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**An Update to the Milton Hershey School Community from Velma Redmond**  
**Chairman of the Board of Managers of Milton Hershey School and the Board of Directors of**  
**Hershey Trust Company**

Over the past several months, it has been my pleasure to meet and engage with many members of the Milton Hershey School community. The two questions that I am most frequently asked are (1) how are the children doing, and (2) how is the money being spent? Some have asked whether the Trust is spending enough of the \$12 billion dollar endowment on the School.

In short, I can tell you that our students are doing exceptionally well, the endowment is being managed responsibly, and spending is fully consistent with our educational, ethical, and legal commitment to ensure that Milton Hershey School is fulfilling its mission now and is able to continue to do so into the future. It is not just a matter of dollars spent or percentages of assets deployed in a single year. Mr. and Mrs. Hershey's Deed of Trust requires us to be financially responsible for the successful current operation of the School and provide a guarantee that the success will continue in perpetuity. That is a high bar. And we are meeting it.

As the Joint Board moves through a very active and productive year-end, I want to directly address these questions and provide you with an update on our activities.

First, the metrics of the School's success are clear:

- With 2,019 students, we are serving more children than ever before in the history of Milton Hershey School.
- Last June, we graduated 222 seniors, the largest graduating class in the School's history. Approximately 80% of these graduates are attending post-secondary institutions, and others have entered the military or full-time employment.
- The latest student retention rate of 93.2% is the highest in almost 50 years.
- Standardized test scores consistently surpass statewide averages in English, math, and science.

- These successes are despite the fact that most students enroll with significant academic gaps and deficiencies, and increasing percentages of children come to us from situations of family drug or mental health issues, domestic violence, family incarceration or homelessness.

We are well on our way to serving even more children. MHS President, Peter Gurt '85, advises me that our growth plans are progressing smoothly. We are very excited to have broken ground on the construction of the 32 new student homes on our new Legacy Campus.

Nevertheless, we are being appropriately prudent and measured in our growth. That is the responsible approach considering our commitment to the children we serve. The campus expansion brings not just capital costs, but staffing and programming considerations in order to maintain the level of care the School provides. Any growth must be pursued in a careful and strategic way to protect the resources, the mission, and the vulnerable population we serve, today and in coming decades.

So let's talk about costs.

The education we provide is comparable to the best private boarding schools in the nation. What makes us unique is that our students receive additional support cost-free, including extensive medical, dental, psychological and social work services, medications, clothing, year-round transportation, and career programming. These exhaustive and necessary accommodations and wraparound services bring our annual cost per student to \$80,000. That's a big number, but worth it to our students and a very effective and efficient use of resources given the complexity of the services we provide to not just students, but their families and our young graduates. References in a recent news report to a much larger number include college scholarship costs, depreciation, and Trust investment fees.

Because of the backgrounds and intense needs of our students, our model is more costly than a public school or a college. Overcoming poverty most often requires special accommodations and support beyond the classroom. It goes beyond the physical infrastructure and it's not just constructing a satellite campus or another student home. Our housing model is one that is designed to give students a true feeling of living in a structured home environment, as Milton Hershey intended. Instead of institutional dormitories, our Founder made it clear that students need to live in "real homes." That is why MHS has student homes, each with 8-12 children, and employs houseparents in each home to supervise, nurture, and educate those children. Mr. Hershey believed living in that environment, versus a dormitory setting with much larger numbers of children, had an important positive impact on a child's social and emotional development.

Now let's talk about how we fund the School.

The School Trust now exceeds \$12 billion and generates sufficient net investment income to fund the current expansion of Milton Hershey School that is underway to increase enrollment to 2,300 kids, an all-time high. While we can only spend net investment income under the requirements of the 1909 Deed of Trust to fund current School operations, we also manage the School Trust to generate growth to fund the School's long-term operations and expansion in perpetuity.

Specific components of the School Trust include our strategic investment in The Hershey Company, a broadly diversified actively managed portfolio, commercial real estate, Hershey Entertainment & Resorts, and a rainy day fund. All components of the School Trust are performing well and in the past few years we have been fortunate enough to be able to add substantially to our reserve fund. The reserve fund is an important part of our commitment to long-term fiscal responsibility. When we

encounter periods of financial downturn or uncertainty, like we did during the global economic turmoil in 2008, we use money from the reserve to fund the School so that our students and their education are protected. To not have that buffer would be reckless and a clear threat to the sustaining success of our mission. Net investment income is our only source of income to fund current operations of the School. We cannot call parents and tell them tuition is going up next year, or that they have to pay extra technology fees. And we must never be forced to send a child home because of a decline in current income.

So could we spend more? We have looked at Pennsylvania law for possibilities that would provide us some leeway, and we will continue to explore possible avenues to increase our spending authority. For now, we are confident that adhering to the terms of the Deed of Trust provides the soundest means of administering the School Trust to provide the income needed to operate and grow the School in a responsible manner. In addition to a careful eye on current operations at the School, we as Board members also have to take the long view. In one hundred years, we must still provide the depth and breadth of services that are needed for the children we serve.

Regarding the Board, let me update you on the progress we are making in our rigorous process to identify new members who will begin their service in 2017. The qualifications are high: candidates must have the education, training and experience to undertake the full range of Board responsibilities relevant to educating and caring for at-risk and dependent children in a residential setting, and overseeing financial, business, investment, and real estate assets to sustain the mission of the School. With the group of applicants under consideration now, we are confident that in the coming weeks we will be able to select exceptional directors.

I can assure you the Joint Board is committed to careful, thoughtful deliberations through sound, ethical and proper governance to provide the appropriate oversight of the management of the Milton Hershey School and the Milton Hershey School Trust. We renew that commitment as we move toward a new year and prepare to welcome new directors. At the same time we are focused on our responsibilities as fiduciaries to steer the School and its funding source to a sustainable future in perpetuity, consistent with the defined vision of Catherine and Milton Hershey.

We provide services like no other institution in the country. The proof of our success is the thousands of young adults we have sent into the world, empowered to overcome the challenges of poverty and create a new life for themselves and their families for generations to come. That is not easy nor cheap. But it is working, and working very well.

Sincerely, and on behalf of my fellow Board members,

Velma Redmond

Chairman of the Joint Boards