**SP-CE ROTARY SCHOLARSHIP FUND**

**SMCC PROPOSAL**

HISTORY

The SP-CE Rotary Scholarship Fund began in the 90’s with donations in response to the sudden death of Board member Len King. After the fund was established, the club made contributions of principal to the fund, along with individual donations. When the fund reached $50,000, the club decided to use the earnings to fund scholarships at SMCC. At that time the fund was invested in a CD which earned a reasonable amount. However when the CD matured in 2009, bank interest rates had dropped significantly, so the club invested in $30,000 worth of Build America Bonds (taxable municipal bonds – no longer available) at Edward Jones, which earned $1,850/year. The remaining $20,000 remained commingled with the club’s savings account, which earned next to nothing.

In recent years the Build America Bonds have started to mature and the club has replaced them with corporate bonds and more recently a mutual fund. We have also invested additional funds so that the full amount of the Scholarship Fund is invested at Edward Jones, as well as a small amount of non-scholarship money.

The Scholarship Fund is not a separate legal entity and the funds at Edward Jones are in the name of the club. We have chosen to treat the earnings from the Edward Jones investments as Scholarship Fund earnings.

Theoretically the balance in the Scholarship Fund would represent the original balance (around $51,000) plus contributions since then (roughly $4,000 in response to the death of Jim Russell), for a total of $55,000. However, the club has been inconsistent in donating the earnings to SMCC and as a result the balance at the beginning of this year was $59,000 – the extra $4,000 representing earnings never distributed.

During Scott Irving’s year as president, we began a discussion with SMCC regarding a more formal relationship between the club and the college. In preparing for his year as president, Dave has continued that conversation and after some legwork and discussions, Dave and the Finance Committee are recommending that the Board donate $60,000 to SMCC (technically the SMCC Foundation) to create an endowed named (i.e. SP-CE Rotary) Scholarship Fund. (Note that after applying current year-to-date earnings, the fund sits at about $60,500.)

ADVANTAGES

1. It will provide consistent scholarships every year to SMCC and will not be dependent on the Board remembering to do it every year.
2. Our investments at Edward Jones are currently invested very conservatively – all but about $9,000 in cash and bonds. Pooling our money with the assets of the SMCC Foundation will allow for an investment strategy which should earn a higher rate of return.
3. Currently we never know who our donations go to and the student receiving our assistance has no idea where it came from. Moreover many club members may not even realize that we support SMCC. A formal named Scholarship will allow us to have more visibility with the college and the students. And vice versa – club members will have the satisfaction of learning how our club dollars have helped SMCC students. (The SMCC Foundation holds an annual event at which students can meet their scholarship donors; they are also encouraged to write thank you notes to their donors.)
4. We can request that the scholarship be targeted to certain types of students (e.g. major, GPA, need). Note however that the college prefers that donors not be too specific because it tends to tie their hands.
5. It will simplify the accounting for the club’s finances (in that earnings will not need to be allocated to the Scholarship Fund).

OTHER CONSIDERATIONS

1. Where will the money come from? Although we could liquidate our Edward Jones investments and donate them to SMCC, there might be a cost in doing that, and we would give up the earnings from those investments which are projected to be about $1,700 for the current year (compared to less than $50 from our savings accounts). If we gave them $60,000 out of our cash accounts, we would still have about $100,000 in cash, in addition to our investments (see before and after balance sheets).
2. How much will the scholarship be and when would they start? We would work out the amount of the scholarships with the Foundation but the Finance Committee has been talking about $3,000/year. A donation of $60,000 should be able to fund two scholarships of $1,500 each which could represent two students at $1,500/year or one student at $1,500/semester (annual tuition is currently $3,880). (It would also be possible to give scholarships to more students for lesser amounts.) The Foundation does not allow paying out more than 5% of the principal so $3,000 would correspond to 5% of $60,000. There is a 1.25% fee charged by the Foundation (but this may be reduced soon). So in order to earn enough to pay out $3,000, the earnings would need to be at least 6.25%, which seems to be an attainable goal (fingers crossed). There will probably be a timing issue in the first year such that the club may need to provide the $3,000 in the first year. We would also potentially need to make a donation after the first year if the 6.25% rate of return is not achieved.
3. John LoBosco has researched the SMCC Foundation and its investment adviser, Harpswell Capital Advisors. The SMCC Foundation is chaired by former Rotarian Mark Duval (father-in-law of Hugh O’Shea) and Vice-Chair is Jane Eberle. Harpswell (whose Director of Compliance is CE resident Kara Leopold) follows socially responsible investing for the Foundation’s investments.
4. What if the federal government decides to make tuition free at community colleges? Our agreement with the SMCC Foundation should stipulate how the scholarship money should be used in that event (e.g. books, tools, etc.)
5. In forming the endowed scholarship fund, the club should request that the set-up fee be waived, based on our past history of donations to SMCC.

RECOMMENDATION

The Finance Committee recommends that:

1. The club donate $60,000 to the SMCC Foundation to form an endowed Scholarship Fund (South Portland-Cape Elizabeth Rotary Scholarship Fund).
2. The board decide on any requirements for the SP-CE Rotary scholarships, keeping in mind the college’s request that they be broad. The board should also decide the how many students should receive a scholarship each year.
3. The “Scholarship Fund” cease as an accounting entity within the club as of June 30.
4. The funds at Edward Jones no longer be treated as scholarship funds but instead as general assets of the external budget; earnings will be part of the external budget revenue.
5. Members of the club who are not on the Board or Finance Committee be made fully aware of the plan to make this donation.