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**TO:** Commission on Higher Education Funding

**FROM:** James H. Douglas, State Treasurer

**RE:** Annual Report on the Higher Education Trust Fund

**DATE:** August 29,2002

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I am pleased to present the State Treasurer's third annual report on the Higher Education Trust Fund. This fund was established in the Office of the State Treasurer by Act No. 27 of the General Assembly in 1999 and was initially funded with an appropriation of \$6 million; additional appropriations include \$1 million in 2001 and \$635,881.49 in 2002. The Act was amended in 2001 and provides that in August of each year, the State Treasurer shall withdraw 5% of up to a 12-quarter moving average of the fund's assets and divide the amount equally among the University of Vermont, the Vermont State Colleges, and the Vermont Student Assistance Corporation.

During fiscal year 2002, the Higher Education Trust Fund earned a total return of 7.07%. This compares very favorably with the Standard & Poor's 500 Index, which had a (17.98%) return for the same period. The 5% distribution available this year will be \$348,675.30 in total, or \$116,225.10, each for UVM, VSC and VSAC. (See Appendix A for quarterly market values and distributions for fiscal year 2002.)

Act No. 27 further provides that in August of each year, the Commission on Higher Education Funding may authorize the State Treasurer to make an additional amount equal to up to 2% of the fund's assets available to UVM and the Vermont State Colleges for the purpose of creating or increasing a permanent endowment fund. The amount appropriated, however, cannot exceed an amount that would bring the fund balance below the \$6 million initial appropriation plus any additional contributions to principal.

At its meeting last year, the Commission authorized this 2% appropriation in the amount of \$128,524, or \$64,262 each, for distribution to the University of Vermont and the Vermont State Colleges. Each institution was given until the end of fiscal year 2002 to match the appropriation by raising twice that amount, or \$128,524, and to certify to the Commissioner of Finance that it received private donations in the requisite amount and that the funds will be used to create or increase a permanent endowment at the respective institution. The State Treasurer has received notice that VSC has met the required conditions and is awaiting notice with respect to UVM.

This year the fund exceeded its income target and the full 2%, or \$139,470, will be available for additional distribution in June 2003 if the Commission so authorizes. Each institution's share will be \$69,735 with a required match to be raised by each in fiscal year 2003 of \$139,470.

After the payments of \$348,675 and \$128,524, the balance in the fund at the beginning of fiscal year 2003 was \$7,302,748.20 plus the additional \$635,881.49 appropriated by the Legislature, which was added to the fund on July 1, for a total balance of \$7,938,629.69.

An accounting of the fund balances is provided below:

|   |              |                       |
|---|--------------|-----------------------|
| Opening Balance FY 2002                 |              | \$7,679,449.36        |
| Distribution August 2001                |              | (379,549.22)          |
| Income earned fiscal year 2002          |              | 427,341.68            |
| Appreciation (Depreciation)             |              | 78,140.13             |
| Fees and Other Charges                  |              | <u>(25,434.70)</u>    |
| Balance June 30, 2002                   |              | \$7,779,947.25        |
| 5% of Nine-Quarter Moving Average:      | \$348,675.30 |                       |
| Distributions: University of Vermont    |              | \$116,225.10          |
| Vermont State Colleges                  |              | 116,225.10            |
| Vermont Student Assistance Corporation  |              | 116,225.10            |
| 2% Income Available for Endowments 2001 |              | <u>\$128,523.75</u>   |
| Balance after Distributions             |              | \$7,302,748.20        |
| Addition to Principal                   |              | <u>\$635,881.49</u>   |
| Opening Balance FY 2003                 |              | <u>\$7,938,629.69</u> |
| 2% Income Available for Endowments 2003 |              | \$139,470.12          |

I have attached a spreadsheet as Appendix B that shows the total return of the entire Investment Trust Account, of which the Higher Education Trust Fund at \$7,938,630 comprises approximately 23%. The Tobacco Trust Fund comprises 75% of the account, or \$24,857,493 and the remaining 2% is made up of eight small unexpendable trusts that total \$460,408 and the newly created ANR Stewardship Fund at \$183,081.

Please feel free to contact me if you have any questions or would like to discuss this further.

cc: Sean Campbell, Commissioner of Finance & Management  
Anne Winchester, Legislative Council