STATE OF VERMONT
OFFICE OF THE STATE TREASURER

2022 ANNUAL REPORT
January 6th, 2023

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

I am pleased to submit my twelfth and final annual report as your State Treasurer. This report provides a summary of the Treasurer's Office's accomplishments over the past calendar year. I would like to highlight a few key initiatives here and then share some parting thoughts.

This year has been a remarkable year in Vermont and across the country. After more than two years of the COVID pandemic, life has started to return to some sense of normalcy. These last couple of pandemic years have been difficult for Vermonters of all stripes. There is no way to sugarcoat the pain and loss felt by so many of our friends, family, and neighbors. However, throughout these difficult times, Vermonters continually rose to the occasion in how they supported and comforted each other.

Public servants across the state continued to provide critical services during these challenging times. I am particularly grateful to work among the dedicated and talented staff members of the Treasurer's Office. As one of the leanest-staffed offices in all of state government, we continued to provide key financial services to all of Vermont state government, as well as our tens of thousands of active and retired state, teacher, and municipal pension plan members.

This year, I would like to highlight a few significant accomplishments in the areas of State Debt and Public Pensions.

State Debt

First, the Treasurer's Office—in tandem with the Capital Debt Affordability Advisory Committee (CDAAC)—has long advocated for prudent and responsible levels of borrowing to meet the State's capital needs at the lowest possible costs. This approach has been a positive factor in the maintenance of one of the strongest credit ratings among our peer New England states.

While capital projects are often paid for through the issuance of state bonds, they can also be paid for with cash already set aside. Using cash to pay for these projects has the advantage of saving money in the long run, because unlike with borrowed funds, there is no interest payment required.

In order to provide a mechanism for this type of funding, and based on our recommendation, the Administration and the Legislature this year established a Capital Expenditure Cash Fund, (CECF) to create a vehicle for pay-as-you-go (Pay-Go) capital funding. Pay-Go funding is particularly useful for smaller capital projects or those that have a shorter lifespan.

Fundamentally, this approach will save money. Rather than paying interest costs on borrowed funds, we will earn a return on funds saved in the CECF. Going forward, I urge the Legislature to establish a regular funding source for this Fund to ensure that this money-saving opportunity is there for future generations.

Second, we worked with CDAAC to, once again, lower the recommended bonding authority for the upcoming biennium. With the exception of the most recent biennium (heavily impacted by the COVID pandemic), CDAAC has recommended reduced debt authorizations since 2016. Consistent with CDAAC recommendations, the State has lowered its bonding authority by 32.5 percent since 2014. The lower authorization for the upcoming biennium continues the work of providing funds sufficient to accomplish necessary work while at the same time continuing along the path of fiscal discipline.

Public Pensions

This year saw the first major public pension reform in over a decade. Act 114 was the result of a lengthy process that began even before the start of this past biennium. Early in 2021, the Treasurer's Office and Trustee Boards issued a report on the risks faced by the State and Teachers' Systems and the need for change. While I recognize that some of the recommendations in that report were painful, I believe they were needed to preserve the strength of the defined benefit plans.

As with any major legislation, the result was a compromise in which not everyone got everything that they wanted. However, I think it is a true testament to our state workers and teachers, as well as our Legislature, that the ultimate product passed unanimously in the General Assembly. This shows what can be achieved when our public servants work together.

While Act 114 includes a number of provisions, perhaps the most impactful is the legislatively mandated requirement to prefund retiree health benefits (often referred to as "other post-employment benefits" or "OPEB"). The Treasurer's Office has submitted proposals on this topic for many years, and I am grateful to the Legislature for including this in Act 114. These reforms not only provide assurance that funding for these benefits will be there long into the future, they also had the effect of savings for the State's long-term liabilities of $1.5B. Although savings were offset by largely future trends in national healthcare costs, VSTRS was also impacted by changes in recent demographic experience.

Act 114's requirement to prefund followed the longstanding recommendation of our Office and continued along a path we started years ago to make paying for these important retiree health benefits more affordable. At least one rating agency has already described this important development as a credit positive for the State.

Beyond the prefunding of OPEB, Act 114's other savings were more modest in scope. I do remain concerned that further reforms may be needed in the future. However, I do want to commend the employees for stepping up and contributing more into their pensions, demonstrating their commitment to these important systems. I am grateful that we were able to establish a new retirement group for corrections and mental health workers, as well as the framework for a longevity incentive, which I hope the Legislature will pass in the upcoming session.

In addition to Act 114, we continued to find ways to better serve our members and retirees. One significant initiative we implemented in 2022 saved Medicare-eligible retirees in our teachers' system upwards of 30 - 40 percent on their insurance premiums, while simultaneously reducing the

State's long-term liability by $75 million. This change to a Medicare Advantage plan has not only saved costs, but it has provided additional benefits to our retirees as well.

Parting Thoughts

As I reflect on my last 12 years as Treasurer and almost 20 years in total with the Treasurer's Office, I cannot help but feel grateful for what has been the opportunity of a lifetime. Over the past 20 years, our Office was at the forefront of any number of major issues facing our State. I think back to some of the unique efforts that we were a part of—the scores of meetings that we conducted in developing our 2017 Clean Water Report, the millions of dollars now being saved as part of the ABLE program for individuals with disabilities, our work on corporate environmental, governance and social issues, and countless hours we spent in the aftermath of Tropical Storm Irene making sure that funds were available to people and towns that needed them.

I also look back on the incredible progress we made in our core areas of responsibility, such as the issues highlighted above in the areas of state debt and public pensions. It has been an honor and a privilege to defend our State's strong defined benefit public pension systems, and I am grateful that they are on a strong path to paying down their unfunded liabilities. I want to thank the Administration and the Legislature for their part in these endeavors. It has been a team effort on behalf of all Vermonters.

I want to also say a special thank you to the many people I have had the pleasure of serving with. I am grateful to Treasurer Jeb Spaulding for giving me the opportunity to first come to Vermont as his deputy and for later encouraging me to take his place as Treasurer. I am grateful to my deputies, Steve Wislowski and Michael Clasen, for their expertise, compassion, and perhaps most important, their grace under fire. And I am so grateful to the many staff with whom I worked so closely over the years. The Treasurer's Office is a special place, and it is filled with unsung heroes who go above and beyond every day. Any success I may have had over these past years has truly been a team effort. However, I am perhaps most grateful to my fellow Vermonters, who have given me the honor and privilege to serve as Vermont State Treasurer. Serving as your Treasurer has been a true honor. From the bottom of my heart, thank you all for this incredible opportunity.

Sincerely,

Beth Pearce

Beth Pearce, State Treasurer

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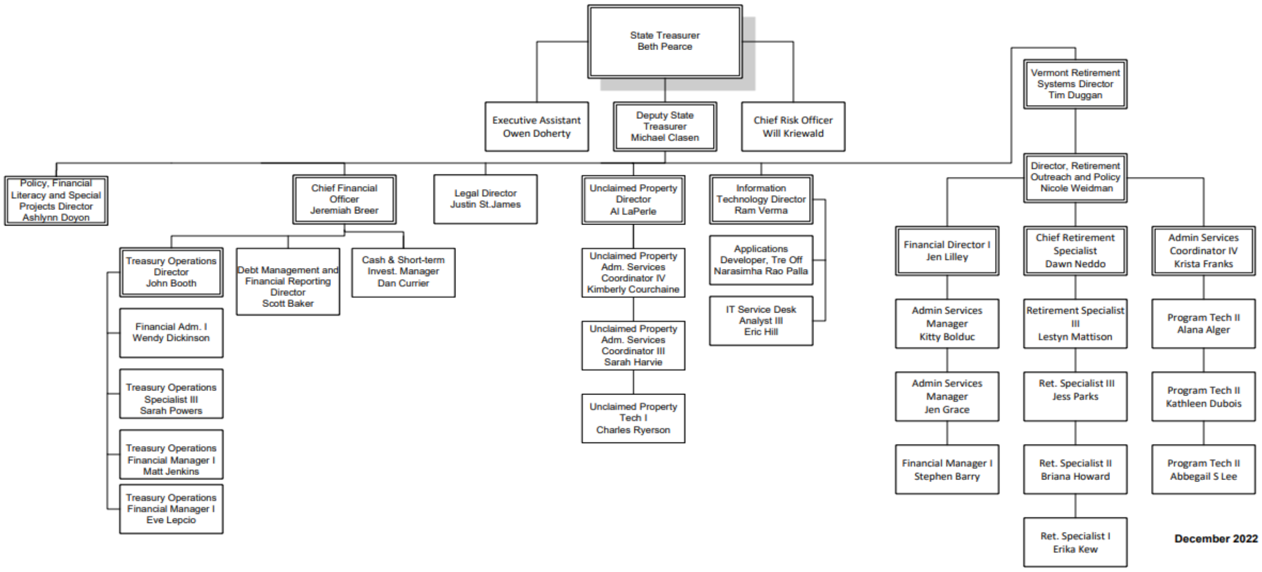
Our Commitment to Vermonters

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.

Office of the Vermont State Treasurer
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 December 2022.

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—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 15 staff members responsible for the administration of the three systems. As of June 30, 2022, there were 38,512 active, vested and terminated members, and 22,407 retirees. A breakdown of the demographics of the three defined benefit plans is described in Figure 1.

Figure 1: Retirement System Demographics as of June 30, 2022

System	Active Members	Inactive Members	Deferred Members	Retirees & Beneficiaries	Total Monthly Benefits
VSERS (State)	8,324	2,012	815	7,963	$ 14,468,087
VSTRS (Teachers)	10,387	2,932	938	10,295	$ 18,854,222
VMERS (Municipal)	8,059	3,997	1,048	4,149	$ 3,774,100

In addition to the three defined benefit plans, there are two defined contribution (DC) plans set by statute, a State and a Municipal Plan, that are administered by Empower Retirement. Please see Figure 2 for data related to the defined contribution plans.

Figure 2: VSERS and VMERS Defined Contribution Plan Data as of June 30, 2022

Plan Name	Total Participants	Total Assets (as of June 30, 2022)	Fiduciary
State Defined Contribution	547	$ 72,992,730	State Treasurer
Municipal Defined Contribution	431	$ 25,995,003	VMERS Board

Empower also administers four supplemental retirement plans, which are available to certain state, teacher, and municipal employees. These plans include deferred compensation plans available to state, teacher, and municipal employees, a Single Deposit Investment Account for certain state employees and teachers (this plan is closed to new entrants), and a Municipal Retiree Health Savings Plan for municipal employees. These plans provide members an option to put aside additional funds for retirement. Data for these plans can be found in Figure 3.

Figure 3: Supplemental Plan Data as of June 30, 2022

Plan Name and Eligible Participants	Total Participants	Total Assets	Fiduciary
457(b) Deferred Comp Plan (State and Municipal)	8,296	$ 571,936,931	VSERS
403(b) Plan (Teachers and Municipal)	3,164	$ 146,521,905	VSTRS
Single Deposit Investment Account (State and Teachers, closed to new entrants)	816	$ 28,448,243	VSERS and VSTRS jointly
Municipal Retiree Health Savings Plan	3,607	$ 12,336,108	VMERS

In addition to retirement plans, retired members in VSERS and VSTRS may also receive health insurance with a percentage of the premium covered based on the member's years of service at retirement. The premium is deducted from the retiree's monthly retirement allowance. Members of VMERS are not eligible for a health insurance plan, but instead may take part in a health retirement savings plan that was offered several years ago, but is now closed to new entrants. All three systems offer retirees a dental plan, with premiums paid 100 percent by the retiree.

Pension Funding

To maintain retirement benefits, the Legislature has established funding plans for each System. The primary objective of these funding plans is to equitably allocate costs between generations of taxpayers, while at the same time providing retirement security to members and retirees. Funds come from three sources—employee contributions, employer contributions, and investment income. Interest earned on pension fund investments is the largest source of funds used to pay benefits. As more members approach retirement and member lifespans lengthen, it is anticipated that significant increases in benefit payouts will occur. These assumptions have been factored into the annual plan valuations.

Experience Studies

The three Boards of Trustees have appointed an independent actuarial firm, Segal Consulting, to review and advise on actuarial matters associated with the Plans. Every few years, Segal reviews Plan experience in what is referred to as an Experience Study, and it recommends assumptions related to demographic, economic and other experience of the systems. These recommended actuarial assumptions are then reviewed and adopted by each Board.

The most recent Experience Study was performed in 2020. Among other things, the 2020 Study

lowered the actuarial rate of return assumption from 7.5 to 7.0 percent. Combined with changes in demographic assumptions, the result of the 2020 Study was a significant increase in the Plans' unfunded liabilities (approximately $600 million) as well as their required annual contributions (approximately $100 million). The next Experience Study for the period ending fiscal year 2023 is scheduled to be completed in fiscal year 2024.

Annual Valuations

Each year, Segal completes a valuation for each Plan. These valuations compare the actual experience of the Plan against the assumed (or projected) performance. While they look at past experience, they encompass estimated future trends. They also form the basis of each Board's annual funding recommendation.

For VMERS, the annual funding recommendation is expressed in the form of a recommended employer and employee contributions as a percent of payroll. In recent years, employers and employees have increased contribution rates to ensure the fiscal health of the Plan, using a rate/risk sharing model.

For VSERS and VSTRS, Segal a recommendation as to the amount that the State must contribute to keep each system on a funding plan designed to retire the Plans' unfunded liabilities by 2038. This recommendation is known as the Actuarially Determined Employer Contribution (ADEC), and it is communicated to the Governor and the General Assembly by November 1 of each year. See Figure 4 for fiscal years 2023 and 2024 ADECs, and Figure 5 for a detailed funding history of these systems.

Figure 4: ADEC for Fiscal Years 2023 and 2024

	Funded Percentage	Actuarially Determined Employer Contribution (ADEC)
VSERS		
2023	67.56%	$125.9 million*
2024	69.85%	$121.9 million
VSTRS		
2023	52.91%	$205.2 million**
2024	57.28%	$194.3 million
* The FY2023 VSERS ADEC was recertified following passage of Act 114 at $116.0 million.		
** The FY2023 VSTRS ADEC was recertified following passage of Act 114 at $195.0 million.		

Figure 5: Funding Progress of the Retirement Systems

Funding Progress of the Retirement Systems - (Amounts in Thousands)

	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)
	2022	$ 2,405,796	$ 3,444,134	$ 1,038,338	69.9%	$ 576,952	180.0%
VSERS	2021	2,216,500	3,280,868	1,064,368	67.6%	552,317	192.7%
	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%
	2022	$ 2,457,374	$ 4,289,799	$ 1,832,425	57.3%	$ 701,567	261.2%
VSTRS	2021	2,191,651	4,142,015	1,950,364	52.9%	657,935	296.4%
	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%
	2022	$ 893,224	$ 1,159,280	$ 266,056	77.1%	$ 355,709	74.8%
VMERS	2021	837,096	1,074,168	237,072	77.9%	331,960	71.4%
	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%

2022 Highlights

Act 114

In 2022, the Legislature passed Act 114, which made significant changes to the State and Teachers Retirement Systems in an effort to address the Plans' unfunded liabilities. Act 114 followed generally along the lines of recommendations set forth by the Pension Task Force, itself created in 2021 by the Legislature through Act 75 and also made significant one-time cash investments in the retirement systems ($75 million to VSERS, $125 million to VSTRS, and $13.3 million to Teachers' OPEB).

In the Teachers System, Act 114 increased member contributions and made slight reductions to the COLAs for future retirees. In the State System, Act 114 made similar increases to member contributions and reductions to COLAs for future retirees. It also made some modest changes to the retirement provisions applicable to judges, increased the mandatory retirement age for law enforcement personnel, and created a new retirement group for corrections and mental health workers. In addition, Act 114 followed the longstanding recommendations of the Treasurer's Office and set the health insurance benefits (known as Other Postemployment Benefits or OPEB) funds on a course for pre-funding. This change alone has the effect of reducing the State's long-term liabilities by approximately $1.5B. Although savings were offset by largely future trends in national health care costs, VSTRS was also impacted by changes in recent demographic experience.

Act 114 represents a success insofar as it has successfully reduced costs, and it did so in a way that received broad agreement among all stakeholders who participated in the task force. However, as the Treasurer's Office cautioned during the legislation's development, Act 114 has also significantly increased the complexity of the plans. This complexity (on top of already some of the most complex systems in the country) will continue to pose administrative challenges and cause member confusion.

The Retirement Division has performed admirably in implementing changes in record time. The work has required significant amounts of overtime and required the Division to bring on former employees on a temporary basis to help in this effort. These staffing issues are discussed further below.

Office Operations

In 2022, restrictions associated with the Coronavirus pandemic began to loosen. The Retirement Division has responded by moving back from an almost exclusively virtual work environment to a hybrid environment. While the ability to return to the office with few restrictions is a welcome change, the Retirement Division has learned a number of lessons from its experience with virtual work. For example, the ability to hold virtual counseling sessions with members approaching retirement provides members with greater flexibility and convenience. Retirement seminars are also able to reach a greater audience through the use of virtual environments. These service enhancements have been and will continue to be retained, even as in person meetings and counseling sessions once again became available.

The Division also continues to work to reduce reliance on paper documents and move more fully into an electronic work environment. The Division has continued to promote and rely on our online member resource, Member Direct, which allows members to perform a number of self-service functions, including running their own estimates, viewing annual statements, and updating personal information.

Office Personnel

This year, the Retirement Division saw a significant staffing change, a phenomenon consistent with other areas of state government and the broader economy. In October 2021, the Retirement Division's previous director resigned, and the position remained open into the first quarter of 2022. In 2022, the deputy director of policy and outreach resigned, and the deputy director of operations retired after a long and distinguished career with the Retirement Division.

In March, Tim Duggan, assumed the role of retirement systems director, moving over from his previous role as general counsel to the State Treasurer's Office. In September, Nicole Weidman, a veteran of Vermont state government, took over in the newly created position of director of retirement operations and policy, moving over from a deputy director position in the Office of Child Support. The Retirement Division was also fortunate to welcome new team members Alana Alger, Kathleen DuBois, and Abbegail Lee, all of whom work in the front office providing direct support to the thousands of members in the three systems.

Health and Dental Insurance

In 2022, at the direction of the VSTRS Board, the Retirement Division successfully implemented a change in health insurance for Medicare-eligible retirees and beneficiaries. The change to Medicare Advantage health insurance plans administered by Vermont Blue Advantage provided enhanced health insurance benefits to these members and reduced their costs by approximately 30-40 percent.

Insurance for VSTRS non-Medicare-eligible (and certain Medicare-eligible) members continues to be provided by the Vermont Education Health Initiative (VEHI) in partnership with BlueCross BlueShield of Vermont. Insurance for VSERS members, which is procured by the State of Vermont's Department of Human Resources (DHR), continues to be provided by BlueCross BlueShield of Vermont.

While health insurance rates for the VEHI and BCBS insurance products are scheduled to increase by double digits in 2023, rates for the VBA product, the vast majority of participants, will only increase by 3 percent in 2023 and are capped at 3 percent in 2024.

Additionally, the Retirement Division administered a competitive bid process for dental insurance for all retirees. This process culminated in a continuation of the Retirement Division's relationship with Northeast Delta Dental. A contract was executed in November that will hold dental insurance rates flat for a three-year period beginning in January 2023.

Supplemental Plan Administrator Changes

In Spring of 2022, Empower Retirement acquired Prudential, the administrator of the State's two defined contribution plans and its four supplemental retirement plans. The acquisition went off smoothly for the Retirement Division and members. The Boards of Trustees extended its contract with Empower, previously scheduled to terminate in November 2022 through to June 2024.

2023 Planned Retirement Initiatives

Staffing

The 15 positions in the Retirement Division must serve over 58,000 members and retirees, a number that continues to grow. Without additional staff, the quality of services will suffer. This situation, coupled with the administrative tasks necessary to implement the benefit changes associated with Act 114, and the departure of the longtime Treasurer and Deputy Treasurer, has reached a tipping point. The Treasurer's Office received an additional position last year. However, that position alone is nowhere near sufficient to meet the needs of the Office.

The National Association of State Retirement Administrators (NASRA) tracks staffing data from state retirement systems. NASRA states: "Among systems in the smallest quartile by size of system membership, the Vermont Retirement Systems has the second highest ratio of participants to administrative staff – at 3,186 participants for each member of staff – and among the highest ratios for the entire sample." NASRA data shows that the median participant to staff ratio of similar systems is 1,336. While systems may differ, and different functions may be performed by internal or external staff, it is safe to conclude that the Retirement Division could double in size and still remain above the average participant to staff ratio.

This data is corroborated by other sources and suggests that the Retirement Division is significantly understaffed. Accordingly, the Retirement Division has been and plans to continue an internal evaluation designed to ensure that the System is operating as efficiently as possible. At the same time, the Retirement Division will seek three additional positions, well below the likely need, but designed to move toward rightsizing at a deliberate and moderate pace.

Group G Implementation

As noted above, Act 114 created a new retirement group in the State System—Group G. This group will be made up of frontline workers in the Departments of Corrections and Mental Health. The idea behind Group G is to provide a plan for these employees that will allow them to retire with full benefits (50 percent of average final compensation) in 20 years. While Group G members will have to pay more for this benefit (so as to keep the plan actuarially neutral to the System), it will better tailor the retirement plan to the nature of the work performed.

To date, the Retirement Division has worked with DHR and the Vermont State Employees Association to identify those positions that meet the legislative criteria necessary to qualify for Group G. Throughout early 2023, the Retirement Division will continue to build out Group G in our internal pension administration system. The Division also expects to meet with eligible members to inform them of their options in early 2023 with current employees making the change in Spring of this year, for an effective date of July 1, 2023.

Debt Management

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. All of Vermont's debt issues are general obligation debt, except for transportation infrastructure bonds which are special revenue debt. All of the State's debt is fixed-rate debt.

In June 2022, the State redeemed the remaining $19.9 million of transportation infrastructure bonds, saving approximately $3.9 million in future interest payments.
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. By contrast, bond financing 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.

Due to many factors, including economic uncertainty, historically high inflation, increased borrowing costs, and potential impacts of labor and supply chain issues due to competing capital projects from available federal funding, the Capital Debt Affordability Advisory Committee (CDAAC) recommended a debt authorization of $108 million for the 2024-2025 biennium, a 12% reduction from the previous biennium recommendation of $123.18 million. This amount represents a cumulative reduction of 32.5% over the last ten years.

However, given the level of uncertainty around these factors, the Committee also discussed the potential of increasing the second year of the biennial recommendation during their 2023 meetings.

In addition to its specific statutory requirements, CDAAC discussed and considered several topics directly relevant to the State's debt affordability at length at their 2022 meetings, including the review of several comparable state debt affordability studies and their respective criteria and methods of calculating debt affordability. The committee will review the affordability criteria and make any revisions in its 2023 report.

Vermont's Bond Ratings

Vermont continues to have the highest general obligation bond rating in New England. 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+, the second highest rating) in July 2019. Moody's and Fitch ratings include stable outlooks. S&P Global Ratings changed its outlook to negative in November of 2020, however, the outlook was revised back to Stable in August 2022 (the rating remains at AA+, the second highest rating). 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.

Figure 6: New England General Obligation Bond Ratings (as of Nov. 3, 2022)

State	Moody's	S&P	Fitch
Vermont	Aa1	AA+	AA+
Connecticut	Aa3	A+	AA-
Maine	Aa2	AA	AA
Massachusetts	Aa1	AA	AA+
New Hampshire	Aa1	AA	AA+
Rhode Island	Aa2	AA	AA

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 shifting 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 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 Bond Bank (VBB) or other borrowers that rely on the State's bond rating. This is accomplished through varying levels of utilization of the State's "moral obligation" to enhance credit. 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.

Debt Affordability

The Treasurer's Office and a majority of CDAAC members conclude that the State of Vermont needs to reduce its appetite for debt. Lower debt issuance by US states had weakened Vermont's debt ratio ranking relative to peers, however this has stabilized in the past year. 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 September 2022, is noted. This provides detail on Vermont's relative position.

CDAAC's 2022 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 a need to develop pay-as-you-go funding structures that would be beneficial to the capital and asset management process. CDAAC, the Treasurer's Office, and the Administration will provide the 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. Please note that the September Moody's report includes fiscal year 2021 data.

Debt Per Capita

Debt as a percentage of personal income and debt service as a percentage of revenues are generally understood to be the best credit indicators of the State's ability to pay; however, the rating agencies continue to calculate and monitor the State's debt per capita as an indicator and it is included as a factor in CDAAC's deliberations. In 2021, the State's debt per capita was $1,185 in 2022, an increase from $1,102 the previous year. Vermont's ranking improved slightly from 24th to 25th among the 50 states.

CDAAC uses a five-year average of our peer triple-A states. Vermont has a five-year average of $1,095 versus a mean of $974 and a median of $633 (the current guideline) for the same five-year period for our peer triple-A states. Vermont is forecasted to exceed this guideline going forward. Given the weight placed on this ratio versus the other debt ratios noted below, CDAAC limited the constraining impact of this in its recommendations.

Figure 7: Moody's Investors Service - Debt Per Capita Comparison

Peer Group States (All states with at least two triple-A ratings)
5-Year Average Mean and 5-Year Average Median Excluding Vermont
MEAN: $974 MEDIAN: $633 5-Year Average VERMONT: $1,095

Triple-A Rated States[1]	Moody's Ratings[2]	S&P Ratings[2]	Fitch Ratings[2]	Moody's Debt Per Capita 2018	2019	2020	2021	2022
Delaware	Aaa/Stable	AAA/Stable	AAA/Stable	$ 2,587	$ 3,206	$ 3,289	$ 3,400	$ 4,143
Florida	Aaa/Stable	AAA/Stable	AAA/Stable	889	812	780	710	756
Georgia	Aaa/Stable	AAA/Stable	AAA/Stable	986	996	971	987	1,087
Idaho	Aaa/Stable	AA+/Stable	AAA/Stable	482*	506*	540*	490*	464
Indiana	Aaa/Stable	AAA/Stable	AAA/Stable	295	270	251	233	217
Iowa	Aaa/Stable	AAA/Stable	AAA/Stable	219	207	150	157	408
Maryland	Aaa/Stable	AAA/Stable	AAA/Stable	2,164	2,343	2,323	2,410	2,818
Minnesota	Aa1/Stable	AAA/Stable	AAA/Stable	1,430	1,415	1,406	1,400	1,462
Missouri	Aaa/Stable	AAA/Stable	AAA/Stable	532	487	464	413	398
North Carolina	Aaa/Stable	AAA/Stable	AAA/Stable	611	531	586	581	686
South Carolina	Aaa/Stable	AA+/Stable	AAA/Stable	517	503	469	415	435
South Dakota	Aaa/Stable	AAA/Stable	AAA/Stable	694	618	493	482	561
Tennessee	Aaa/Stable	AAA/Stable	AAA/Stable	312	305	292	266	285
Texas	Aaa/Stable	AAA/Stable	AAA/Stable	410	389	379	365	682
Utah	Aaa/Stable	AAA/Stable	AAA/Stable	772	792	720	866	899
Virginia	Aaa/Stable	AAA/Negative	AAA/Stable	1,515	1,502	1,677	1,746	1,823
MEAN[3]	-	-	-	**929**	**958**	**950**	**962**	**1,070**
MEDIAN[3]	-	-	-	**694**	**618**	**586**	**581**	**684**
Vermont	**Aa1/Stable**	**AA+/Stable**	**AA+/Stable**	**987**	**1,140**	**1,061**	**1,102**	**1,185**

(1) States that carry at least two triple-A ratings
(2) Ratings as of September 30, 2022
(3) These calculations exclude all Vermont numbers
*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.

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

2.0 percent as compared to a 50 state mean of 2.8 percent and a median of 2.1 percent. The

State's ranking in 2022 remained the same as the previous year at 27th among the 50 states. The CDAAC guideline is to perform better than the Moody's five-year mean (1.8 percent) and median (1.3 percent) for states with at least two triple-A ratings (Vermont's 5-year average is 2.0 percent). Using the current CDAAC projection, this ratio will improve to 1.0 percent by fiscal year 2033. Using the recommended level of debt issuance, the debt as a percentage of personal income would exceed the state guideline in 2023 but would be back into compliance by 2024.

Figure 8: Moody's Investors Service - Debt as a % of Personal Income

Peer Group States (All states with at least two triple-A ratings)
5-Year Average Mean and 5-Year Average Median Excluding Vermont
MEAN: 1.8% MEDIAN: 1.3% 5-Year Average VERMONT: 2.0%

Triple-A Rated States	Moody's Debt as % of 2020 Personal Income				
	2018	2019	2020	2021	2022
Delaware	5.5%	6.5%	6.1%	6.0%	7.0%
Florida	2.4	1.7	1.5	1.3	1.2
Georgia	2.0	2.3	2.0	1.9	2
Idaho	1.2*	1.2*	1.2*	1.0*	0.9
Indiana	0.7	0.6	0.5	0.5	0.4
Iowa	0.5	0.4	0.3	0.3	0.7
Maryland	3.7	3.8	3.5	3.5	4.1
Minnesota	2.8	2.6	2.4	2.3	2.2
Missouri	1.2	1.1	0.9	0.8	0.7
North Carolina	1.5	1.2	1.2	1.2	1.2
South Carolina	1.3	1.2	1.0	0.9	0.8
South Dakota	1.5	1.3	0.9	0.8	0.9
Tennessee	0.7	0.7	0.6	0.5	0.5
Texas	0.9	0.8	0.7	0.7	1.1
Utah	1.9	1.9	1.5	1.7	1.6
Virginia	2.9	2.7	2.8	2.8	2.8
MEAN[1]	**2.0**	**1.9**	**1.7**	**1.7**	**1.8**
MEDIAN[1]	**1.5**	**1.3**	**1.2**	**1.2**	**1.2**
VERMONT	**2.0**	**2.2**	**1.9**	**1.9**	**2.0**

(1) These calculations exclude all Vermont numbers and include only states rated triple-A by two or more of the rating agencies during the periods shown, as of September 30, 2022

*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.

Debt Service 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, as well as the dedicated property transfer tax revenues associated with the Vermont Housing Finance Agency issued Property Transfer Bonds. The debt service as a percentage of revenues ratio was 4.0 percent for fiscal year 2021. This percentage is expected to rise to 4.5 percent in fiscal year 2024, then gradually reducing each year after. Given the potential for wide variances 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.

The Moody's report now also reports each states' debt, adjusted net pension liability, adjusted net OPEB liability and other long-term liabilities as a % of own-source revenue, among other liability information and comparative ratios. The Committee intends to review this data in more detail, although the members are concerned that these are not comparable across the states due to such factors as varying asset allocations and assumptions, demographics and differences in experience, among others.

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 (fully funded at 5%) of the previous year's appropriations. In addition to these reserves, the State has also increased the Human Services Caseload Reserve and established a 27/53 Reserve, which was first used in 2022, as planned. Taken as a whole, General Fund reserves were 11.3% as a percentage of fiscal year 2022 appropriations. The Treasurer's Office supports a policy of increasing reserves to mitigate economic fluctuations and recommends continued progress to build reserves.

New Legislation of "Cash Fund"

During the 2022 legislative session, the General Assembly established the "Capital Expenditure Cash Fund," a vehicle for pay-as-you-go funding for capital projects. This concept was proposed by the Treasurer and the Administration, along with a recommendation from CDAAC. This fund will enable the State to pay for some capital projects and improvements without the additional borrowing cost. The legislature has directed the Commissioner of Finance, in consultation with the Joint Fiscal Office and the State Treasurer, to analyze and make reservations for a dedicated revenue source for this fund.

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 significant 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.

However, there has been evidence of improvement. Recent U.S. Census data shows that Vermont's population increased by 17,336 residents (2.8%) between 2010 and 2020, and an additional 3,979 residents between April 2020 and July 2022. This makes Vermont the fastest growing among the 50 states.

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.

Unclaimed Property

Overview

Unclaimed property refers to any type of financial asset owed to an individual, business, agency, nonprofit, etc. and in possession of a holder for a specified amount of time without any contact from the "owner" (individual owed the credit, refund, rebate, etc.). 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 Unclaimed Property program is first and foremost a consumer protection program that centralizes search efforts to locate property owners.

The Unclaimed Property Division implements the State's Unclaimed Property Act by:

- Reuniting owners with their unclaimed funds.
- Ensuring banks, corporations, insurance companies and other entities remit to the State funds that are deemed abandoned under the law (usually after three years pass with no owner activity).
- Managing audits to recover additional unclaimed funds.
- Increasing public awareness of unclaimed funds.
- Protecting the assets and rights of owners until their funds are returned to them.

The State of Vermont is currently in possession of more than $119 million in unclaimed property belonging to approximately 932,000 individuals and organizations.

2022 Highlights

- In fiscal year 2022, the Unclaimed Property Division returned a record amount, just over $7.1 million to rightful owners. The Vermont Unclaimed Property Division has been consistently in the top 10 in the country in the percentage of property returned.
- The average amount claimed was $410.67.
- The Unclaimed Property Division collected $15.0 million to be held in trust for their rightful owners or their heirs to collect. Owners never lose their right to collect, and the State never charges a fee for this service.
- 17,289 claims were paid to individuals or organizations in the fiscal year ending June 30, 2022. Included in these numbers are 4,188 properties that were filed

using the fast-track process. The fast-track process allows claimants to file a claim without the need to submit paper documents. During fiscal year 2022 these fast-tracked claims totaled $114,723.89, with the average amount claimed being $27.39. The fast-track process not only saves the division money but reunites owners with their property more quickly.

- Unclaimed Property transferred $6.4 million to the general fund in fiscal year 2022. Each year, unclaimed funds receipts are used, in the first instance, to pay claims and offset the division's operational costs. The remaining receipts are transferred to the General Fund to support state programs and operations.
- 250,122 searches were conducted using the enhanced web site.

2023 Goals

- Enhance our outreach efforts to reunite more people with their property.
- Continue enforcement efforts to improve our voluntary compliance program.

Facts and Figures

Figure 9 details the types of property reported in fiscal year 2022. Figures 10, 11, and 12 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 9: Property Type Reported

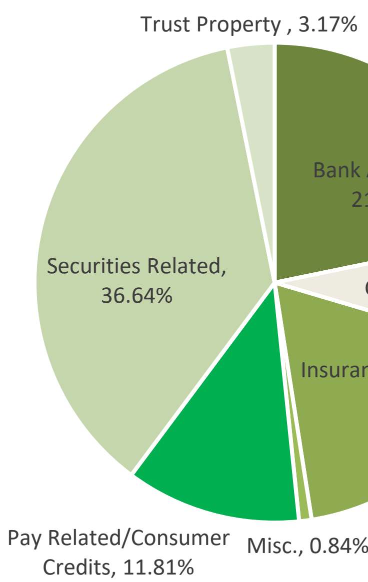


Figure 10: Unclaimed Property Turned Over to the State Treasurer

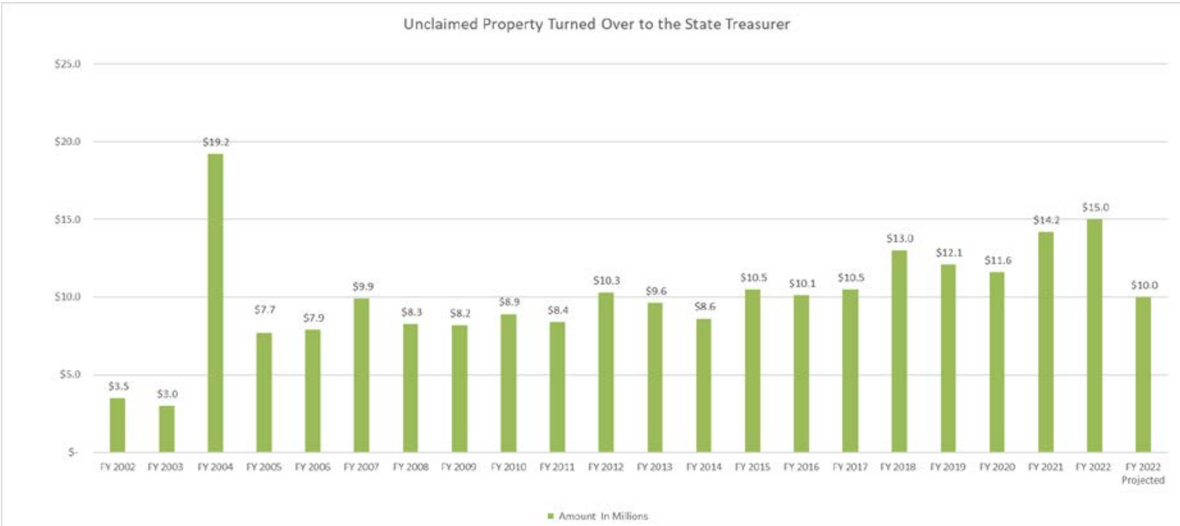
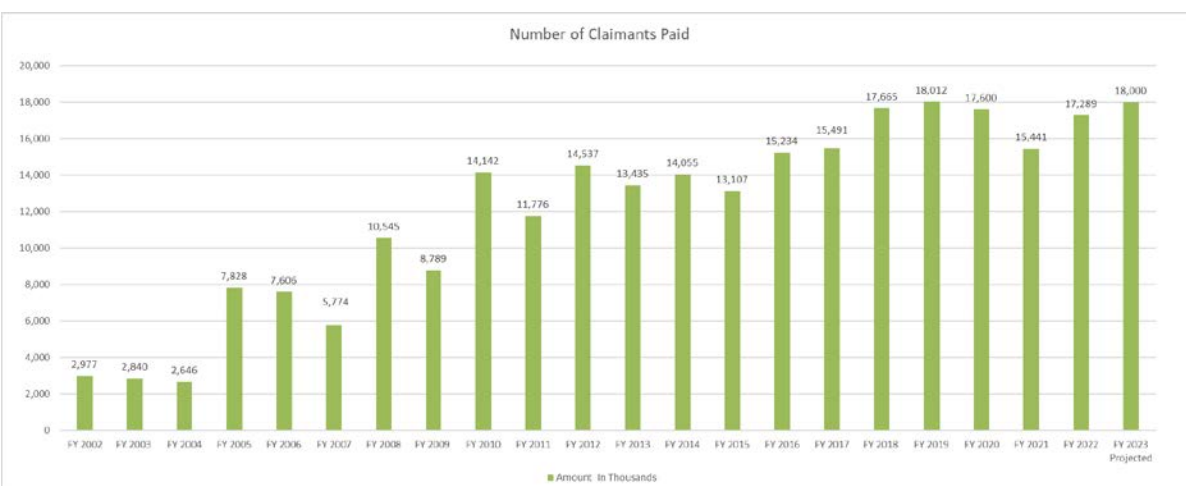


Figure 11: Unclaimed Property Amount Returned to Vermonters

Figure 12: Number of Claimants Paid



Financial Literacy

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.

In 2022, the Treasurer's Office helped to sponsor the Vermont Jump$tart Coalition's annual financial literacy video contest. The video contest theme was "What Does Money Mean to You?" and student participants created public service announcements exploring questions such as: "How do you use money?"; "How can money get you where you want to be?"; and, "How can money support your values and dreams?". We are currently helping develop and support the Coalition's fourth annual contest launching this January.

Much of the financial literacy work in the Treasurer's Office this year focused on on the issue of retirement security, which included work on the development and viability analysis of the Green Mountain Secure Retirement Plan. In September, Treasurer Pearce hosted a retirement security awareness roundtable discussion at the Vermont College of Fine Arts with esteemed panelists; Kathleen Kennedy Townsend, Special Representative to U.S. Secretary of Labor, Representative Tiff Bleumle, and AARP State Director, Greg Marchildon. The roundtable discussion was well-attended and addressed systemic issues in retirement security, recent federal legislation, gaps in retirement security for women, and trends in Vermont.

Treasury Operations Division

The Treasury Operations Division is responsible for the banking and cash management of approximately $7.7B 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 is also 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.

Key performance metrics for Treasury Operations in 2022 include the following:

- Treasury Operations reconciles approximately 50 core bank accounts which in 2022 received over 80,000 cash and check deposits, over 580,000 ACH credit transactions, and disbursed over 2.25 million payments. This represents a significant increase in payments including those to Vermonters in need.
- Overall Electronic Payments have decreased to approximately 77 percent of all payments, with the expectation that this will slowly increase going forward. Retirement monthly benefit payments stayed steady at 98.7 percent electronic. As the cost of issuing a check well exceeded that of issuing payment electronically (ACH), this provides savings to taxpayers.
- The State is currently holding $2.15B, a near record amount of cash, as a result of the American Rescue Plan, Coronavirus Relief Funds, and strong revenues.

Additionally, the Treasury Operations Division has the following goals for department work in 2023:

- Treasury Operations will continue its work with various state departments to reduce the amount of time and manual effort required to reconcile bank accounts.
- Treasury Operations will evaluate opportunities for reduced paper usage related to the warranting and payment process.
- Treasury Operations will complete the build out of the investment program for the VSERS OPEB and RTHMB OPEB trusts.

Technology Update

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.

The highlights for 2022 include:

- Legislation changed the method for calculating Employee Contributions for VSTRS and VSERS. This impacted the employers and the method they use to calculate the contribution amounts per employee. Employers made the changes in their payroll systems to support this new legislation. The new legislation also impacted how the retirement system validates contribution amounts reported by employers. Necessary changes to the retirement system were done to validate the contribution information reported by employers to ensure data integrity.
- In February 2021, M&T Bank Corporation (M&T) and People's United Financial, Inc. (PUB) announced that M&T will be acquiring People's United Bank. The resulting impact was a product conversion from PUB to M&T requiring systems changes and testing to ensure no impact to 91,000 cash and check deposits, over 540,000 ACH credit transactions, and 2.07 million payments annually.
- Helped the Unclaimed Property Division to implement the Holder Reporting website. The site is intended for use by entities("holders") to report unclaimed property. The site automates the holder reporting process by allow the holders to directly submit their reports to the Unclaimed Property Division.
- Virtual Desktop Infrastructure (VDI) is technology from Microsoft that is being implemented to assist with the hybrid staff environment now common in the workplace. While the Treasury conducts tests and is secure, improvements to keep in pace with the technology are important. This will make the transition from office to home and vice versa more seamless.
- Worked with ADS Security to implement SIEM (Security Information & Event Management) tool for monitoring of all systems owned by the State. This is another step to ensure the IT infrastructure is secure.
- Upgraded all system software to current versions and extend technical support of server and network devices. Applied all firmware updates and security patches.
- Replaced the servers used in our secondary (DR) site with the recently retired production servers from our primary data center. This ensures our DR servers are using updated hardware that is also more powerful than before.

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 fiscal year 2022: There were no deposits into the fund from program sponsors. $18.78 of interest was earned on the balance in the fund. $1,625.00 was expended from the fund in support the MyMoney.Vermont.Gov resource site; and for de minimis administrative expenses. The June 30, 2021 trust fund balance was $8,675.52.

Local Investment Advisory Committee

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 $39.7 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 14 of this report for an overview of existing loans.

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 Bond Bank; Tom Little, Vice President and General Counsel, Vermont Student Assistance Corporation Designee. The Treasurer recommends expanding the membership to include other state agencies and nonprofit economic development entities as a means to expand opportunities.

Please visit the Local Investment Advisory Committee webpage for more details.

Figure 13: Summary of Credit Facilities

Vermont State Treasurer's Office
Summary of Credit Facilities and Local Investment Initiatives
Status as of November 30, 2022

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	7/22/2021	$1,000,000	7/22/2024	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**	**$4,728,234**	**$1,771,766**		**$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)				$73,532	10/15/2015	$250,000	10/15/2025	2.00%
8. NeighborWorks of Western Vermont (Note A-006)				$119,942	11/30/2015	$250,000	10/15/2025	2.26%
9. NeighborWorks of Western Vermont (Note A-007)				$137,978	10/27/2016	$250,000	10/15/2026	2.00%
10. NeighborWorks of Western Vermont (Note A-008)				$139,139	12/27/2016	$250,000	10/15/2026	2.63%
11. NeighborWorks of Western Vermont (Note A-009)				$150,154	7/21/2017	$250,000	7/15/2027	2.49%
12. NeighborWorks of Western Vermont (Note A-010)				$175,424	7/17/2019	$250,000	7/15/2029	2.48%
13. NeighborWorks of Western Vermont (Note A-011)				$180,596	10/24/2019	$250,000	10/15/2029	2.21%
14. Vermont Housing Finance Agency (Note VHFA-001)				$795,000	2/18/2014	$2,800,000	2/15/2024	2.76%
Act No. 199 of 2014, Sec. 23	**Credit Facility**	**$8,200,000**	**$5,368,244**	**$2,831,756**		**$7,750,000**		
15. NeighborWorks of Western Vermont (Note B-001)				$182,466	9/2/2015	$400,000	7/15/2025	2.10%
16. NeighborWorks of Western Vermont (Note B-002)				$133,819	6/20/2016	$250,000	7/15/2026	2.00%
17. NeighborWorks of Western Vermont (Note B-003)				$137,978	9/6/2016	$250,000	10/15/2026	2.00%
18. NeighborWorks of Western Vermont (Note B-004)				$143,100	1/11/2017	$250,000	1/15/2027	2.52%
19. NeighborWorks of Western Vermont (Note B-005)				$234,571	2/17/2017	$400,000	4/15/2027	2.45%
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				$0	6/8/2016	$4,000,000	6/15/2021	2.00%
Act No. 178 of 2014, Sec. 41 [4]	**Credit Facility**	**$8,000,000**	**$5,011,505**	**$2,988,495**		**$ 3,284,310**		
27. 32 Cherry St. Exhaust Air Heat Recovery (SERF 001)				$311,170	1/31/2015	$ 524,172	6/30/2026	2.00%
28. 108 Cherry St. Lighting & Controls (SERF 002)				$534,156	2/15/2017	$ 534,156	6/30/2030	2.00%
29. 52 Cherry St. Energy Upgrade SERF 003)				$136,744	9/24/2018	$ 147,211	6/30/2029	2.00%
30. Springfield State Office Building (SERF 004)				$278,792	8/14/2017	$ 278,792	6/30/2025	2.00%
31. Derby Public Safety Facility Energy Retrofit (SERF 005)				$127,348	9/28/2017	$ 127,348	6/30/2027	2.00%
32. Historic Sites Lighting Retrofits, Chimney Point & Mt. Independence (SERF 006)				$0	3/26/2018	$ 43,452	6/30/2024	2.00%
33. Mahady Courthouse (SERF 007)				$217,249	12/17/2018	$ 224,961	6/30/2026	3.00%
34. Williston Info Center (SERF 008)				$43,241	12/10/2018	$ 45,536	6/30/2027	2.60%
35. Caledonia Court (SERF 009)				$174,613	8/15/2018	$ 183,287	6/30/2024	2.75%
36. Asa Bloomer State Office Building, Rutland SERF 011)				$285,075	1/8/2019	$ 295,288	6/30/2027	2.75%
37. Rutland Parking Garage & Barre Courthouse Lighting (SERF-014)				$396,525	7/2/2019	$ 396,525	6/30/2026	2.00%
38. Southern State Correctional Facility (SERF 015)				$456,143	3/11/2021	$ 456,143	6/30/2027	2.00%
39. Asa Bloomer Emergency Lights (SERF017)				$27,440	10/25/2021	$ 27,440	12/30/2026	2.00%
Act No. 11 of 2018 (SERF Supplemental Funding)	**Appropriation**	**$ 500,000**	**$ 138,850**	**$ 361,150**		**$ 100,732**		
40. Williston Info Center (SERF 008)				$ 28,866	12/10/2018	$ 28,866	-	-
41. Asa Bloomer State Office Building, Rutland SERF 011)				$ 28,366	1/8/2019	$ 28,366	-	-
42. Rutland Parking Garage & Barre Courthouse Lighting (SERF-014)				$ 43,500	7/2/2019	$ 43,500	-	-
43. Southern State Correctional Facility (SERF 015)				$ 220,657	3/11/2021	$ 220,657	-	-
44. Asa Bloomer Emergency Lights (SERF017)				$ 39,761	10/25/2021	$ 39,761	-	-
Act No. 188 of 2018	**Appropriation**	**$ 5,000,000**	**$ 4,114,219**	**$ 885,781**		**$ 1,000,000**		
45. NeighborWorks of Western Vermont (Note C-001)				$ 186,480	12/5/2019	$ 250,000	1/15/2030	2.14%
46. NeighborWorks of Western Vermont (Note C-002)				$ 221,409	2/5/2021	$ 250,000	4/15/2031	2.00%
47 NeighborWorks of Western Vermont (Note C-003)				$ 477,892	2/17/2022	$ 500,000	4/15/2032	2.54%
NeighborWorks of Western Vermont (Remaining authorization)						$ -		
	TOTALS:	**$39,700,000**	**$19,361,052**	**$20,338,948**		**$29,185,042**		

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 - 4/30/2022
4. Establishes an Energy Revolving Fund under 29 V.S.A. § 168(c)

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. No funding was utilized in calendar year 2022. There is $138,850 of authorization remaining.

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 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 fiscal year 2022, there were no new funds deposited into this fund. There was $105.77 earned on the balance in the fund.

There were no claims submitted and, therefore, no expenditures from the fund during fiscal year 2022. The fund balance as of June 30, 2022 was $54,436.96.

Vermont Achieving a Better Life Experience (ABLE)

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. VermontABLE participates in a multi-state partnership headed by the Ohio State Treasurer's Office STABLE program in order to administer these accounts and offer lower fees. This is the largest consortium of ABLE accounts in the country with twelve states currently participating.

As of December 23, 2022, VermontABLE had 849 active accountholders with $6.9 million in assets under management. This represents a more than 15% increase in the number of accounts over last year, an excellent pick-up rate given that this program targets a very specific population of Vermonters. Please visitVermontABLE.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, 2022, the amount of outstanding bonds is $0.00, as all of the remaining bonds were redeemed this year (see the Debt Management section for further explanation).

Vermont Higher Education Endowment Trust Fund

16 V.S.A. § 2885 provides that in each fiscal year, the State Treasurer is to distribute up to 5% of the 12-quarter moving average of the Fund's assets equally between the University of Vermont, the Vermont State Colleges, and the Vermont Student Assistance Corporation (VSAC); however, the amount distributed cannot exceed the sum that would bring the fund balance below total contributions made to the principal balance. Principal contributions through June 30, 2022, totaled $33,134,015. Since the balance if distribution was to be made is less than that amount, the full 5% distribution is not available.

Bond index funds are an important part of a diversified portfolio such as the TIA. They provide a reliable source of income and generally have less volatility than equities. For the most part they have historically provided a buffer or downside protection. That was not the case this past year. Historically low interest rates were followed by rapid rises in inflation. In fact, looking back at various bond indices, the current performance, continuing into this past Fall, is likely the worst in the history of these markets. While there are some indications that calendar year 2023 may see some improvement, a great deal is dependent on what is in store with inflation. The short-term outlook is that volatility will continue in the whole range of financial markets. The Treasurer's Office will weigh minor changes in asset allocations, but maintaining a diversified portfolio remains the best practice.

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, 2022, the fund had a principal balance of $157,272,876.52 of which 66% was allocated to the VSERS OPEB, 20% to the Higher Education Endowment Trust Fund, 9% 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, 2022 balance of $1,457,094.39 and the Tobacco Trust Fund had a balance of $8,786.31.

The current target allocation of the Trust Investment Account is 50% Fixed Income, 25% Domestic Large Cap Equities, 18.75% International Equities, and 6.25% Emerging Market Equities. This was a difficult year, with extremely volatile markets, but an overall downward trend, especially during the last quarter of the fiscal year. Rapid inflation, supply chain difficulties and the actions by the Fed, have all worked to feed negative performance.

During fiscal year 2022, the Fund's investment return was -12.5% net of fees.