STATE OF VERMONT
OFFICE OF THE STATE TREASURER

2020 ANNUAL REPORT

January 14, 2021

TO: Members of the General Assembly
Honorable Phil Scott, Governor
Citizens of Vermont

I am pleased to submit my tenth annual report as your State Treasurer. This report provides a summary of the accomplishments to date and the planned initiatives for the coming year.

2020 was dominated by the Coronavirus pandemic and the resulting economic crisis. This is a once in a lifetime event that has affected all of us personally and professionally. Across state government, we had to learn new ways to work and deliver needed services to our customers. I want to commend the Governor for his leadership through the crisis. Likewise, I thank the General Assembly for its partnership and moving swiftly to reshape its agenda to prioritize COVID-19 recovery.

Treasurer's Office staff met this set of challenges head on. The Retirement Division oversees operations for 57,000 active, vested, and retired members. They did not skip a beat, switching to remote counseling sessions and launching an online self-service resource, Member Direct, to aid members in updating their information. The Division processed 498 retirements in the month of July, a record number.

The Treasury Operations Division successfully managed the receipt of $1.25 billion in CARES Act dollars, placing these monies with banks and investment funds, optimizing safety and collateralization, as well as working with the Department of Finance & Management to manage disbursements. In April, Treasury Operations assisted with clearing special unemployment claims related to the COVID crisis by processing 8,355 payments on behalf of the Department of Labor. In December, when Vermonters were in need, the Treasurer's Office, in cooperation with the Department for Children and Families and the Department of Finance & Management, issued over 31,000 special checks to assist individuals and families.

Our Technology Division went to work to provide remote workstations for all staff and to complete testing to assure all protocols were in place to keep client data confidential. Despite the pandemic, the Unclaimed Property Division implemented new technologies to expedite claims. With many people in need, we want to make sure that all people have an opportunity to claim their rightful funds.

Partnering with national public finance organizations, I chaired a committee of a select group of State Treasurers and State Comptrollers to review CARES Act funding, to clarify and interpret guidelines, and to reach out and advocate on various issues to the U.S Treasury and Inspector General staff.

During these precarious times with added responsibilities, we also continued to keep our focus on the basic operations and as well as on new and exciting initiatives.

- We successfully implemented the new provisions of the Unclaimed Property Act, which became effective on January 1, 2021.
- We met with the Boards of Trustees for the Retirement systems and representatives of employee groups to develop proposals to lower our pension and other post-employment benefits (OPEB) costs. These will be presented to the General Assembly on January 15, 2021. If adopted, they will reduce pension and OPEB liabilities by over $2 billion.
- The Law Enforcement Retirement Benefits Study Committee, which I chair, completed a two year effort

pursuant to Act 25 of 2019 to study VSERS Group C positions, as well as the issue of age 55 mandatory retirement. A report and recommendations will be submitted to the General Assembly on January 15, 2021.

- Despite COVID-19, we have completed contract terms and are beginning planning and outreach for the Green Mountain Secure Retirement Plan, and will begin enrolling small businesses and their employees in a state sponsored retirement savings program. AARP-VT has been a key partner in this work and has committed financial support to help raise public awareness of the plan.

- At the request of the General Assembly, we completed a study on the funding of the Vermont State Colleges.

- We worked on and advised on several subjects and initiatives including the Global Warming Solutions Act, broadband connectivity, housing, capital financing, and school buildings.

In closing, I want to recognize and thank the Treasurer's Office staff for all the hard work and their many accomplishments. I am proud of our team. Even with the effects of the pandemic, they put the customer first. I want to especially thank my Deputy Treasurer, Michael Clasen, for his hard work, leadership, and support.

The Treasurer's Office's successes are achieved through collaboration with our partners. I want to thank the Governor, and the leadership team and members of the General Assembly, for their partnership during these hard times. Vermonters have a reputation for hard work and honesty, and they care about their neighbors and financial responsibility. That same spirit is evident in the offices you administer. I look forward to working with you now, and in the future, as we emerge from this crisis with a new normal and hope for prosperity for each and every Vermonter.

Sincerely,

Beth Pearce

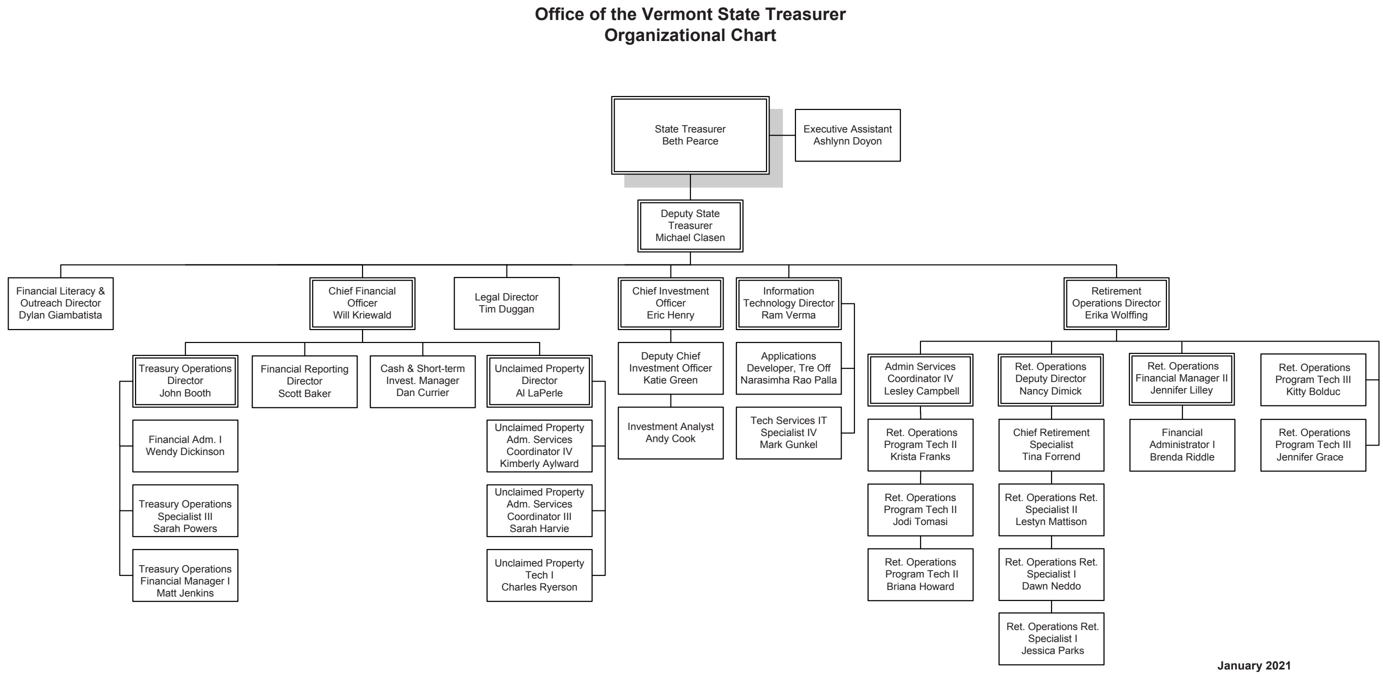
Beth Pearce
State Treasurer

Table of Contents

Our Commitment to Vermonters

The State Treasurer's Office manages money that belongs to all citizens of Vermont. The Treasurer and staff are committed to doing this efficiently, responsibly, and professionally. The Treasurer's office operates as a business, serving the needs of Vermonters while working to save the taxpayers money and earn the highest possible investment returns in its funds within acceptable risk parameters.

Figure 1: Vermont State Treasurer's Office Organizational Chart



The Treasurer's Office is comprised of a team of 36 professionals. The organizational chart and staff listing above are effective as of January 2021.

Specific administrative and service duties of the Treasurer's Office as prescribed by State statutes include:

- **Investment of State funds;**
- **Issuing all State bonds authorized by the General Assembly;**
- **Serving as the central bank for State agencies;**
- **Management of the State's cash balances, processing of checks, and the reconciliation of payroll and vendor checks;**
- **Safeguarding and return of unclaimed or abandoned financial property, which is held in trust by the State until the rightful owner can be located; and**
- **Administration of the State, Teachers' and Municipal defined benefit plans, the deferred compensation plan, and the defined contribution plans for State employees and participating municipalities.**

Vermont Retirement Systems

Overview

The Treasurer's Office administers three statutorily defined benefit (DB) retirement plans that serve members of the Vermont State Employees' Retirement System (VSERS), Vermont State Teachers' Retirement System (VSTRS), and the Vermont Municipal Employees' Retirement System (VMERS). Each system is overseen by a Board of Trustees acting as the fiduciary of the funds held on behalf of active employees and retirees. By statute the State Treasurer is a member of all three boards. The Retirement Division falls within the Office of the State Treasurer and consists of 14 staff members responsible for the administration of the three systems and benefit management. As of June 30, 2020, there were 36,207 active, vested and terminated members, and 20,960 retirees, or 4,803 customers for each retirement staff person. The COVID-19 pandemic put additional strains on retirement operations, which are outlined below along with steps taken to address these challenges.

Figure 2: Retirement Division Activity - FY2020

Activity	2020	2019	2018	2017	2016	2015	2014	2013	2012
Estimates	6,643	7,641	8,078	7,177	7,934	8,318	6,196	6,334	6,028
Individual Counseling	879	1,005	1,129	908	919	1,132	824	751	889
Retirement	991	1,100	1,250	967	1,054	1,118	1,081	1,082	1,068
Withdrawals	925	1,312	1,257	1,257	1,267	1,382	1,198	1,257	1,393
Deaths	430	449	478	349	335	463	329	377	349
Seminars	33	35	35	32	37	31	33	42	26
Seminar Attendance	851	868	797	776	809	872	752	1,243	783

Please note these numbers are for fiscal year, not calendar year

There are two defined contribution (DC) plans set by statute, a State and a Municipal plan. The State DC plan is offered as an alternative to the DB plan for exempt (non-classified employees). An exempt employee may choose either plan. An employee's election is irrevocable. Approximately 30% of exempt State employees have elected DC, while the remaining chose to participate in the DB plan. In addition, there are four supplemental retirement plans administered by Prudential Retirement available to state, teacher, and municipal employees depending on eligibility requirements. These provide members an option to put aside additional funds for retirement.

VSERS and VSTRS offer health insurance to their retired members and cover a percentage of the premium based on the member's years of service at retirement. The premium is deducted from the retiree's monthly retirement allowance. VMERS does not offer a health insurance plan, but instead established a health retirement savings plan in FY2008. All three systems offer retirees a dental plan, and premiums are paid 100% by the retiree.

Pensions

In order to fulfill the promise of paying members' future retirement benefits, each system has developed a funding plan which is codified by State statue and also incorporates actuarial assumptions approved by the Trustee Board. The primary objective of funding is to equitably allocate costs between generations of taxpayers and provide retirement security to members and retirees who therefore have the assurance their current and future benefits will be paid. The funds come from three sources: employee contributions, employer contributions, and investment income interest. Interest earned on investments from the retirement fund is the largest source of funds used to pay benefits. As more members approach retirement and employee life spans lengthen, it is anticipated that significant increases in benefit payouts will occur. These assumptions have been factored into the actuarially developed funding plan. All three boards select an independent firm, Segal Consulting, to complete an annual actuarial valuation that forms the basis of each Boards funding recommendations. Segal Consulting recommends assumptions relating to demographic, economic and the actual experience of the systems. These, in turn, are reviewed and adopted by each Board. The rate of return/interest rate assumption is set jointly by the respective board of trustees and the Vermont Pension Investment Committee (VPIC), based on advice by the actuary and the VPIC investment consultant. For VSERS and VSTRS, Segal Consulting makes a recommendation to the retirement Boards in October of each year as to the amount that the state must contribute to keep the system on a funding plan. The recommendation is adopted by the Boards in the form of a recommendation to the Governor and the General Assembly for the amount that must be appropriated for the upcoming fiscal year. This recommendation is known as the Actuarially Determined Employer Contribution (ADEC). See Figure 3 for the FY2022 ADEC. For VMERS this need is expressed as recommended employer and employee contributions as a percent of payroll.

Figure 3: ADEC for FY2022

System	Funded Percentage	Actuarially Determined Employer Contribution (ADEC)
VSERS (State)	66.39%	$120.0 million (FY22)
VSTRS (Teachers)	51.29%	$196.2 million (FY22)

A key indicator of pension funding progress is the development of a funding policy to pay down the unfunded liability. This requires payment of the ADEC. The ADEC is the method by which the unfunded actuarial accrued liability (UAAL) is eventually paid off, assuming it is fully appropriated. The ADEC is a measure of required plan funding that is made up of two parts: 1) the normal costs, which is value of benefits to be accrued or allocated in the current valuation year by active employees (the employer normal cost equals the total normal cost of the plan reduced by employee contributions); and 2) the amortization payment to retire the UAAL, the amount scheduled this year to retire a portion of the unfunded liability and fully pay down the liability by 2038.

The development of the ADEC and key factors for VSERS and VSTRS is detailed on pages 9 and 10. Vermont has been making additional payments to the ADEC, especially in the VSERS system where the rate is developed as a percentage of payroll. As payrolls have risen, the contributions increased as well (liabilities also increased). See Figure 15 on page 15 for a detailed funding history.

In addition to annual valuations completed for funding purposes, a second set of valuations are Issued for accounting purposes using standards stipulated by the Government Accounting Standards Board (GASB) which issues statements to codify the accounting rules. For pensions these are GASB Statements 67 and 68. The intent of the standards is to provide consistency in reporting of these liabilities across states and municipalities and to increase transparency. GASB has acknowledged that funding and accounting are divorced under these rules. There are differences in processes for the GASB and funding valuations. The most significant difference is that the GASB reports use a market value of assets rather than an actuarial value of assets that smooths volatility over a five-year period. The smoothing method makes more sense for budgeting and funding purposes.

Figure 4: Vermont Continues its Efforts to Contribute in Excess of the ADEC

FY2016: VSERS - 117.5%, VSTRS - 101.1%
FY2017: VSERS - 124.3%, VSTRS - 100.3%
FY2018: VSERS - 124.0%, VSTRS - 129.6%
*FY2019: VSERS - 105.8%, VSTRS - 112.8%**
FY2020: VSERS - 106.9%, VSTRS - 100.6%

**$10 million over above the ADEC for VSTRS, plus $3.3 million in the Budget Adjustment Act.*

Both types of valuations use the same demographic and rate of return/interest assumptions for the respective systems. The demographic (age, mortality, staff terminations, rates of retirement), assumptions differ, however, between the state and teachers' plans based on their unique characteristics while the rate of return/interest assumption is the same for each system experience since the assets of the plans are pooled for investment purposes, and GASB has acknowledged that funding and accounting are divorced under the GASB 67/68 statements. The current funding status of the three retirement systems follows in Figure 5.

Figure 5: Funding Valuations

VSERS	2018	2019	2020
Actuarial Accrued Liability	$ 2,661,608,857.00	$ 2,779,965,523	$ 3,095,290,972
Actuarial Value of Assets	$ 1,881,804,847.00	$ 1,964,500,825	$ 2,054,825,853
Unfunded Liability	$ 779,804,010.00	$ 815,464,698	$ 1,040,465,119
Funding Percentage	70.70%	70.67%	66.39%

VSTRS	2018	2019	2020
Actuarial Accrued Liability	$ 3,379,553,748.00	$ 3,505,319,267	$ 3,969,002,977
Actuarial Value of Assets	$ 1,866,120,413.00	$ 1,950,859,980	$ 2,035,713,611
Unfunded Liability	$ 1,513,433,335.00	$ 1,554,459,287	$ 1,933,289,366
Funding Percentage	55.22%	55.65%	51.29%

VMERS	2018	2019	2020
Actuarial Accrued Liability	$ 827,679,630.00	$ 896,341,848	$ 1,004,560,034
Actuarial Value of Assets	$ 680,005,147.00	$ 718,337,020	$ 761,505,976
Unfunded Liability	$ 147,674,483.00	$ 178,004,828	$ 243,054,058
Funding Percentage	82.16%	80.14%	75.80%

State statute requires that an experience study be conducted at least every five years to review and reset the assumptions as needed. In 2020, an Experience Study was conducted by Segal Consulting for each of the three pension systems and presented to the Trustee Boards in September. As a result of the Experience Study, the three Boards and VPIC lowered the interest rate of return from 7.5% to 7.0% and the Trustee Boards adopted various other economic and demographic assumption changes. These changes led to a significant increase in the unfunded liability and ADEC for FY2022. In the case of the VSERS system, the demographic assumptions accounted for 30% of the increase in unfunded liability with the interest return assumption accounting for 70%. In the case of the Teachers' system, demographics accounted for almost 50% of the increase due to mortality and workforce changes, such as staff turnover and larger increases in retirements. See Figures 6, 7, 9, and 10 on pages 9 and 10 for details on the increases in unfunded labilities and the ADEC.

Given the significant increases (combined $604 million of the unfunded liabilities and $100 million for the ADEC) and its resulting budgetary pressures, the Trustee Boards for both the State and Teachers' systems voted to direct the Treasurer to work with the stakeholder groups to identify and recommend cost saving changes to the benefit structures of the plans, and to submit those recommendations to the General Assembly by January 15, 2021.

A breakdown of the demographics of the three defined benefit plans is described in Figure 8 on page 9.

Figure 6: VSERS Cost Impact (Based on June 30, 2019 Actuarial Valuation)

Description	Current Assumption	All Proposed Demographic Assumptions	All Proposed Demographic and Economic Assumptions Including 7.00%
Actuarial Acrrued Liability Change	$2,780.0M	$2,846.1M	$2,996.8M
Change from prior column		+66.1M	+150.7M
Cumulative change		+66.1M	+216.8M
Actuarial Value of Assets	$1,964.5M	$1,964.5M	$1,964.5M
Unfunded Actuarial Accrued Liability	$815.5M	$881.6M	$1,032.3M
Funded Percentage	70.7%	69.0%	65.6%
Change from prior column		-1.7%	-3.4%
Cumulative change		-1.7%	-5.1%
Change from prior column	$53.2M	$59.3M	$67.7M
Cumulative change		+6.1M	+8.4M
Normal Cost		+6.1M	+14.5M
Actuarially Determined Contribution for FY 2021	$83.9M	$95.8M	$113.6M
Change from prior column		+11.9M	+17.8M
Cumulative change		+11.9M	+29.7M

Figure 7: VSERS: Scope of the Challenge (Dollars in Millions)

	2019 Valuation* 2021 budget	Estimated Results based on Experience Study	2020 Valuation** 2022 budget
Unfunded Liability	$815.5	$1,032.3	$1,040.5
Change		$216.8	$225.0
ADEC	$83.9	$113.6	$119.9
Change		$29.7	$36.0

* Used to develop FY2021 budget

** Impacts the FY2022 budget

Figure 8: Retirement System Demographics as of June 30, 2020

System	Active Members	Inactive Members	Deferred Members	Retirees & Beneficiaries	Total Monthly Benefits
VSERS (State)	8,539	1,482	768	7,424	$ 12,581,175
VSTRS (Teachers)	9,996	2,710	887	9,843	$ 17,690,605
VMERS (Municipal)	7,987	2,941	927	3,693	$ 3,227,813

Figure 9: VSTRS Cost Impact (Based on June 30, 2019 Actuarial Valuation)

Description	Current Assumption	All Proposed Demographic Assumptions	All Proposed Demographic and Economic Assumptions Including 7.00%
Actuarial Acrrued Liability Change	$3,505.3M	$3,641.6M	$3,831.5M
Change from prior column		+136.3M	+189.9M
Cumulative change		+136.3M	+326.2M
Actuarial Value of Assets	$1,950.9M	$1,950.9M	$1,950.9M
Unfunded Actuarial Accrued Liability	$1,554.5M	$1,690.7M	$1,950.9M
Funded Percentage	55.7%	53.6%	50.9%
Change from prior column		-2.1%	-2.7%
Cumulative change		-2.1%	-4.8%
Change from prior column	$40.8M	$60.9M	$69.2M
Cumulative change		+20.1M	+88.3M
Normal Cost		+20.1M	+28.4M
Actuarially Determined Contribution for FY 2021	$135.6M	$168.1M	$186.4M
Change from prior column		+32.5M	+18.3M
Cumulative change		+32.5M	+50.8M

Figure 10: VSTRS: Scope of the Challenge (Dollars in Millions)

	2019 Valuation* 2021 budget	Estimated Results based on Experience Study	2020 Valuation** 2022 budget
Unfunded Liability	$1,554.0	$1,880.0	$1,933.0
change		$326.0	$379.0
ADEC	$135.6	$186.4	$196.2
change		$50.8	$60.6

* Used to develop FY2021 budget

** Impacts the FY2022 budget

2020 Highlights/Pandemic Response:

- As a result of the Coronavirus pandemic and the Administration's work from home order, the Retirement Division switched all operations to be performed remotely in mid-March. Counseling sessions have been held virtually either by phone or Microsoft Teams. Seminars were reconfigured to be conducted virtually through Teams and Zoom, and were restarted in October. In fall, the office provided six virtual seminars for VSERS and VSTRS members. The Retirement Division continues to provide the same level of service to its members in this new work-from-home environment and retired and paid on time over 1,000 teachers, state, and municipal employees since remote work began in March. See Figure 2 on page 6 for an overview of Division activity.

- In response to the Pandemic and the elimination of an in-office staff presence, the Retirement Office launched an online resource, Member Direct, for use by the over 57,000 members of all three systems. This member portal allows active employees to run their own estimates and view their annual statements, beneficiaries and more. The member portal allows retirees to make changes to their tax withholding and other personal information as well as view, download, print their monthly pension payments including the gross, net, and all deductions. Retirees can also view, download, and print their 1099R for filing their annual tax return. This tool has allowed the Retirement office to cut back on processing benefit estimates for members who are early in their career and not close to retirement, and has allowed members to access this information in a timelier fashion. In the fall and early winter, the Retirement Office more broadly announced Member Direct through a postcard and advertising in HR Connect for active state employees.

- Act 25 of 2019 mandated a study of VSERS Group C and authorized the creation of the Law Enforcement Retirement Benefits Study Committee. The Committee was tasked with reviewing existing positions in VSERS Group C, and determining whether those positions are appropriately considered law enforcement, and evaluating if there are additional positions that should be in VSERS Group C. The Committee will also review the mandatory retirement age of 55. The Treasurer served as Chair for the committee. The Committee continued its work throughout 2020 and reached out to agencies and departments to obtain additional information about positions currently in Group C that may not meet the definition of a law enforcement officer. A public hearing was held in October to hear from groups requesting to join Group C. The Committee will submit its final report to the legislative committees of jurisdiction on January 15, 2021.

- A 2020 miscellaneous retirement bill was submitted recommending technical revisions to the State System. The bill passed the House however was delayed in the Senate due to the pressing need to address the Coronavirus pandemic.

2021 Planned Retirement Initiatives

- The Treasurer's Office will continue to work with stakeholder groups to identify and recommend cost saving changes to the retirement plans. These recommended changes are due to the General Assembly by January 15, 2021 per action taken by the Trustee Boards. Any changes will require legislative action.

- The VMERS Board of Trustees adopted a 4-year employer contribution rate increase plan of 0.5% each year beginning in FY2023. The Board sets employer contribution rates and the General Assembly sets employee contribution rates. The intent is to work with employee groups to agree to increase employee contribution rates by an equal amount and offset the employer rate increases by any agreed upon legislatively enacted increase to employee rates. The Treasurer's Office will work with the employee groups and lawmakers to try and come to an agreement in 2021.

- The Retirement Office will continue to streamline its processes and procedures to improve its ability to function efficiently in a remote work environment.

Other Retirement and Supplemental funds

Defined contribution plan demographic and financial data is summarized in Figure 11 on page 12. Prudential Retirement serves as the third-party administrator with oversight by the listed fiduciary.

The four supplemental saving programs are described in Figure 12 on page 12. Prudential Retirement serves as the third-party administrator with oversight by the listed fiduciary.

Other Post-employment Benefits (OPEB) and Health Care

OPEB refers to other benefits received in retirement, primarily health care offered through the VSERS and VSTRS health plans. Similar to pensions, health care accounting is dictated by GASB through Standards 74 and 75. The OPEB standards were implemented in FY2017 and FY2018, and changed the way the plans are reported in the State's financial

Figure 11: VSERS and VMERS Defined Contribution Plan Data

Plan Name	Total Participants	Total Assets (as of 6/30/20)	Fiduciary
State Defined Contribution	562	$70,969,256	State Treasurer
Municipal Defined Contribution	445	$25,144,802	VMERS Board

Figure 12: Supplemental Plan Data as of June 30, 2020

Plan Name and eligible participants	Total Participants	Total Assets	Fiduciary
457(b) Deferred Comp (State & Municipal)	7,898	$517,377,171	VSERS
403(b) Plan (Teachers and Municipal)	2,782	$123,770,594	VSTRS
Single Deposit Investment Account (state and teachers, closed to new entrants)	910	$33,045,610	VSERS and VSTRS jointly
Municipal Retiree Health Savings Plan	4,032	$13,115,228	VMERS

statements. As in the case of pensions, the intent of the standards is to provide consistency in reporting of these liabilities across governments, and to increase transparency.

Like GASB 68, GASB 75 requires the State to place a net long-term OPEB liability on its government-wide financial statements. These represent current and future accrued liabilities for existing members and retirees. These long-term unfunded liabilities do not impact primary funds such as the general fund although current year premiums (not full accrued liabilities) are appropriated, paid for, and accounted for in these funds.

Application of the GASB requirements result in a calculation of unfunded liabilities. Responsible government and financial practice dictate that funding must occur or financial stresses will be exacerbated. Unlike pensions, Vermont does not prefund these liabilities beyond small amounts. For example, just $57.6 million has been funded for the VSERS plan representing only 3.88% of OPEB liability. Just $8.7 million has been funded for the VSTRS plan, equivalent to 0.69% of the liabilities. The lack of a policy to prefund these benefits results in significant pressures on the unfunded liability each year, driving up future costs for taxpayers.

The considerable rise in OPEB unfunded liabilities reflected in the FY2020 OPEB valuation is directly related to the lack of prefunding. Since the State does not currently prefund OPEB benefits, the actuary calculates the ADEC using a standardized discount rate prescribed by the GASB, the 20-year AA municipal bond rate. This rate will vary from year to year based on the interest rate market and has nothing to do with the investment rates experienced by Vermont. It is an artificial construct to standardized interest rates when prefunding has not been initiated. Because of a decline in interest rates driven by Federal monetary policy, this year's interest rate pushed up the unfunded liabilities by $256 million for the VSERS OPEB and $232 million for the VSTRS OPEB. This one factor resulted in a $488 million increase in liabilities to the State. Without this, both plans would have experienced a reduction in liabilities due to better-than-expected claims experience. By using a Vermont assumed return rate rather than the standard bond rate and based on applicable pension related assumptions, the liabilities would be further reduced by $1.2 billion, over and above the $488 million.

Funding OPEB

The State needs to move to a formalized and codified system of prefunding retiree health care. In 2019 and 2020, the Treasurer's Office provided the Administration and the General Assembly a plan to begin prefunding. The Treasurer's Office's recommendations agree with the VSTRS and VSERS Boards' stated position that prefunding is the most cost-effective approach to deliver health care services. If adopted, the result would be a reduction of the liabilities by over $1.68 billion compared to the 2020 valuation. These reductions are in the best interest of the State and its taxpayers. The Treasurer's Office will resubmit a plan to achieve prefunding in the 2021-2022 legislative biennium.

It should be noted that a move to prefunding would not require the State to appropriate the full funding of the ADEC. This can be achieved by incrementally increasing the appropriation over and above the pay-go portion (still significantly less than the ADEC) combined with a statutorily defined funding policy. The State would have to commit to a pattern of incremental increases that roughly correspond to the rate of inflation over the full amortization period.

To date most of the State's efforts have been focused on lowering liabilities rather than prefunding and some success has been achieved. Over the years, the systems have adopted changes to a tiered structure of benefits tied to years of service

Figure 13: OPEB Funding Status of VSERS and VSTRS (Amount in Thousands)

		FY2017	FY2018	FY2019	FY2020	Cumulative Change FY2017 - FY2019
VSERS OPEB	Total OPEB Liability	1,484,522	1,240,275	1,279,299	1,482,970	(1,552)
	Less: Plan Assets	22,502	21,771	51,733	57,593	35,091
	Net OPEB Liability	1,462,020	1,218,504	1,227,566	1,425,377	(36,643)
	Plan Net Position as a Percentage of Total OPEB Liability	1.52%	1.76%	4.04%	3.88%	
VSTRS OPEB	Total OPEB Liability	905,633	927,843	1,041,065	1,268,119	362,486
	Less: Plan Assets	(26,658)	(26,443)	312	8,719	35,377
	Net OPEB Liability	932,291	954,286	1,040,753	1,259,400	327,109
	Plan Net Position as a Percentage of Total OPEB Liability	-2.94%	-2.85%	0.03%	0.69%	
Total	Total OPEB Liability	2,390,155	2,168,118	2,320,364	2,751,089	360,934
	Less: Plan Assets	(4,156)	(4,672)	52,045	66,312	70,468
	Net OPEB Liability	2,394,311	2,172,790	2,268,319	2,684,777	290,466
	Plan Net Position as a Percentage of Total OPEB Liability	-0.17%	-0.22%	2.24%	2.41%	

and changes to formularies and contract provisions. These have generated immediate savings and lowered liabilities by hundreds of millions of dollars. In 2020 additional changes to the Teachers' OPEB were made.

For the VSTRS system, the Treasurer's Office worked with the actuaries to incorporate a portion of claims experience directly related to Vermont's good record into the long-term health care trend rate calculation that is largely dictated by national trends. This lowered the liability by roughly $25 million. In FY2021, a similar analysis for the state employees' system is expected to be completed in concert with DHR. In November 2020, the Treasurer's Office issued a Request for Proposals that incorporates a review of alternative structures to reduce costs. This project will be completed in early 2021.

While efforts to lower the liability side of the equation, the simple fact is nothing can replace the value of prefunding and compound interest.

Figure 14: History of Disciplined Incremental Steps to Reduce Pension and Retiree Health Care Liabilities

2005: Teacher Study made changes to the State's actuarial methods and put full funding of the ARC on track. The Legislature has consistently adopted a budget with full funding of the ARC since 2007

2008: Committee restructured state system (VSERS) Group F benefits, lengthening age of retirement, effective in FY2009, in concert with health care changes

2009: Pension and Health Care Study completed providing basis for negotiated savings over the next few years for both VSERS and the teachers' (VSTRS) system

2010 VSTRS: Lengthened age for normal retirement, contribution increases, and other changes, effective in FY2011, resulting in $15 million in annual pension savings. In addition to pension costs, additional health care savings accrued

2011 VSERS: Employee contribution rate increases beginning FY012, initially generating $5 million in savings per year, increasing each year

2011-2012 VSTRS: Secured one-time revenues in excess of $5 million for VSERS and VSTRS under the Federal Early Retirement Reinsurance Program

2012-2015 : Incremental increases in employee and employer contributions to municipal system (VMERS), demonstrating shared responsibility by all parties. These changes put VMERS on a stronger financial track

2014 VSTRS: additional contribution increases for new and non-vested members, effective FY2015, generating $1 million initial annual savings, increasing each year

2014 VSTRS: Statute change permitting that teacher pension costs be charged to federal grants, effective FY2016, creating an estimated $3 to $4 million of savings per year

2015: Created Retired Teachers' Health and Medical Benefits Fund starting FY2015

Since the 1980s, health care premiums for teachers were paid out of a sub-trust of teachers pension fund: by 2014 this arrangement was costing over $20 million per year in interest costs
Collaborative solution: Successfully convened over a dozen stakeholders, including employee group, to address the problem with combined pension/health care changes
In addition to pension and health care changes previously stated, a new health care assessment for LEAs was implemented, linking local employment decisions to the benefit costs
Projected to save taxpayers $480 million in unfunded liability interest costs through FY2038

2016: Changes to the amortization financing schedule for VSERS and VSTRS will result in saving $165 million in interest from present to 2038

2016: Increased employee contributions resulting in $1.2 million in annual savings, with savings growing larger in future years

2018: Paid additional $26.2 million above ADEC for VSTRS and $12.5 million for VSERS

2018: Risk Assessment per ASOP 51 - Early Implementation by State

2019-2020: Amortization Plan enacted in 2016 takes effect

At the same time creating additional Transparency and Accountability:
2013: Pension forfeiture statute adopted for all three systems (VSERS, VSTRS, VMERS)
2015: VSERS Disability retirement reform permitting wage verification of disability pensioners

Collaborative Approach Key to Success:
All benefit changes made though collaborative efforts involving Administration, Treasurer's Office, General Assembly and employee groups
No court litigation/disruptions in planned implementations

Recent Actuarial Assumption Changes:
Lowered investment rate of return assumption to 7.0% based on independent analysis by actuary and pension consultant
Updated demographic and mortality table assumptions

Figure 15: Funding Progress of the Retirement Systems (Amounts in Thousands)

System	Year ending June 30	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
VSERS	2020	$ 2,054,826	$ 3,095,291	$ 1,040,465	66.4%	$ 551,981	188.5%
	2019	1,964,501	2,779,966	815,465	70.7%	527,571	154.6%
	2018	1,881,805	2,661,609	779,804	70.7%	521,671	149.5%
	2017	1,793,795	2,511,373	717,578	71.4%	504,553	142.2%
	2016	1,707,268	2,289,452	582,184	74.6%	471,268	123.5%
	2015	1,636,268	2,178,827	542,559	75.1%	462,057	117.4%
	2014	1,566,076	2,010,090	444,014	77.9%	437,676	101.4%
	2013	1,469,170	1,914,300	445,130	76.8%	416,766	106.8%
	2012	1,400,779	1,802,604	401,825	77.7%	385,526	104.2%
	2011	1,348,763	1,695,301	346,538	79.6%	398,264	87.0%
	*2010	1,265,404	1,559,324	293,920	81.2%	393,829	74.6%
	2009	1,217,638	1,544,144	326,506	78.9%	404,516	80.7%
	2008	1,377,101	1,464,202	87,101	94.1%	404,593	21.5%
	2007	1,318,687	1,307,643	(11,044)	100.8%	386,917	-2.9%
	2006	1,223,323	1,232,367	9,044	99.3%	369,310	2.4%
	2005	1,148,908	1,174,796	25,888	97.8%	349,258	7.4%
	2004	1,081,359	1,107,634	26,275	97.6%	336,615	7.8%
	2003	1,025,469	1,052,004	26,535	97.5%	319,855	8.3%
	2002	990,450	1,017,129	26,679	97.4%	300,994	8.9%
	2001	954,821	1,026,993	72,172	93.0%	278,507	25.9%
	2000	895,151	967,064	71,913	92.6%	266,519	27.0%
	1999	804,970	876,412	71,442	91.8%	238,281	30.0%
	1998	733,716	804,501	70,785	91.2%	235,956	30.0%
	1997	639,128	753,883	114,755	84.8%	227,000	50.6%
VSTRS	2020	$ 2,035,714	$ 3,969,003	$ 1,933,289	51.3%	$ 645,903	299.3%
	2019	1,950,860	3,505,319	1,554,459	55.7%	624,908	248.8%
	2018	1,866,121	3,379,554	1,513,433	55.2%	612,899	246.9%
	2017	1,779,592	3,282,045	1,502,453	54.2%	607,355	247.4%
	2016	1,716,296	2,942,024	1,225,728	58.3%	586,397	209.0%
	2015	1,662,346	2,837,375	1,175,029	58.6%	557,708	210.7%
	2014	1,610,286	2,687,049	1,076,764	59.9%	567,074	189.9%
	2013	1,552,924	2,566,834	1,013,910	60.5%	563,623	179.9%
	2012	1,517,410	2,462,913	945,503	61.6%	561,179	168.5%
	2011	1,486,698	2,331,806	845,108	63.8%	547,748	154.3%
	*2010	1,410,368	2,122,191	711,823	66.5%	562,150	126.6%
	2009	1,374,079	2,101,838	727,759	65.4%	561,588	129.6%
	2008	1,605,462	1,984,967	379,505	80.9%	535,807	70.8%
	**2007	1,541,860	1,816,650	274,790	84.9%	515,573	53.3%
	2006	1,427,393	1,686,502	259,109	84.6%	499,044	51.9%
	2005	1,354,006	1,492,150	138,144	90.7%	468,858	29.5%
	2004	1,284,833	1,424,661	139,828	90.2%	453,517	30.8%
	2003	1,218,001	1,358,822	140,821	89.6%	437,239	32.2%
	2002	1,169,294	1,307,202	137,908	89.5%	418,904	32.9%
	2001	1,116,846	1,254,341	137,495	89.0%	403,258	34.1%
	2000	1,037,466	1,174,087	136,621	88.4%	387,999	35.2%
	1999	931,056	1,065,754	134,698	87.4%	372,299	36.2%
	1998	821,977	955,694	133,717	86.0%	357,899	37.4%
	1997	717,396	849,179	131,783	84.5%	364,695	36.1%
VMERS	2020	$ 761,506	$ 1,004,560	$ 243,054	75.8%	$ 327,492	74.2%
	2019	718,337	896,342	178,005	80.1%	306,103	58.2%
	2018	680,005	827,679	147,674	82.2%	289,839	51.0%
	2017	634,690	754,877	120,187	84.1%	274,814	43.7%
	2016	581,611	744,960	163,349	78.1%	256,730	63.6%
	2015	543,768	699,293	155,525	77.8%	249,811	62.3%
	2014	500,558	580,972	80,414	86.2%	230,969	34.8%
	2013	446,236	528,426	82,190	84.4%	220,372	37.3%
	2012	417,443	488,572	71,129	85.4%	215,075	33.1%
	2011	402,550	436,229	33,679	92.3%	205,589	16.4%
	2010	376,153	409,022	32,869	92.0%	202,405	16.2%
	*2009	331,407	366,973	35,566	90.3%	191,521	18.6%
	2008	348,740	343,685	(5,055)	101.5%	175,894	-2.9%
	2007	325,774	309,853	(15,921)	105.1%	162,321	-9.8%
	2006	288,347	276,552	(11,795)	104.3%	148,815	-7.9%
	2005	259,076	248,140	(10,936)	104.4%	146,190	-7.5%
	2004	232,890	225,092	(7,798)	103.5%	135,351	-5.8%
	2003	222,854	218,533	(4,321)	102.0%	126,216	-3.4%
	2002	193,278	176,109	(17,169)	109.7%	106,986	-16.0%
	2001	177,928	158,786	(19,142)	112.1%	101,873	-18.8%
	2000	161,900	138,697	(23,203)	116.7%	87,147	-26.6%
	1999	137,454	114,481	(22,973)	120.1%	70,808	-32.4%
	1998	113,678	102,005	(11,673)	111.4%	87,328	-13.4%
	1997	96,196	85,686	(10,510)	112.3%	70,800	-14.8%

** 2008 - 2009 impacted by the Great Recession.*
*** Statutory change made to funding method to conform to best practice. Changes were realized in 2006 evaluation.*

Debt Management

Overview

The State of Vermont's approach to debt management is characterized by conservative debt issuance and debt management policies that adhere to rigorous disclosure practices. These policies include moderate levels of bond issuance, careful consideration of debt affordability, strict adherence to credit rating agency guidelines, and strong fiscal budget policies to ensure that the State has funds readily available for bond principal and interest payments. Attention to rating agency and investor interest and concerns has earned the State a high debt rating and correspondingly very low borrowing costs. Vermont has steered clear of financial and regulatory concerns thanks to the State's disciplined practices and uncomplicated debt profile. Except for transportation infrastructure bonds, Vermont issues general obligation debt. All of the State's debt is fixed-rate debt.

In looking at the capital budget and the use of bonds, a distinction should be made between financing and funding. Bond financing leverages the value of a stream of revenue and then pays over time for the current use of those future revenues. In cases where there are significant inflationary costs, this can also result in increased net resources, but as a general rule, they add little or no new resources to the funding gap and are not solutions to meet budgetary shortfalls.

Funding refers to the generation of revenue, through various means such as taxes and fees, that provides needed services or capital infrastructure. The bonds to finance these must be repaid through future revenue flows. The Treasurer's Office urges prudence when issuing bonds. Borrowing makes sense when:

- The costs saved through accelerated construction (inflation and preventative maintenance) exceed the interest paid on the funds;
- a quantifiable economic benefit exceeds the cost of borrowing; and/or
- a future identifiable and available revenue source exists to pay for the bonds.

Vermont's Bond Ratings

Figure 16: New England General Obligation Bond Ratings
(As of Nov 9, 2020)

State	Moody's	S&P	Fitch
Vermont	Aa1	AA+	AA+
Connecticut	A1	A	A+
Maine	Aa2	AA	AA
Massachusetts	Aa1	AA	AA+
New Hampshire	Aa1	AA	AA+
Rhode Island	Aa2	AA	AA

Vermont has the highest general obligation bond rating in New England (see Figure 16). However, demographic headwinds in the Northeast underscore the importance that the State of Vermont continue its commitment to proactive financial management and fiscal discipline.

The State's general obligation bond rating was downgraded in October 2018 by Moody's (Aa1, second highest rating), and by Fitch Ratings (AA+, second highest rating) in July 2019. S&P Global Ratings (AA+, second highest rating) remains unchanged, but its outlook was changed to negative in November of 2020. Moody's and Fitch ratings include stable outlooks. Fitch's rating report and the revision in outlook by S&P echoed the same issues identified by Moody's in October of 2018. The Treasurer's Office welcomes the opportunity to work collaboratively to address shared challenges such as Vermont's aging population, slow economic growth, and above average long-term pension and post retirement liabilities relative to State GDP. While these reports identified valid challenges, they are accompanied by many positive strengths that have been documented by all three rating agencies.

The State of Vermont has many attributes that will be part of the solution as we seek to restore our triple-A bond rating. In addition to working together to address our demographic and workforce challenges, the Administration and General Assembly must continue to focus on fundamentals, including:

- Passing structurally sound budgets where revenues meet ongoing expenses;
- Paying at least the full ADEC;
- Addressing pension and OPEB funding challenges collaboratively and working to prefund long-term liabilities as the State continues its plan to retire the unfunded liability in 2038;
- Reducing reliance on debt and shift to more pay-as-you-go options to fund capital needs; and
- Increasing reserves in the General Fund, Education Fund, and Transportation Fund.

Vermont's bond ratings are critical to Vermont because they allow access to capital at low rates. This not only supports the State's bonding needs, but it also lowers borrowing costs for municipalities that issue debt through the Vermont Municipal Bond Bank (VMBB) or other borrowers that rely on the State's bond rating. Additional costs to entities that utilize the State's "moral obligation" will vary by entity. These include entities that support affordable housing (Vermont Housing Finance Agency or VHFA), economic development (Vermont Economic Development Authority or VEDA), and selected issuance for student loans (Vermont Student Assistance Corporation or VSAC). Maintenance of the State's bond rating is important for every citizen, each community, and Vermont non-profits and businesses.

2020 Highlights

- In 2020, the Capital Debt Affordability Advisory Committee (CDAAC, described below) recommended a 2 year maximum net tax-supported debt authorization of $123.18 million, which represented no change from the previous biennium recommendation of $123.18 million. In total, previous recommendations represent a cumulative 6 year reduction of 23.0%. These reductions are critical to reducing the portion of the budget devoted to debt service and to lower interest costs for the taxpayer, however given the current uncertainty surrounding revenues in the aftermath of the COVID-19 pandemic, the committee decided to hold its recommendation flat.
- No debt was issued in 2021, however the Treasurer's Office interacted with the rating agencies and other interested parties to report on the debt related impacts on the COVID-19 pandemic. An interim disclosure was filed in June of 2020 to share that information more broadly.

2021 Initiatives

- A working group was formed in 2020 in order to research and recommend alternative ways to fund capital projects, rather than borrowing money. This group will specifically review the use and treatment of any bond premiums raised in the process of bond issuance, as well the possible creation of a Capital Non-Recurring Expenditure Fund or other such funds to accumulate non-bond resources (PAYGO) to pay for projects, reducing interest costs that currently amount to 25 cents for every dollar issued. Information regarding criteria and metrics used by other States, and the option for including Pension information in the analysis was presented to CDAAC. The working group will continue its work and report back to the full CDAAC prior to the Committee making its 2021 recommendation.

Debt Affordability

The Treasurer's Office and majority of CDAAC members conclude that the State of Vermont needs to reduce its appetite for debt. Lower debt issuance by US states has weakened Vermont's debt ratio ranking relative to peers. This is particularly true of peer triple-A rated states. Furthermore, Vermont's projected debt issuance exceeds scheduled debt retirements, so the State's overall debt outstanding will continue to rise. In the sections that follow, the mean and median for all 50 states, as a part of an annual series most recently released by Moody's Investor Service in June 2019, is noted. This provides detail on Vermont's relative position.

CDAAC's 2019 report acknowledged rating agency concerns about the status of US local and state infrastructure needs. Decisions to defer maintenance and/or replacement of capital infrastructure require additional focus and proactive capital planning. There is an urgent need to develop pay-as-you-go funding structures that would be beneficial to the capital and asset management process. CDAAC and the Treasurer's Office will provide the Administration and General Assembly with suggestions to proactively manage these capital needs.

In addition, CDAAC calculates debt per capita and debt as a percentage of personal income based on the annual Moody's Report, using a five-year median and mean for states with at least two triple-A ratings. In the case of debt service as a percentage of revenues, Vermont uses an absolute guideline rather than a comparison to the peer triple-A states. This forms the basis for guidelines for the State in shaping its CDAAC recommendations.

Debt Per Capita

Debt as a percentage of personal income and debt service as a percentage of revenues are generally understood to be the better credit indicators of the State's ability to pay; however, the rating agencies continue to calculate and monitor the

Figure 17: Moody's Investors Service -- Debt Per Capita Comparison

5-Year Average Mean and 5-Year Average Median

MEAN: $928 MEDIAN: $647 5-Year Average - VERMONT: $1,052

Triple-A Rated States[1]	Moody's Ratings[2]	S&P Ratings[2]	Fitch Ratings[2]	Moody's Debt Per Capita 2016	2017	2018	2019	2020
Delaware	Aaa/Stable	AAA/Stable	AAA/Stable	$ 2,385	$ 2,544	$ 2,587	$ 3,206	$ 3,289
Florida	Aaa/Stable	AAA/Stable	AAA/Stable	1,038	961	889	812	780
Georgia	Aaa/Stable	AAA/Stable	AAA/Stable	1,029	992	986	996	971
Indiana	Aaa/Stable	AAA/Stable	AAA/Stable	463	310	295	270	251
Iowa	Aaa/Stable	AAA/Stable	AAA/Stable	239	228	219	207	150
Maryland	Aaa/Stable	AAA/Stable	AAA/Stable	1,928	2,122	2,164	2,343	2,323
Minnesota	Aa1/Stable	AAA/Stable	AAA/Stable	1,527*	1,480*	1,430	1,415	1,406
Missouri	Aaa/Stable	AAA/Stable	AAA/Stable	574	579	532	487	464
North Carolina	Aaa/Stable	AAA/Stable	AAA/Stable	721	659	611	531	586
South Carolina	Aaa/Stable	AA+/Stable	AAA/Stable	603	564	517	503	469
South Dakota	Aaa/Stable	AAA/Stable	AAA/Stable	652	641	694	618	493
Tennessee	Aaa/Stable	AAA/Stable	AAA/Stable	298	322	312	305	292
Texas	Aaa/Stable	AAA/Stable	AAA/Stable	383	383	410	389	379
Utah	Aaa/Stable	AAA/Stable	AAA/Stable	921	824	772	792	720
Virginia	Aaa/Stable	AAA/Negative	AAA/Stable	1,418	1,486	1,515	1,502	1,677
MEAN[3]	-	-	-	**904**	**901**	**929**	**958**	**950**
MEDIAN[3]	-	-	-	**687**	**650**	**694**	**618**	**586**
Vermont	**Aa1/Stable**	**AA+/Negative[4]**	**AA+/Stable**	**1,002**	**1,068**	**987**	**1,140**	**1,061**

[1] Carry at least two triple-A ratings.
[2] Ratings as of September 30, 2020
[3] The calculations exclude all Vermont numbers.
* Indicates that the state was not rated triple-A thereby two or more of this rating agencies during the year shown. Amount not used in calculating the mean or median for the year.

State's debt per capita as an indicator and it is included as a factor in CDAAC's deliberations. In 2020, the State's debt per capita was $1,061 (see Figure 17 on page 18), a decrease from $1,140 the previous year. Vermont ranking improved from 25th to 26th among the 50 states.

CDAAC uses a five-year average of our peer triple-A states. Vermont has a five-year average of $1,052 versus a mean of $928, and a median of $647 for the same five-year period for our peer triple-A states. The State's net tax-supported debt per capita is forecast to increase to $1,222 in 2021, before trending back down. That forecast assumes a steady level of debt authorization and issuance of $144.25 million in FY2021, and $61.59 million per year from FY2022 through FY2031. Under this scenario, the debt per capita would exceed the projected state guideline. Given the weight placed on this ratio versus the other debt ratios noted below, CDAAC limited the constraining impact of this in its recommendations.

Debt as a Percentage of Personal Income

Another credit factor for assessing a state's relative ability to pay its general obligation debt is the ratio of net tax-supported debt as a percent of personal income. Vermont has a ratio of 1.9 percent as compared to a 50 state mean of 2.6 percent and a median of 2.0 percent. The State's ranking improved slightly in 2020 from 26th to 29th among the 50 States. The CDAAC guideline is to perform better than the Moody's five-year mean (1.9 percent) and median (1.5 percent) for states with at least two triple-A ratings. Using the current CDAAC projection, this ratio will improve to 1.3 percent by FY2030. Using the recommended level of debt issuance, the debt as a percentage of personal income would exceed the state guideline in 2021 and 2022 but would be back into compliance by 2023.

Debt as a Percentage of Revenue

The guideline used for determining debt service as a percentage of revenue states that projected annual State debt service on general obligation bonds should not be more than 6.0 percent of projected revenues in the combined General and Transportation funds. The debt service as a percentage of revenues ratio was 4.3 percent for FY2020. This percentage is expected to rise to 5.1 percent by FY2022. Given the potential for wide variances

Figure 18: Moody's Investors Service - Debt as % of Personal Income

5-Year Average Mean and 5-Year Average Median

MEAN: 1.9% MEDIAN: 1.5% 5-Year Average VERMONT: 2.1%

	Moody's Debt as % of Personal Income				
Triple-A Rated States	2016	2017	2018	2019	2020
Delaware	5.2%	5.4%	5.5%	6.5%	6.1%
Florida	2.5	2.2	2.4	1.7	1.5
Georgia	2.7	2.5	2.0	2.3	2.0
Indiana	1.2	0.8	0.7	0.6	0.5
Iowa	0.5	0.5	0.5	0.4	0.3
Maryland	3.5	3.8	3.7	3.8	3.5
Minnesota	3.2*	2.9*	2.8	2.6	2.4
Missouri	1.4	1.4	1.2	1.1	0.9
North Carolina	1.8	1.6	1.5	1.2	1.2
South Carolina	1.7	1.5	1.3	1.2	1.0
South Dakota	1.4	1.4	1.5	1.3	0.9
Tennessee	0.7	0.8	0.7	0.7	0.6
Texas	0.9	0.8	0.9	0.8	0.7
Utah	2.5	2.1	1.9	1.9	1.5
Virginia	2.9	2.9	2.9	2.7	2.8
MEAN[1]	**2.1**	**2.0**	**2.0**	**1.9**	**1.7**
MEDIAN[1]	**1.8**	**1.6**	**1.5**	**1.3**	**1.2**
VERMONT	**2.1**	**2.1**	**2.0**	**2.2**	**1.9**

(1) These calculation exclude all Vermont numbers and include only states rated triple-A by two or more rating agencies as of July 31, 2020

* Indicates that the state was not rated triple-A by two or more of the rating agencies during the year shown. Amount not used in calculating the mean or median for the year.

Figure 19: State of Vermont Net Tax Supported Debt Per Capita

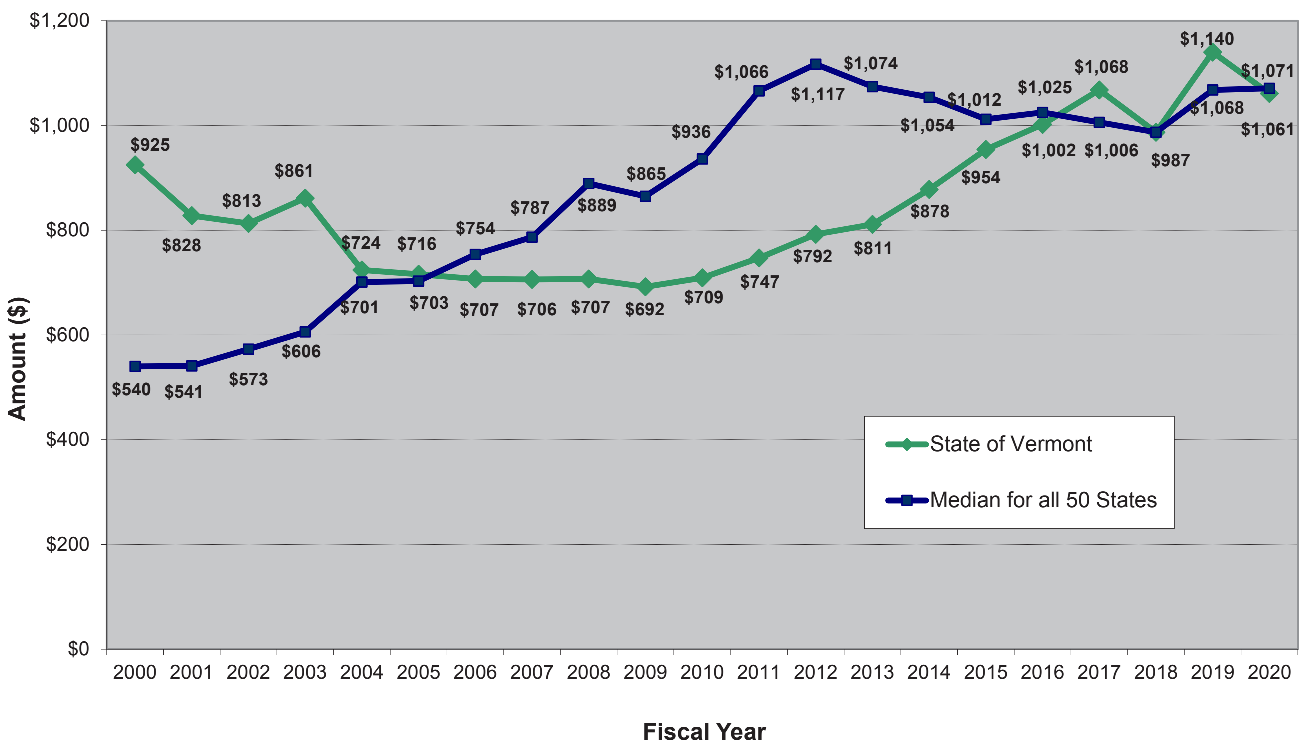
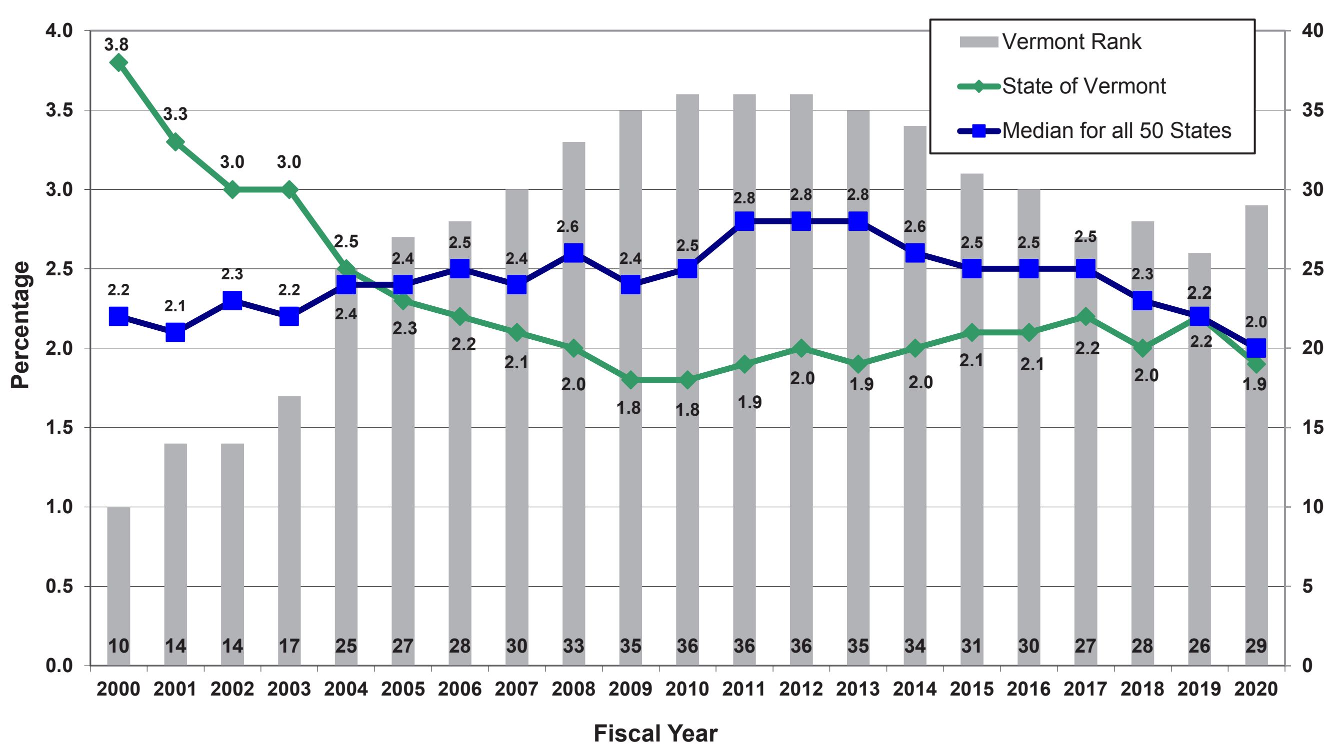


Figure 20: State of Vermont Net Tax Supported Debt as a Percent of Personal Income



in State revenues at various points in the economic cycle, CDAAC proposed a significant buffer between the recommended level and the guideline. During the Great Recession, this ratio jumped from 5 percent in 2008 to 5.5 percent in 2009 and 5.7 percent in 2010.

Budget Stabilization Reserves

The State has budget stabilization reserve levels required by statute for each of the State's General Fund, Transportation Fund, and Education Fund. Required reserves for the General Fund and Transportation Fund are 5 percent. The Education Fund's required reserve levels are between 3.5 percent and 5 percent of the previous year's appropriations. In addition to these reserves, the State has also increased the Human Services Caseload Reserve and 27/53 Reserve. Taken as a whole, General Fund reserves were 13.99% as a percentage of FY2020 appropriations. The Treasurer's Office supports a policy of increasing reserves to mitigate economic fluctuations and recommends continued progress to build reserves.

Other Factors and Summary

The rating agencies also consider the breadth of the economy; the level and condition of the State's transportation, utilities and other infrastructure; personal income levels; fiscal responsibility; employment levels; workforce size and training; population demographics and trends; internal controls and auditing standards; need for short-term borrowings; and other factors.

In looking at our bond rating profile, Vermont's strong fiscal discipline, a record of surpluses, modest debt burden, and progress on funding liabilities despite a net pension liability are generally seen as strengths. Maintaining our reserves is also a strength, although additional increases to reserves would be a credit plus. On the credit challenge side, our demographics, particularly our aging workforce and population and slow revenue growth, are seen as weaknesses.

There are many external national and international economic factors that put stress on state ratings. In order to maintain and foster economic health, the State of Vermont must continue a collaborative, disciplined approach to financial management, punctuated by timely, balanced budgets; proactive budget management using consensus revenue forecasting; full funding of the required actuarial contributions; and continuous improvement of State stabilization and rainy day reserves.

Investments

Overview

The Treasurer's Office is responsible for the investment of funds that can be generally divided into three groups: 1) operating and restricted funds; 2) non-retirement related trust funds; and 3) post-retirement funds including pensions, heath care, other post-employment benefits, and supplemental retirement programs.

For operating funds and restricted funds (those funds identified as having certain federal restrictions, grant restrictions, or funds that must be segregated by statute), the State has an investment policy with an overarching goal of minimizing exposure to risk and maintaining liquidity necessary for future cash needs, while maximizing the return on investments. Types of investments allowed include obligations of the United States and its agencies and instrumentalities; certificates of deposit issued by banks and savings and loan associations approved by the State Treasurer; domestic money market funds; and other money market instruments. The Treasurer's Office issues additional formal guidance that is reviewed periodically to assure that the three investment objectives – safety, liquidity, and yield – are met.

State law permits a portion of these funds to be invested for longer maturity periods to obtain additional return consistent with liquidity needs. Beginning in 2013, local investment initiatives were implemented to develop a diversified portfolio of varying maturities. As of June 30, 2020 these totaled $99,112,844.33.

Certain trust funds are contained in the Trust Investment Account, which is established pursuant to 32 V.S.A. § 434. These funds include the Tobacco Trust Fund, the Higher Education Trust Fund, the Agency of Natural Resources Stewardship Fund, two Veterans' Home Trusts, the Fish and Wildlife Trust, Vermont State Retirement OPEB Fund, and various small trusts. The State Treasurer may invest funds in accordance with the standard of care established by the Prudent Investor rule and apply the same investment objectives and policies adopted by the Vermont State Employees' Retirement System, where appropriate, to the investment of funds in the Trust Investment Account.

As noted in the retirement operations section of this report, certain optional retirement plans (deferred compensation, SDIA) and defined contribution plans are managed through third-party contracts with investment authority resting with the retirement boards, or in the

Update from Vermont Pension Investment Committee (VPIC) Chair Tom Golonka:

I am happy to report that our initiatives to maximize investment returns within prudent levels of a risk and liquidity are generating immediate improvements. The Committee believes in efficient public markets and has structured the portfolio accordingly. While generating sustainable outperformance is difficult in public markets, we have evaluated the risk/return profile of all active mandates in the portfolio and terminated those no longer deemed to be prudent. These efforts have resulted in a streamlined portfolio, reduced investment management expenses, and avoidance of a large loss in a complex fund that experienced a systemic failure during the March downturn. We also believe that investors in illiquid assets are compensated with an illiquidity premium sufficient to compensate them for taking on the additional risks associated with illiquid assets. While our illiquid investments remain under their strategic targets, we are working to prudently build out these exposures over time. We take a long-term view to managing the VPIC portfolios, and seek to assure that they are strategically aligned with the demographic and economic characteristics of the three statewide pension plans. At the same time, we manage the plans to ensure they are well positioned for a variety of economic scenarios. This long-term view balances the need for long-term investment returns to fund long-term pension liabilities with short-term funding obligations and the need for sustainable and predictable taxpayer funding obligations. VPIC treats its fiduciary obligation as paramount and works to assure a sound funding strategy is in place now and over the long-term.

case of the State defined contribution plan, the Treasurer.

The funds of the defined benefit pensions plans are invested under the authority of the Vermont Pension Investment Committee (VPIC), of which the State Treasurer is Vice Chair. The Treasurer's Office also provides administrative support to the plans.

Vermont Pension Investment Committee (VPIC)

The mission of VPIC is to manage investments for the participating retirement plans with integrity, prudence, and skill to meet or exceed the financial objectives of the beneficiaries of the participating retirement systems. VPIC acts as the trustee for the defined benefit plan investments, while the Board of Trustees for each retirement system maintains its fiduciary role in the area of benefits administration and actuarial recommendations. The Treasurer serves on the retirement boards and VPIC, and is the custodian of the funds, providing administrative support and oversight. The Investment Services Division within the Treasurer's Office provides cash and investment management for the State of Vermont and conducts day-to-day activities with investment managers, custodians, and other service providers.

VPIC was created in 2005, and amended in 2007 and in 2009, to combine the assets of VSERS, VSTRS, and VMERS for the purpose of 1) investment in a manner that is more cost- and resource-efficient; 2) improving the effectiveness of the oversight and management of the assets of the Retirement Systems; and 3) maintaining the actuarial, accounting, and asset allocation integrity of the Retirement Systems.

VPIC maintains a governance framework that ensures that all its fiduciary and legal responsibilities are addressed on an ongoing basis. VPIC focuses its time on its four core responsibilities: asset allocation, risk management, governance, Environmental Social and Governance (ESG) initiatives, and member education.

Other VPIC responsibilities are largely delegated to investment managers. These include a proxy voting vendor, VPIC's master custodian, and VPIC's investment consultant. The Vermont Attorney General's Office provides legal counsel and support to VPIC and the retirement boards. VPIC has operating policies in place to manage these delegated responsibilities with appropriate oversight by investment staff and the VPIC.

VPIC consists of six voting members, a Chair, and four alternates. Each retirement system Board of Trustees has representation, along with the Governor's Office, and the Treasurer's Office. As of June 30, 2020, the total assets under management of VPIC portfolio were $4.6 billion. The fund continues to grow and on November 30, 2020, amounted to $5.2 billion.

2020 Highlights and Ongoing 2021 Initiatives

- FY2021 began with a strong global equity rally and our portfolio well-positioned to participate with a targeted allocation of 70% to growth assets, the bulk of which are public equities. As Covid-19 forced nationwide states of emergency and closed businesses, global equities quickly sold off in February and March. Our portfolios were well positioned for such a selloff, with over 25% invested in downturn hedging assets in the form of core bonds. While global equities sold off by over 30% during this volatile period, our downturn hedging assets performed as intended and, for the fiscal year, were up 8.7%. By the end of the fiscal year, global equities regained more than half of their losses in the third fiscal quarter with a gain of 21%, contributing to a fiscal year net investment return of 4.0%. According to published reports, the average FY2020 gain for other state public pension funds approximated 2.85%.

- VPIC's efforts to simplify its portfolio and reduce costs continue to deliver concrete results. Investment management expenses of $17,135,825 showed a reduction of $3,877,119, or 18% from the prior fiscal year. From FY2015 through FY2020, the Treasurer's Office estimates investment manager fee savings of $31.3 million. Further, efforts to underwrite every strategy and assure a thorough understanding resulted in the termination of the hedge fund program early in the fiscal year. One of these funds which VPIC had exited experienced a near total loss, wiping out investors, subsequent to termination. VPIC's efforts in to leave the fund prior to this loss resulted in the avoidance of an $80,000,000 investment loss during the fiscal year.

- Investments staff are completing the transition to a new investment consultant and plan to review our strategic asset allocation targets and revalidate our downturn hedging strategies to account for record low interest rates and the new position in the market cycle. Further, VPIC continue to focus on new investment opportunities in private markets. We are in the process of building up these positions to their strategic targets of 20%, over a sufficient period of time to assure prudent levels of geographic and industry specific exposure and vintage-year diversification.

- While it is impossible to accurately predict future investment returns, the VPIC portfolios are positioned to maximize future investment returns, while providing sufficient liquidity to fund ongoing benefit payments and investment obligations, at a reasonable level of risk.

- Treasury staff completed an Environmental, Social and Governance Report in late 2019, identifying points of integration of ESG into pension system investment decision making. ESG considerations and Initiatives are discussed further below.

Facts and Figures:

VPIC Investments

Return numbers may vary slightly by plan even in a pooled fund as their underlying cash flows are different. The VMERS system has positive cash inflows such that contributions exceed payouts which is not uncommon in a relatively new fund (founded in 1974). On the other hand, the employees' and teachers' funds (most significantly the teachers' fund) have negative cash flows, whereby contributions are less than payouts. This is not uncommon in older funds where investment income is expected to have accumulated to partially fund payouts.

Figure 21: VPIC Investments as of June 30, 2020

Pension Plan	1-Year Return	3-Year Return	5-Year Return	7-Year Return	10-Year Return
VPIC Composite	4.0%	5.9%	5.9%	6.1%	7.2%
State VSERS	3.9%	5.9%	5.8%	6.1%	7.2%
Teachers VSTRS	4.1%	6.0%	5.9%	6.1%	7.2%
Municipal VMERS	3.9%	5.8%	5.8%	6.0%	7.2%

Return numbers are "end-point sensitive." Financial data can have large swings that do not "average out" as one might expect. For instance, the 1-year return for the VSERS fund as of June 30, 2019 was 5.9% and the 10-year return was 8.5% as it still included an investment "snap back" post-recession in year 2010. On the other hand, the 10-year June 30, 2020 return was 7.2% while the 1-year return was 3.9% as it included the significant market volatility seen at the beginning of 2020 due to the COVID-19 Pandemic. Nonetheless, staff believes that markets have and will continue to exhibit lower rates of return over the short-term versus historical averages. In fact, in developing the current long-term assumed rate of return of 7.0%, both our independent actuary (Segal Consulting) and investment consultant (RVK) assumed a 5-7-year rate in the 7.0% range. Based on an independent actuarial review, even with a lower rate approximating 6.4% in the short term, the funded ratio of VSERS and VSTRS is expected to increase over the next 10 years, with all other experience assumed to approximate actuarial assumptions. While the VPIC portfolio investment performance is benchmarked over shorter periods, the investment portfolio is designed to fund pension liabilities over periods of 30 years or more. The baseline portfolio at 7.0% is expected to reach 100% funded by 2038, largely based on the policy of fully funding the Actuarially Determined Employer Contribution or ADEC (see pension funding section), recognizing that recommendations to be made by the Treasurer to lower liabilities and the ADEC In the upcoming legislative session would, If adopted, reduce stresses to the system and lower needed contributions.

Nonetheless, initial market data for 2021 shows a continued trend toward lowering of interest rate assumption in both the short and long term. The Boards and VPIC will continue to set the rate based on a review of independent investment consultant and actuarial assessments and adjust accordingly.

Pension Funds Asset Allocation

In the bull market post the Great Recession, public pension plans built up meaningful positions in private markets to take advantage of an illiquidity premium versus public market equivalents. VPIC and Treasury Staff have worked to find a balance between risk and return across the VPIC target asset allocation, and as such started in 2012 to prudently invest in private markets. VPIC reassessed the asset allocation strategy and implemented changes to obtain a higher expected risk-adjusted return profile in 2017, with a larger allocation to private markets as the Committee gained comfort with the asset classes. VPIC's portfolio return in 2019 slightly lagged peers due, in part, to a lower percentage of the VPIC portfolio being invested in private markets, which have significantly outperformed their public market equivalents. A well-diversified, private market investment strategy takes several years to build. Treasury staff anticipates in the coming years this gap will close as the new asset allocation approved in 2017 (and maintained in 2020 for these asset classes) of 10% private equity and 10% private/alternative credit is fully implemented. In addition, the Committee has implemented structural changes within the portfolio to increase transparency and lower fees. While alternatives assets are essential to a diversified portfolio, many alternative products on the market can be overly complex, difficult to value, and expensive. VPIC and the Treasurer's office have worked diligently to improve the expense structure of the portfolio through increased use of passive investment vehicles, where prudent and appropriate, and by annually evaluating the net risk-return attributes of actively managed investment strategies.

Figure 22: Asset Allocation

Asset Class	Target
Growth Assets	
Passive Global Equities	24%
Active Global Equities	5%
Large Cap US Equities	4%
Small/Mid Cap US Equities	3%
Non-US Developed Market Equities	5%
International Small Cap Equities	2%
Private Equity	10%
Emerging Market Debt	4%
Private & Alternative Debt	10%
Non-Core Real Estate	3%
Total Growth Assets	70%
Downturn Hedging Assets	
Passive Core Fixed Income	15%
Active Core Fixed Income	5%
Total Downturn Hedging	**20%**
Inflation Headging Assets	
Core Real Estate	5%
US TIPS	3%
Infrastructure/Farmland	2%
Total Inflation Hedging	**10%**
Total	100%

10 Year Expected Return	7%
Risk (Standard Dev)	12%
Sharpe Ratio (10 Years)	0.50

30 Year Expected Return	7.2%
Sharpe Ratio (30 years)	0.45

Environmental, Social and Corporate Governance (ESG) Initiatives

The VPIC investment policy notes, "The VPIC recognizes that environmental, social and governance (ESG) issues are among core factors when assessing the risks and opportunities of an asset and should be fully integrated into the investment process by the VPIC and its managers. ESG should be weighed with all other risks and opportunities and not considered in isolation. Engagement on ESG issues can result in more informed decision-making and VPIC recognizes the importance of shareholder engagement." The Treasurer's Office will be issuing a new ESG Report outlining the ESG work completed by the office for the 2020 proxy season. A few highlights from the engagement efforts. Please look for the full report in early 2021 on the Treasurer's Office website.

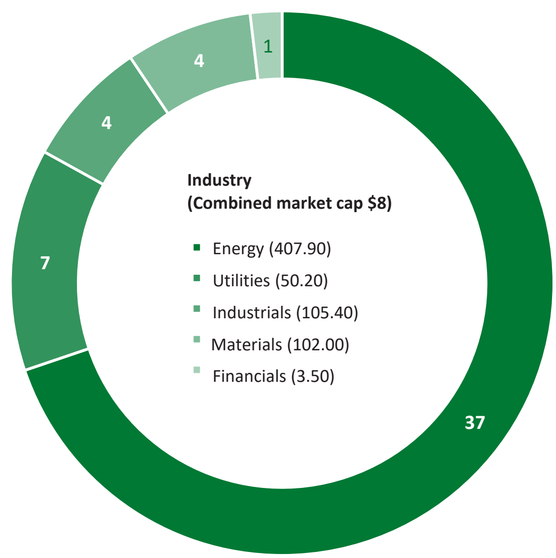
- The VPIC amended its ESG policy in 2017 to incorporate language that required prospective investment managers in VPIC searches to disclose ESG polices, processes and systems for identifying ESG-related value drivers and managing material ESG-related risks. As a result, over the last three years ESG factors have been addressed in all 15 searches across 36 managers as part of the screening process and subsequent reviews. This created an opportunity for VPIC to engage the investment manager community and reinforce its position that all managers should integrate robust ESG capabilities into their investment processes.

- The VPIC completed a consolidation of 48% of the pension portfolio to BlackRock passively managed index funds in 2020. BlackRock is an index provider who actively executes their shareholder rights in passive index fund mandates, which allows VPIC's index holdings to be actively engaged on ESG issues. In 2020 BlackRock took action by voting against management's recommendations for proxy resolutions at 53 companies where such corporate recommendations ran counter to climate change efforts. See Figure 23 for a breakdown across industries. An additional 244 companies were placed on BlackRock's watch list, which indicates to companies that they have 12-18 months to meet BlackRock's climate expectations or risk the firm taking action through proxy voting at the next company Annual General Meeting ("AGM"). In 2020, the UN Principles for Responsible Investment (PRI) rated BlackRock "A+" in its Assessment report for "Strategy and Governance".

- VPIC voted on October 23, 2018, to become a UN Principles for Responsible Investment (PRI) signatory. The pension will complete its first public survey of ESG efforts that is required of signatories in 2021. To date 88% of VPIC managers are signatories. Of the 15 PRI signatories, 4 joined the PRI in the last year and will submit a survey for 2021, and 9 received the highest score of an A+. Please find below a distribution of grades for VPIC's investment managers based on the PRI "Strategy and Governance" assessment.

- During the 2020 proxy season (January 1, 2020 – October 16, 2020) the VPIC voted at 978 company meetings on 12,180 proxy ballot proposals. Approximately 42% of the votes were cast against management's recommendation, in line with the VPIC proxy policies. 3% of the proposals were filed by shareholders, of which the VPIC voted in favor of 84% of the resolutions with a vote on 82% of the shareholder proposals against management's recommendation. For example, VPIC voted on a resolution that required Director Nominees at the company to have qualifications well suited for the environmental and social issues the company addresses as part of their business operations. Management recommended against this proposal, while VPIC voted against management and in favor of the resolution.

Figure: 23 Number of Companies



Data Compiled July 14, 2020
Source: BlacRock Investment Stewardship

- The VPIC began filing shareholder resolutions during the 2016 proxy season to bring shareholders' attention to ESG issues. VPIC has co-filed on 22 resolutions to date and was the lead filer at three companies in 2020. In the case of one such resolution, the VPIC withdrew the filing after successful negotiations with the company who agreed to incorporate, into their Board governance documents, language requiring the initial candidate pool from which new, management-supported director nominees are chosen, to include qualified women and minority candidates.

- The Treasurer and VPIC participated in several sign-on letter campaigns in 2020 to bring awareness to ESG topics. Below a few are highlighted.
- The VPIC and the Treasurer's Office joined a coalition of 98 investors in a letter penned to the SEC requesting mandated disclosures for public companies to reveal to investors and the public how they are acting to protect workers, addressing supply chain risks, and discuss how the pandemic is affecting their businesses.
- Treasurer Pearce joined eleven other Treasurers and Comptrollers to publicly declare their opposition to the former ExxonMobil CEO Lee Raymond as the Lead Independent Director of the JPMorgan Chase Board of Directors. In addition, the group supported an independent Chair of the Board and alignment of financing activities with the Paris Agreement goals. As a result of this campaign, JPMorgan Chase announced a transition in the Lead Independent Director by September 2020.
- In 2019 and 2020, the Office of the State Treasurer and VPIC, alongside peers, were signatories to comment letters to oppose measures aimed to limit shareholder rights proposed by the US Department of Labor ("DOL") and US Securities Exchange Commission ("SEC").
- The VPIC and the Treasurer's Office are active participants in many organizations alongside other institutional investors to promote ESG considerations with a joint voice to encourage measures that protect long-term profitability at companies. These groups include, Investors for Opioid and Pharmaceutical Accountability ("IOPA"), Say-on-Pay Working Group, Climate Action 100+, Majority Action, the Investor Alliance for Human Rights, the Sustainability Accounting Standards Board (SASB), among others. Membership often also provides research, guidance, and support in engagement efforts. VPIC joined one such group at its inception in late 2019, the Northeast Investors' Diversity Initiative ("NIDI") led by the Office of the Connecticut State Treasurer. This group engaged 20 companies on Board diversity. After company discussions with members of NIDI, 9 companies changed their board composition to add women or people of color to their Board of Directors. Three others moved to adopt changes to their corporate governance charters or nominating committees process in line with the spirit of the Rooney Rule to diversify their candidate pools for the Board of Directors.
- On July 6, 2020 Treasurer Pearce's 2020 ESG survey was issued to VPIC investment managers. The survey was reformulated to assist Treasury Staff in establishing a baseline for tracking comparable data to measure how investment managers are implementing ESG policies and integrating ESG factors into their investment process. The questions were informed by the PRI's recommended due diligence questionnaires, SASB, Ceres and the VPIC's ESG consultant Segal Marco. The responses were evaluated against a scoring criteria established by the Treasurer's office that was developed using a framework published by the Institutional Investors Group on Climate Change (IIGCC). The Treasurer's Office plans to issue an update to its ESG report that captures comparable ESG metrics using the survey data. In addition to these annual efforts, the Treasurer's Office issued a public search for investment recordkeeping services on behalf of VPIC in May 2020 to improve recordkeeping data quality and transparency that will assist in ongoing portfolio oversight of ESG metrics. The VPIC awarded Matrix IDM, LLC ("Matrix") the mandate. Over the next year the Treasury Staff will be working with Matrix to develop a back office investment recordkeeping solution that can help the VPIC monitor and analyze its investments more efficiently, among other services. The Treasury staff plans to integrate the output from this service with Bloomberg's ESG products to develop reliable ESG reporting for the VPIC. Bloomberg has several ESG tools, including those that report based on the TCFD framework. Treasury Staff anticipates completion of this ESG reporting project in mid-2022. This is a significant investment in the long-term ESG monitoring efforts of the pension fund by VPIC. An example of a potential reporting output is below using the holdings of a VPIC manager as of June 30, 2020.

Short-term, Local Investments, and Other Investments

The following highlights investments made with non-retirement trust funds (the Trust Investment Fund), operating funds (restricted and unrestricted, local investments, and certain OPEB funds), State OPEB in the Trust Investment

Account and the Retired Teachers Health and Medical Benefits Fund (RTHMB).

- For FY2020 these short-term, local investments and other investments, and the Trust Investment Account had a combined average balance of $548.6 million with combined earnings of $13.0 million, resulting in a gross rate of return of 2.37%. Federal Rate decreases occurring in August, September, and October of 2019 and March of 2020 heavily affected the rate of return in FY2020.
- The Trust investment Account (TIA) had a net return of 6.0%. The market experienced a deep dislocation due to the beginning of the COVID-19 pandemic in February and March that shuttered many companies globally, then recovered through June as some economies began to reopen. The Treasurer's Office expects the 60% allocation to fixed income securities will be strategic to the Fund's preservation of principle and downside protection in FY2021 given the remaining market uncertainty during these times of pandemic.
- In 2020, the General Assembly passed and the Governor approved ACT 120, which provided the Treasurer the authority to investment OPEB assets in a similar manner to retirement monies. The Treasurer's Office has begun work in contracting with VPIC to do so in an effort to increase the return on OPEB assets and move towards prefunding.
- The Treasurer's Office will review funds to identify those funds with longer maturities that may benefit from movement to the Trust Investment Account trust. This will include reviews of fund liabilities with various departments.

Single Deposit Investment Account

The Single Deposit Investment Account (SDIA) is a non-contributory defined contribution plan. The fund was formed in 1981 and is closed to new membership with no new monies invested since 1990. The portfolio is invested in a commingled stable value fund managed by ICMA-RC and administered by Prudential Retirement. The fund's objective is to provide a high level of income consistency with low market risk. The primary importance is the preservation of capital, with a secondary need to generate a composite yield in excess of comparable short-term money market yields. The balance as of June 30, 2020 was $32.9 million for 910 participants.

Unclaimed Property Division

Overview

Unclaimed property refers to accounts in financial institutions, non-profits, and companies that have had no activity generated or contact with the owner for one year or a longer period. Common forms of unclaimed property include savings or checking accounts, stocks, uncashed dividends or payroll checks, refunds, traveler's checks, trust distributions, unredeemed money orders, insurance payments or refunds and life insurance policies, annuities, certificates of deposit, customer overpayments, utility security deposits, mineral royalty payments, and contents of safe deposit boxes. The Treasurer's Office's unclaimed property program is first and foremost a consumer protection program that centralizes search efforts to locate property owners.

The State of Vermont is currently in possession of more than $99.9 million in unclaimed property belonging to approximately 760,000 individuals and organizations.

2020 Highlights

- The Unclaimed Property Division has been able to adapt to the changing work environment by using available technologies to ensure unclaimed property claims are getting paid, and holders of unclaimed property are still able to report and remit payments as required by law. The upgraded UPS2000 system has made the transition to a work from home as smooth as possible.
- Unclaimed Property staff worked with the General Assembly to enact the Revised Uniform Unclaimed Property Act (H.550), which went into effect on January 1, 2021. The Revised Uniform Unclaimed Property Act (RUUPA) was adopted by the Uniform Law Commission (ULC) in 2016. The purpose of the adopting RUUPA is to better serve Vermonters by modernizing the unclaimed property program to recognize new and expanded types of property and new ways in which consumers access information. These changes generally are directed to recognizing new types of property that did not exist when the ULC last developed a Uniform Act, and at increasing the fairness and transparency of the process. Vermont's Unclaimed Property program is about consumer protection and these changes will strengthen the consumer protection provisions.
- Staff implemented phase I of the new unclaimed property management system, UPS2000. These upgrades include a new search website that allows for individuals to print, e-mail, or request a claim form. Claimants may also track the status of their claim, and in certain circumstances, file a claim without the need to submit any paper documents. Since implantation the Division has paid over 700 claims without the need for mailed documents.
- 17,600 claims were paid to individuals or organizations in the fiscal year ending June 30, 2020, the second highest number of claims paid for this consumer protection program. The average claim paid was $267.04, and more than $4.7 million was returned to Vermonters. In addition, over $11.6 million of new property was received by the Unclaimed Property Division.

2021 Goals

- Unclaimed Property staff will be implementing phase II of the new unclaimed property system. This phase of the project include:
    - o A Holder Reporting website, that allows for the upload of holder reports and cash remittances securely online. This process will automatically upload properties allowing the owners to claim their funds faster.

- o An imaging solution specifically designed for use with the Unclaimed Property system that allows for scanning and indexing of all documents related to all areas of unclaimed property.

- o In FY2021, the division will implement a new notification requirement, property reported to the division now requires the unclaimed property division to notify all owners with property over $50.00 one it arrives in the division.

Facts and Figures

Figure 24 details the types of property reported in FY2020. Figures 25, 26, and 27 provide statistics by year for the Unclaimed Property Division, including number of claimants paid, the amount of unclaimed property returned to Vermonters and unclaimed property turned over to the Treasurer's Office. In addition, there are two important facts about Vermont's unclaimed property program: 1) the services are free to the public and 2) you never lose the right to claim unclaimed property, no matter how old the property.

Figure 24: Property Type Reported

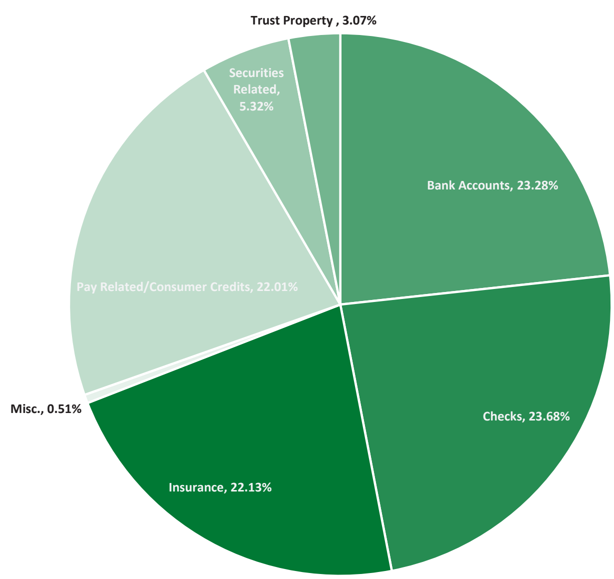


Figure 25: Number of Claimants Paid

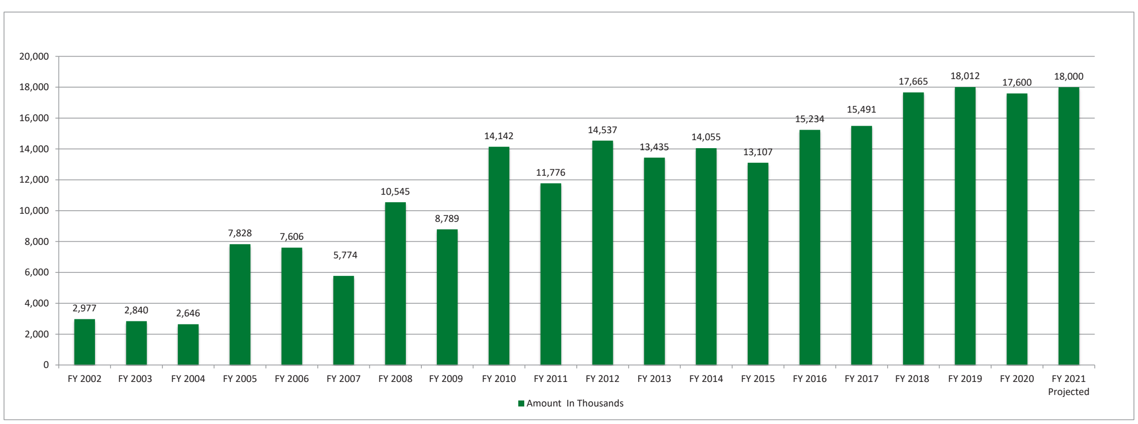


Figure 26: Unclaimed Property Amount Returned to Vermonters

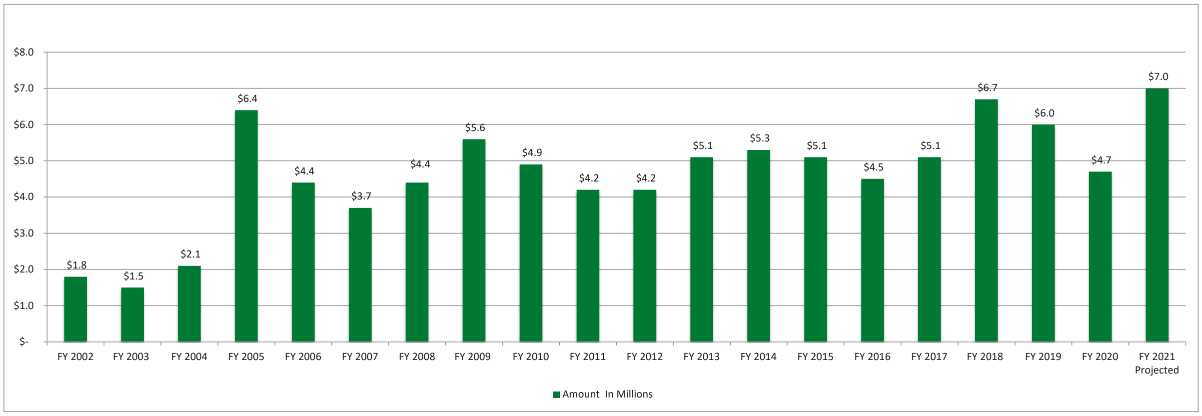
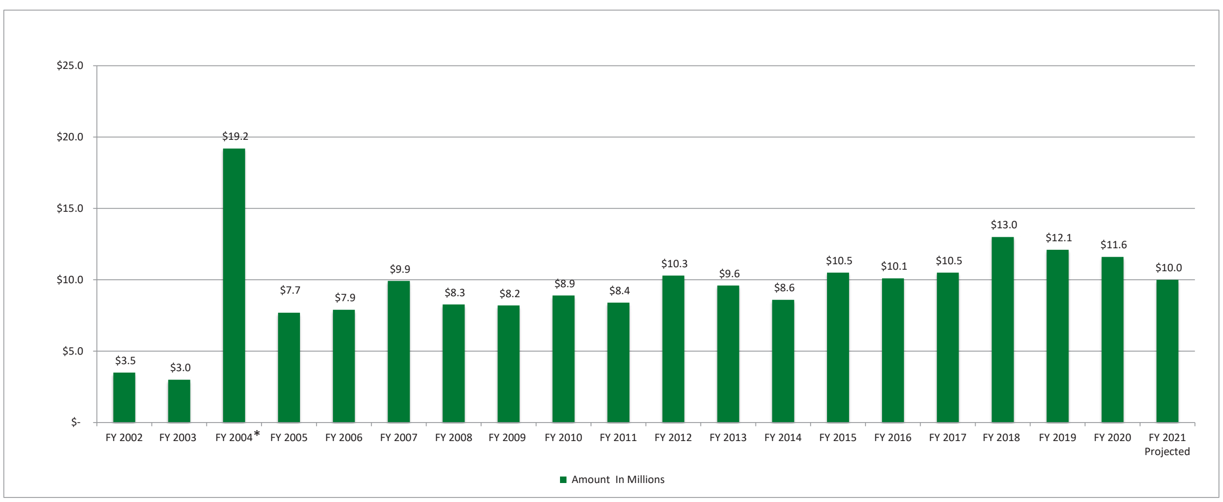


Figure 27: Unclaimed Property Turned Over to the State Treasurer



*The amount returned to Vermonters only includes cash and liquidated securities and does not include the value of securities/mutual funds returned to owners in share format.
Note: FY2004 saw a one-time increase due to changes in the insurance industry, including demutualization.

Financial Literacy

Overview

One of the Treasurer's Office's primary missions is to improve the financial capability of all Vermonters. The Office regularly collaborates with education stakeholders, financial institutions, and community organizations to achieve this goal. Financial literacy initiatives are developed with the following objectives: (1) advocacy - working to promote the adoption of fiscally sound money management practices by Vermonters of all ages; (2) collaboration - working with local, state and national groups to build support for and participation in activities that promote and teach personal finance; and (3) development - creating new financial education programs and resources for Vermont citizens where gaps exist.

2020 Highlights

- The Treasurer's Office worked in the early days of the COVID-19 pandemic to develop and provide relevant resources using its MyMoney.Vermont.Gov financial education website.
- The tenth year of the K-6 Reading is an Investment financial education program concluded in Spring 2020, just as COVID-19 disruptions first took hold. The Treasurer's Office partnered with educators, who worked closely with students and their families to ensure another strong year for the voluntary K-6 educational program. 4,534 student submissions completed the program requirements to be entered into a prize drawing for one of twenty $250 college savings account prizes provided by the Vermont Student Assistance Corporation. The program was generously underwritten by People's United Bank.
- The Treasurer's Office continued its successful partnership with Vermont Afterschool, Inc. The second year of the VerMoney program was launched in January 2020. Participating afterschool programs attended a Montpelier training held by the Treasurer's Office and Vermont Afterschool. Students learned about six topic areas including employment and income, financial decision making, spending and saving, credit, investing, and risk management. While program expansion plans were impacted by the COVID-19 crisis, programming was advanced and strengthen in preparation for 2021 expansion.
- The Treasurer's Office helped the Vermont Jump$tart Coalition launch the first ever financial literacy video contest. The 2020 theme was "Making Money Means Making Decisions." Prizes were awarded to the videos that best captured the financial theme. 1st prize went to Antony Jeswin and Zach Smith from Crossett Brook Middle School and Harwood Union High School. The 2nd prize was awarded to Gardner Paine and Ben Witters, who were home schooled. 3nd place was won by Tanner Dalley from Northwest Technical Center.
- The Financial Literacy Director worked collaboratively with Retirement Division staff to help move financial education forums to remote means to ensure continuity during social distancing requirements. This work will continue in 2021 with new video presentations for retirement system members.

2021 Goals

- The Treasurer's Office will continue its partnership with Vermont Afterschool, Inc to begin scaling up to eventually provide the VerMoney program to 50 afterschool sites. Program distribution and an educator training will be held in early 2021.
- Building on the VerMoney program, the Treasurer's Office and Vermont Afterschool, Inc will launch a Financial Literacy Pacesetter Program. The program will function as a "digital badge" for programs; a public acknowledgment earned by

afterschool and other "third space" programs that have shown exemplary practices. Similar to how digital badges for individuals show these practices by staff, the Pacesetter recognition would recognize the work programs are doing as a whole. The badge is based on specific, measurable benchmarks, in the areas of curriculum, staff support and community connections relating to financial literacy. Programs choose from a menu of benchmarks and get the support and coaching of Vermont Afterschool to further develop and enhance their practices in Financial Literacy. The badge also serves as a public recognition of their efforts and will help them in applying for grants, recruiting staff, and helping show publicly the good work they do around financial education.

- The Treasurer's Office will help develop and support Vermont Jump$tart Coalition's 2nd annual financial literacy student video contest. Once again, this contest will challenge students in grades 7-12 to create an original video that delivers information about the importance of responsibly managing money.
- The Treasurer's Office will work with the Department of Human Resources (DHR) to develop a personal finance class for State Employees. This goal was first explored in 2020 but was delayed due to the onset of COVID-19 and an immediate need to shift resources. The Treasurer's Office will partner with DHR to develop relevant curriculum about saving, retirement preparedness, and ways that the State supplemental retirement options can be used to help build a secure future.
- The Treasurer's Office will continue its collaborative work with State partners to develop MyMoney.Vermont.Gov into a clearinghouse for financial education topics. Additional infosheets will be developed to highlight relevant, in-demand topics.

Facts and Figures

- 4,534 students completed the 2019-2020 Reading is an Investment financial education program.
- Since Reading is an Investment was launched in 2010, 42,423 Vermont students have completed the program.
- 141 schools received the 2020-2021 edition of Reading is an Investment.
- 20 Vermont students that completed Treasurer's Office financial education programs received College Savings Accounts.

Treasury Operations Division

Overview

The Treasury Operations Division is responsible for the banking and cash management of approximately $6.1 billion annually in both receipts and disbursements; the establishment and maintenance of the State's banking services network; the disbursement of the State's warranted payments and debt service; the collection of certain receipts; and the recording of associated accounting transactions. Monitoring and reconciliation of internal and external accounts comprise a major portion of staff time, in addition to the proper reporting and recording on the State's books. The Treasury Operations Division also is responsible for preparing financial statement schedules and disclosures for the annual audit of the State's books for cash, investments, and pension systems managed in the Treasurer's Office, and administering various special funds. Pervasive changes in the above processes are not expected on a year over year basis as this Division is operationally focused. There is a periodic review of operational risks and associated internal controls to ensure that this Division is effectively managing the State's cash.

2020 Highlights

- Treasury Operations reconciles approximately 50 core bank accounts which in 2020 received over 126,000 cash and check deposits, over 500,000 ACH credit transactions, and disbursed over 1.91 million payments.
- Overall Electronic Payments has remained stable at approximately 83 percent of all payments, with the expectation that this will slowly increase going forward. Retirement monthly benefit payments increased slightly to 98.6 percent electronic. As the costs of issuing a check well exceeded that of issuing payment electronically (ACH), this provides measurable savings to taxpayers.
- Treasury Operations reported regularly with the Administration, General Assembly, and other parties on the cash forecasts from the onset of the COVID-19 pandemic forward. The State is in a healthy cash position from prudent decisions made on that information.
- In April 2020, the Treasury received $1.25 billion in CARES Act dollars, successfully placing these monies with banks and investment funds, optimizing safety and collateralization, and working with the Department of Finance & Management to manage disbursements.
- In April 2020, Treasury Operations assisted with clearing unemployment claims pending by transmitting 8,355 payments on behalf of the Department of Labor.
- In December 2020, the Treasurer's Office, in cooperation with the Department for Children & Families and the Department of Finance & Management, issued over 29,000 checks totaling $9.2 million to assisst individuals and families in need as a result of the impacts of the pandemic.

2021 Goals

- Treasury Operations will continue its work on increasing awareness of the Vendor Management portal to decrease customer service phone and email requests.
- Treasury Operations will evaluate potential areas for increased customer service quality with municipalities and school districts, specifically surrounding information requests.

Technology Update

Overview

The Technology Services Division is committed to providing technology support services to the Treasurer's Office. Staff provides business analysis; system design; programming; help desk support; hardware maintenance; system and data security; and project management services.

2020 Highlights

- 2020 was highlighted by the transition to work from home in response to COVID-19. IT made this transition possible by deploying remote technologies that allowed our staff to access their office workstations seamlessly as if they were still in the office. This technology allowed staff to use their personal computers and in many cases IT deployed workstations for staff to take home when personal equipment was not available or capable. Home offices were a reality so staff could be productive.
- Remote work increased the importance of security. Monitors have been implemented to warn and prevent security breaches on office and home computers. These monitors were implemented in partnership with the Agency of Digital Services to ensure our systems are secure. Servers are also updated with the latest security updates to prevent security threats.
- The IT staff meets virtually on a weekly basis to review all incidents, system changes, and project status. Meetings are done using virtual meeting tools that have been deployed to staff. These virtual meeting tools are also used to provide seminars and conduct meetings where onsite visits used to be the norm.
- Member Direct (retire.vermont.gov) was launched early this year to help active and retired members of all our Retirement systems to access and change their information online. This portal has become extremely beneficial now that in person visits to our office is no longer possible due to COVID-19.

2021 Goals

- Technology upgrades will continue in 2021. We constantly evaluate the life cycle of servers, workstations, and software. We are on track to replace and upgrade our data center equipment in early 2021. Software upgrades are also planned in conjunction with the data center upgrade.
- A major goal for 2021 will be to upgrade or replace current employer reporting systems to improve workflow and replace legacy systems with more current software. Security will continue to be a focus in 2021 as security threats continue to rise.

Legislative Reporting Requirements

Financial Literacy Trust Fund

The General Assembly established a trust fund in 2008 to support financial literacy in Vermont. As enacted, "the purpose of the fund is to promote the adoption of fiscally sound money management practices by Vermonters through education and outreach efforts that raise awareness of the need for and benefits of practicing such skills; and to create opportunities to build and encourage the development of new financial literacy activities and educational products for Vermont citizens." The State Treasurer is authorized to collect money from a variety of sources to fund these activities. For FY2020, $18,000.00 was deposited into the fund from program sponsors, including Peoples United Bank, and the TD Bank Charitable Foundation. $295.56 of interest was earned. $19,634.03 was expended from the trust fund during FY2020. Funds were expended in support of Reading is an Investment; VerMoney; to develop and support the MyMoney.Vermont.Gov resource site; and for de minimis administrative expenses. The June 30, 2020 trust fund balance was $25,721.55.

Local Investment Advisory Committee (LIAC)

Pursuant to Act 199 of 2014, Act 51 of 2015, and Act 157 of 2016, the Local Investment Advisory Committee (LIAC), chaired by the State Treasurer, is tasked with increasing economic development in Vermont and creating jobs by committing up to 10 percent of the state's average available cash balance to local investments. These financing projects redirect funds that were invested primarily in out-of-state government agency securities and money market accounts at large financial institutions, to local investments. To date, the State Treasurer has overseen the commitment of over $34 million for local investment projects in energy improvements in residential housing, commercial energy projects, higher education, and the rehabilitation of State office buildings for energy efficiencies. See Figure 28 on page 37 of this report for an overview of existing loans.

The LIAC did not make any new investments in 2020. The dollar amount available for local investments is directly tied to the state's average available cash balance. Throughout the COVID-19 crisis and emergency response, the Treasury Operations Division worked to closely monitor the state's daily, weekly, and monthly cash flows. So far, these numbers have remained strong, but we know that there are still future uncertainties associated with the COVID-19 pandemic. The Treasurer's Office is committed to working with the LIAC and the General Assembly to find innovative uses for these investment dollars while maintaining the state's healthy cash position.

In addition to the State Treasurer, the membership of the committee currently includes: Maura Collins, Executive Director, Vermont Housing Finance Agency; Dave Corliss, Efficiency Vermont Designee; Cassie Polhemus, Chief Executive Officer, Vermont Economic Development Authority; Michael Gaughan, Executive Director, Vermont Municipal Bond Bank; Tom Little, Vice President and General Counsel, Vermont Student Assistance Corporation Designee. Please visit the Local Investment Advisory Committee webpage for more details.

State Building Energy Loans

Act 11 of the 2018 Special Session authorized an additional $500,000 in supplemental funding to offset costs of interest and principal available to State building weatherization projects that were longer-term than previously funded through the program. During calendar year 2020 none of this funding was utilized.

State PACE Reserve Fund

24 V.S.A. § 3270 specifies that the State Treasurer shall administer the State PACE Reserve Fund. The purpose of the fund is to reduce, for certain Property-Assessed Clean Energy districts, the risk faced by an investor making an agreement with a Vermont municipality to finance such a district. Monies deposited in this fund may be invested by the State

Figure 28: Summary of Credit Facilities and Local Investment Initiatives

Status as of September 30, 2020

Authorizing Legislation and Agency	Statutory Description	Amount Authorized	Remaining Capacity	Outstanding Balance	Issue Date	Original Amount	Maturity Date	Rate
Act No. 62 of 2019:	**Investment**	**$1,500,000**	**$0**	**$1,500,000**		**$1,500,000**		
1. Vermont Community Loan Fund				$1,500,000	7/22/2020	$1,000,000	7/22/2021	1.50%
Act No. 87 of 2013, Sec. 8, as amended by Act No. 199 of 2014, Sec. 22:	**Credit Facility**	**$10,000,000**	**$0**	**$10,000,000**		**$10,000,000**		
2. Vermont Economic Development Authority (Note VEDA-003)				$10,000,000	2/1/2015	$10,000,000	1/31/2025[2]	2.43%[3]
Act No. 87 of 2013, Sec. 8a: [6][7]	**Credit Facility**	**$6,500,000**	**$3,090,861**	**$3,409,139**		**$5,550,000**		
3. NeighborWorks of Western Vermont (Note A-001)				$0	10/22/2013	$250,000	10/15/2023	2.00%
4. NeighborWorks of Western Vermont (Note A-002)				$0	5/19/2014	$250,000	4/15/2024	2.27%
5. NeighborWorks of Western Vermont (Note A-003)				$0	10/15/2014	$250,000	10/15/2024	2.35%
6. NeighborWorks of Western Vermont (Note A-004)				$0	1/26/2015	$250,000	1/15/2025	2.00%
7. NeighborWorks of Western Vermont (Note A-005)				$125,864	10/15/2015	$250,000	10/15/2025	2.00%
8. NeighborWorks of Western Vermont (Note A-006)				$204,724	11/30/2015	$250,000	10/15/2025	2.26%
9. NeighborWorks of Western Vermont (Note A-007)				$210,887	10/27/2016	$250,000	10/15/2026	2.00%
10. NeighborWorks of Western Vermont (Note A-008)				$211,671	12/27/2016	$250,000	10/15/2026	2.63%
11. NeighborWorks of Western Vermont (Note A-009)				$215,332	7/21/2017	$250,000	7/15/2027	2.49%
12. NeighborWorks of Western Vermont (Note A-010)				$227,689	7/17/2019	$250,000	7/15/2029	2.48%
13. NeighborWorks of Western Vermont (Note A-011)				$232,973	10/24/2019	$250,000	10/15/2029	2.21%
14. Vermont Housing Finance Agency (Note VHFA-001)				$1,980,000	2/18/2014	$2,800,000	2/15/2024	2.76%
Act No. 199 of 2014, Sec. 23	**Credit Facility**	**$8,200,000**	**$4,100,292**	**$4,099,708**		**$7,750,000**		
15. NeighborWorks of Western Vermont (Note B-001)				$324,133	9/2/2015	$400,000	7/15/2025	2.10%
16. NeighborWorks of Western Vermont (Note B-002)				$209,435	6/20/2016	$250,000	7/15/2026	2.00%
17. NeighborWorks of Western Vermont (Note B-003)				$210,887	9/6/2016	$250,000	10/15/2026	2.00%
18. NeighborWorks of Western Vermont (Note B-004)				$212,896	1/11/2017	$250,000	1/15/2027	2.52%
19. NeighborWorks of Western Vermont (Note B-005)				$342,535	2/17/2017	$400,000	4/15/2027	2.45%
NeighborWorks of Western Vermont (Remaining authorization)						$200,000		
20. Champlain Housing Trust (Note A-001)				$1,000,000	3/31/2016	$1,000,000	3/31/2026	2.48%
21. Champlain Housing Trust (Note A-002)				$321,547	2/28/2017	$321,547	3/31/2027	3.02%
22. Champlain Housing Trust (Note A-003)				$50,000	5/7/2018	$50,000	6/30/2028	3.42%
23. Champlain Housing Trust (Note A-004)				$59,315	6/18/2018	$59,315	6/30/2028	3.58%
24. Champlain Housing Trust (Note A-005)				$49,119	6/18/2018	$49,297	6/30/2028	3.58%
25. Champlain Housing Trust (Note A-006)				$519,841	7/30/2018	$519,841	6/30/2028	3.50%
26. VSAC- higher education loan cost reduction				$800,000	6/8/2016	$4,000,000	6/15/2021	2.00%
Act No. 178 of 2014, Sec. 41 [4]	**Credit Facility**	**$8,000,000**	**$5,891,613**	**$2,108,387**		**$ 2,404,202.30**		
27. 32 Cherry St. Exhaust Air Heat Recovery (SERF 001)				$311,170	1/31/2015	524,172.00	6/30/2026	2.00%
28. 108 Cherry St. Lighting & Controls (SERF 002)				$534,156	2/15/2017	534,156.21	6/30/2030	2.00%
29. 52 Cherry St. Energy Upgrade SERF 003)				$136,744	9/24/2018	147,210.89	6/30/2029	2.00%
30. Springfield State Office Building (SERF 004)				$278,792	8/14/2017	278,792.11	6/30/2025	2.00%
31. Derby Public Safety Facility Energy Retrofit (SERF 005)				$127,348	9/28/2017	127,347.68	6/30/2027	2.00%
32. Historic Sites Lighting Retrofits, Chimney Point & Mt. Independence (SERF 006)				$0	3/26/2018	43,452.00	6/30/2024	2.00%
33. Mahady Courthouse (SERF 007)				$217,249	12/17/2018	224,961.00	6/30/2026	3.00%
34. Williston Info Center (SERF 008)				$43,241	12/10/2018	45,535.84	6/30/2027	2.60%
35. Caledonia Court (SERF 009)				$174,613	8/15/2018	183,286.86	6/30/2024	2.75%
36. Asa Bloomer State Office Building, Rutland SERF 011)				$285,075	1/8/2019	295,287.71	6/30/2027	2.75%
37. Rutland Parking Garage & Barre Courthouse Lighting (SERF-014)				$396,525	7/2/2019	396,525.00	6/30/2026	2.00%
Act No. 11 of 2018 (SERF Supplemental Funding)	**Appropriation**	**$ 500,000**	**$ 399,267.79**	**$ 100,732.21**		**$ 100,732.21**		
38. Williston Info Center (SERF 008)				28,865.96	12/10/2018	28,865.96	-	-
39. Asa Bloomer State Office Building, Rutland SERF 011)				28,366.25	1/8/2019	28,366.25	-	-
40. Rutland Parking Garage & Barre Courthouse Lighting (SERF-014)				43,500.00	7/2/2019	43,500.00	-	-
Act No. 188 of 2018	**Appropriation**	**$ 5,000,000**	**$ 4,761,273.52**	**238,726.48**		**250,000.00**		
41. NeighborWorks of Western Vermont (Note C-001)				238,726.48	12/5/2019	250,000.00	1/15/2030	2.14%
NeighborWorks of Western Vermont (Remaining authorization)						750,000.00		
	TOTALS:	**$39,700,000**	**$18,243,307**	**$21,217,966**		**$27,304,935**		

Notes:
1. Subject to annual review and renewal.
2. Subject to a "put" provision enabling the Treasurer's Office to demand full or partial repayment within 60 days if the State's unrestricted cash balance falls below $75,000,000.
3. VEDA rate was reduced to 1.00% for the period of 5/1/2020 - 4/30/2021
4. Establishes an Energy Revolving Fund under 29 V.S.A. § 168(c)

Treasurer. The balance of this fund may be expended for the sole purpose of paying claims resulting from certain losses related to a Property-Assessed Clean Energy district. During FY2020, there were no new funds deposited into this fund. There was $801.67 earned on the balance in the fund. There were no claims submitted and, therefore, no expenditures, other than de minimis administrative expenses, from the fund during FY2020. The fund balance as of June 30, 2020 was $53,218.53.

Vermont Achieving a Better Life Experience (ABLE)

This year, Vermont Achieving a Better Life Experience (ABLE) VermontABLE saw amplified growth in enrollment numbers and total assets under management. As of November 30, 2020, VermontABLE enrollments totaled 588. The average account balance as of October 31, 2020, is $6,449.90, which is over $4,000 above the previous benefit cliff level for individuals on means-tested programs. Also as of October 31, 2020, VermontABLE participants hold total assets under management of $3,489,395.94, which is more than double the previous year. Some eligible Vermonters were able to enroll in VermontABLE in order to receive the Coronavirus Economic Impact payments from the federal government without risking their other benefits.

VermontABLE participates in a multi-state partnership headed by the Ohio State Treasurer's Office STABLE program in order to administer these accounts. This is the largest consortium of ABLE accounts in the country with twelve states currently participating. In October 2020, STABLE announced that it would transition to a new program administrator in 2021. To help facilitate the transition, the partner states have formed two working groups. The Treasurer's Office is represented on the Marketing and Outreach working group, and the Vermont Developmental Disabilities Council is part of the Enrollment and Data working group.

A 529-ABLE account allows for an account within section 529 of the Internal Revenue Code of 1986, and is a tax-free savings vehicle for disability-related expenses. Please visit VermontABLE.com for more information.

Transportation Infrastructure Bonds

Beginning in 2010, the State began issuing Special Obligation Transportation Infrastructure Bonds (TIBs), which are payable from assessments on motor vehicle gasoline and diesel fuel. The State has issued three series of TIBs bonds (in 2010, 2012 and 2013) totaling $36,385,000. As of June 30, 2020, there were $23,440,000 of bonds outstanding.

Trust Investment Account

In 2000, the General Assembly authorized the establishment of a Trust Investment Account (TIA) administered by the State Treasurer for the purpose of investing restricted funds with non-expendable principal balances and other long-term funds. As of June 30, 2020, the fund had a principal balance of $99,112,844 of which 52% was allocated to the VSERS OPEB, 32% to the Higher Education Endowment Trust Fund, 11% to various Agency of Natural Resources Funds, and the remainder to various smaller trust funds. Of those smaller trust funds, the Vermont Veteran's Home had a June 30, 2020 balance of $1,527,162.41 and the Tobacco Trust Fund had a balance of $8,748.

The current target allocation of the Trust Investment Account is 60% Fixed Income, 20% Domestic Large Cap Equities, 15% International Equities, and 5% Emerging Market Equities. In fiscal year 2020, the Fund's investment return was 6.2% net of fees. In fiscal year 2020, the market experienced a deep dislocation due to the beginning of a pandemic in February and March that shuttered many companies globally. The market then recovered through June, as some economies began to reopen, and central banks reacted quickly with targeted market programs to provide liquidity and spur price discovery. The 60% allocation to domestic fixed income, the Fund's downside protection, helped protect the Fund's principle during the downturn as the market experienced a flight to quality creating a sharp rally in fixed income securities. The Bloomberg Aggregate Bond Index ended the fiscal year up 8.7%. Equities experi-enced a deep drawdown during the 3rd fiscal quarter and the ACWI IMI Index ended the fiscal year up 1.2% after the 4th quarter proved to be the best quarter for equities in three decades up 20%.

Vermont Higher Education Endowment Trust Fund

16 V.S.A. § 2885 provides that in August of each fiscal year, the State Treasurer is to withdraw up to 5% of the 12-quarter moving average of the Fund's assets and divide the amount equally among UVM, the Vermont State Colleges (VSC), and the Vermont Student Assistance Corporation (VSAC). The amount appropriated, however, cannot bring the Fund Balance below total contributed principal. Through June 30, 2020 principal contributions were $29,346,227 (See Figure 34). The 5% distribution available this year is $1,545,197 or $515,065.65 each for UVM, the Vermont State Colleges, and VSAC.

16 V.S.A. § 2885 further provides that during the first quarter of each fiscal year, the Secretary of Administration and the Subcommittee may authorize the State Treasurer to make an additional distribution of up to 2% of the Fund's average assets available to UVM and the Vermont State Colleges for the purpose of creating or increasing a permanent endowment fund. Similar to the 5% distribution, the amount appropriated cannot bring the Fund balance below total contributions to principal. Further, each institution is required to raise private donations of at least twice the appropriated amount. At its meeting last year, the Secretary of Administration and the Subcommittee voted to authorize the 2% appropriation for distribution this year of $610,867 or $ 305,433.50 each for UVM and the Vermont State Colleges.

After payments, the Fund balance at the end of FY2020 totaled $31,954,153. For more detailed information regarding the Higher Education Endowment Trust Fund, please visit the Treasurer's Office's website.

Figure 29: Higher Education Endowment Trust Fund Balance

June 30, 2020

Ending balance FY 2019		**$31,520,273**
	FY 2019 Contributions received in FY 2020	$88,110
Opening balance FY 2020		**$31,608,383**
	Distributions FY 2019	
	5%: ***University of Vermont***	$509,055
	Vermont State Colleges	$509,055
	Vermont Student Assistance Corp.	$509,055
	2%: ***University of Vermont***	$0
	Vermont State Colleges	$0
	Income earned FY 2020	$769,513
	Appreciation (Depreciation) FY 2020	$1,106,964
	Fees and Other Charges FY 2020	($3,541)
Principal Balance June 30, 2020 [3]		**$31,954,153**
	Statutory Distributions Available [1]	
	5% of 12-Quarter Moving Average as of June 30, 2020	($1,545,197)
	2% of 12-Quarter Moving Average as of June 30, 2020	($610,867)
	Total Projected Statutory Distribution	**($2,156,064)**
	Balance After Projected Statutory Distribution	$29,798,090
	Total Contributions Received as of June 30, 2020	$29,346,227
	Surplus Balance After Projected Distributes compared to the Total Fund Contributions	$451,863
	Total Available Distribution Adjusted as needed to Maintain the Principal Balance Floor as Required by Statute [4]	**($2)**
	Actual Distributions for 2020	
	5% Distribution	**$1,545,197**
	2% Distribution [2]	$610,867
		$2,156,064
Principal Balance after distributions		**$29,798,090**
	Fundraising target for potential 2% distribution in 2021 *(Contingent on an institutional match in FY 2020 and Principal Balance greater than the total Contributions)*	$618,079

[1] *Assuming statutory levels (5% distribution & 2% distribution) without regard to statutory requirement to keep balance at or above the total principal contributions.*

[2] *Committee may elected to forego or match the 2% distribution for the fiscal year. In FY 2021, the Committee approved the 2%.*

[3] *Numbers may not add due to rounding*

[4] *The Fund structure requires the total amount distributed not to exceed an amount that would decrease the Fund balance below total contributions to principal*