Foundation made a program-related investment, or "PRI," to MaineGeneral in the amount of \$23 million, bringing our total support to \$58 million. Under the PRI, we agreed to backstop the hospital's "debt service reserve fund" by setting aside \$23 million worth of Berkshire Hathaway stock in an account collateralizing a surety bond issued by—you guessed it—Berkshire Hathaway Assurance Corp. If MaineGeneral is ever unable to meet its debt obligations, our assets will be tapped. We outlined the specifics of the transaction and the extent of the Foundation's liability on pages 7 and 8 of last year's report, and so we will spare you the excitement of doing that again now. Suffice to say that, since we last reported, our collateral not only remains secure, but with the run up in value of the Berkshire Hathaway stock pledged as collateral for the surety bond, we were actually able to pull shares out of the collateral account without disrupting our backstop agreement.

In the past year, MaineGeneral's progress has been spectacular, and exciting news abounds.

- Construction is now seven months ahead of schedule *and* on budget. If this is what happens when more than 92% of the workers are from Maine, we think all projects should be built this way.
- Financial support from the community has been outstanding, with payments and pledges now approaching \$12 million in response to our challenge match.
- We were honored by MaineGeneral's decision to name the new hospital for Harold Alfond and his family.

We are looking forward to the hospital's public dedication on September 28, 2013 and grand opening on November 9, 2013. In the meantime, you can view construction progress by visiting www.ournewhospital.org or driving past the site on I-95. You can't miss it!

Youth Development

Given the Foundation's extensive financial commitments to projects in the other areas of giving, Youth Development funding in 2012, like 2011, represented a smaller percentage of overall funding than has been the case historically. Nevertheless, the Foundation continues to see compelling opportunities to realize a high return on our grants by supporting outstanding youth development organizations. Our favorite is the **Alfond Youth Center**, where we again awarded \$120,000 of support matching dollars raised from the community.

Home to the Waterville Boys and Girls Club and YMCA (the only such combined program in the nation), the Alfond Youth Center serves over 5,000 children and hundreds of families a year. Over the past two years, the Center's board and executive leadership have rolled up their sleeves to address the kinds of economic and financial challenges faced by most all community-based organizations. They have developed an outstanding strategic plan and sharpened financial accountability for all their programs. In short, we remain enormously proud of the Center as it continues to grow and excel in the face of shifting challenges.

Other Grant Funding

While the Foundation is committed to supporting organizations whose primary missions fall within our three areas of giving, we occasionally support projects and organizations with blended or varying missions that have a high potential for positive economic and community impact, and that have a connection to Mr. Alfond's past interests and philanthropy. In 2012, 6% of all funding fell in this category, about equal with 2011.

- One such example is the City of Waterville's construction of a premier four-season outdoor recreation area. The **Quarry Road Project** offers outstanding opportunities to enjoy a variety of outdoor activities including cross-country skiing, snowshoeing, sledding, walking, running, biking, and more. It includes a six-mile trail network created by a top Nordic trail designer and two-time Olympian.

In this case, the Foundation provided \$385,000 to help purchase snowmaking equipment and construct ski trails. Given our interest in supporting the Waterville community, we could not be happier with how the project has turned out. The project is a great example of a public-private partnership between the City; "Friends of Quarry Road", a non-profit that raises funds to support its operations; Colby College, a supporter and neighbor, which held its Winter Carnival event there in February; and multiple charitable foundations.

- A second example of the Foundation's funding for organizations outside of the three areas of giving is the **Waterville Opera House**. In 2012, the Foundation wrapped up its \$2.3 million matching commitment to the Opera House in support of its major renovation project. The doors reopened in April of 2012, and patrons can now enjoy shows and performances more comfortably and with improved acoustics, while casts and crews have better backstage dressing areas and set design work spaces. As an

extension of our previous support for the Opera House's mission, the Foundation is assisting the organization in covering the costs of a new marketing initiative. At the same time, we are encouraging greater collaboration between and among the City's cultural organizations. Given the number of fine cultural organizations in the city—the Opera House, the **Maine Film Center**, and the Colby Museum of Art, to name a few—we see a unique opportunity for collaboration and partnership to drive cost efficiencies and enhanced programming. When possible, we will always look for ways to facilitate and encourage partnerships and the efficiencies they offer for the benefit of all.

Looking to 2013 and Beyond

The Foundation expects to make grants approaching \$28 million in 2013 and, with stable financial markets, increased amounts thereafter. As noted at the beginning of this letter, we continue to have large multi-year commitments requiring our attention in the short-term. To meet future grant obligations, we will look first to enhance and secure the success of existing projects. But we are also looking forward to new opportunities. Heavy lifting is in our future.

To help with the heavy lifting, we have new high-powered talent for our board of trustees. Theresa Stone, former Executive Vice President and Treasurer of the **Massachusetts Institute of Technology** and Chair of the Board of MIT's Investment Management Company, will be joining our board. Terry's deep experience in and knowledge of higher education, investments, and business are just what we need. I invite you to read more about Terry on the [Governance](#) page of our website.

As always, new grant commitments will be consistent with Harold Alfond's legacy of giving and philanthropic principles, and address Maine's needs and opportunities.

On the following pages, you will find lists of our 2012 grants and future grant commitments, both organized by area of giving.¹³

Sincerely,



Gregory W. Powell
Chairman

¹³ More detailed information for the Foundation can be found in the IRS 990-PFs tax returns, available for download at our website. Please note, however, that completion and posting of our 2012 990-PF and likely those of future years will lag the close of each year (sometimes significantly) as we receive illiquid investment tax return data after the May 15 filing date. This lag requires us to extend the time by which our 990-PF is finalized and filed. Accordingly, as we do in this letter and are likely to do in future grant reports, key financial highlights from the past year will be provided for more timely disclosure.

Harold Alfond Foundation – 2012 Grant Payments

<i>Area of Giving and Organization</i>	<i>Amount</i>
Harold Alfond College Challenge	
Alfond Scholarship Foundation	\$3,154,814
Education	
Colby College	1,970,000
Educare Central Maine	465,285
Good Will-Hinckley	1,500,000
Kents Hill School	437,216
Maine Community College System	3,000,000
National Football Foundation	18,000
Rollins College	2,385,000
Thomas College	1,000
University of Maine	500,000
University of Maine Foundation	250,000
University of New England	2,001,000
Health Care	
Belgrade Regional Health Center	15,000
International Retts Syndrome Foundation	1,000
MaineGeneral Medical Center	10,335,333
Massachusetts General Hospital	1,000
Waterville Meals on Wheels	1,200
Youth Development	
Alfond Youth Center	121,150
Aroostook Teen Leadership Camp	500
Kennebec Valley YMCA	1,000
The Maine Children's Home	15,000
National Football Foundation – Coach Mac Fund	1,730
Susan Curtis Foundation – Camp Susan Curtis	14,700
Other	
Boston Lyric Opera	20,000
The Bridgespan Group	2,500
City of Waterville – Quarry Road Rec. Area	385,000
Maine Sports Hall of Fame	500
The Pioneer Institute	2,000
United Way of Mid-Maine	22,500
USA Biathlon Committee	20,000
Waterville Opera House	1,275,024
Total Foundation Funding	\$27,917,452

Harold Alfond Foundation – Outstanding Grant Commitments*

As of 12/31/12

<i>Area of Giving and Organization</i>	<i>Amount</i>
Education	
Colby College	\$1,660,000
Educare Central Maine	284,715
Maine Community College System	6,350,000
Rollins College	7,615,000
Thomas College	4,750,000
University of Maine	2,000,000
University of Maine Foundation	30,000
University of New England	4,200,000
Health Care	
MaineGeneral Medical Center	15,127,293
Other	
Belgrade Lakes Association	150,000
Maine Film Center	150,000
Waterville Opera House	240,000
Total Foundation Outstanding Commitments	\$42,557,008

* This list does not include (1) the Foundation's commitment to the Harold Alfond College Challenge, estimated to be at least \$6 to \$7 million per year; and (2) the Foundation's commitment to backstop MaineGeneral Medical Center's "Debt Service Reserve Fund" in the amount of \$23 million.