2013 Annual Report

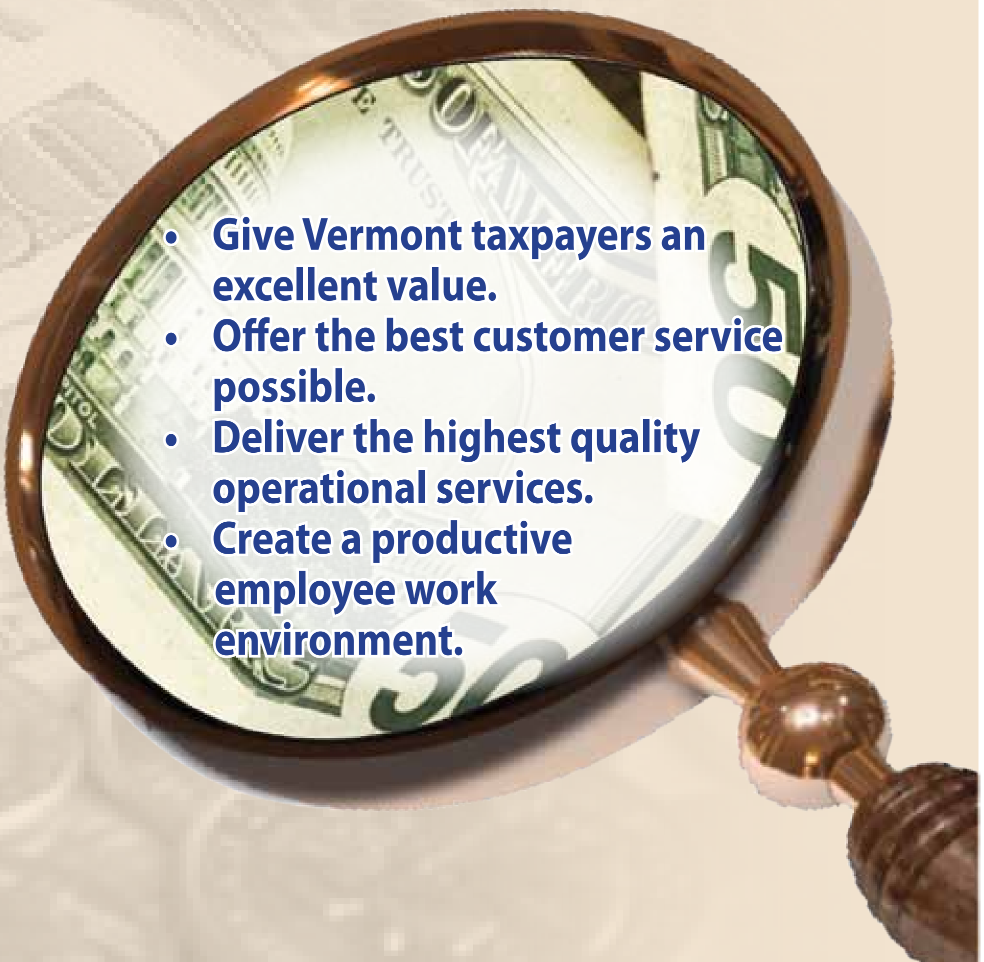
Office of the State Treasurer

State of Vermont

Issued January 2014

Beth Pearce
State Treasurer

The Vermont State Treasurer's Office Strives to:



- Give Vermont taxpayers an excellent value.
- Offer the best customer service possible.
- Deliver the highest quality operational services.
- Create a productive employee work environment.

Office of the State Treasurer
Mission Statement

To manage the financial resources within our purview effectively and efficiently and to promote prudent financial practices in the State of Vermont.

Vision Statement

The overall vision of the State Treasurer's Office is to be the best office of the treasury in the U.S.A. This vision is further defined to state that the Treasurer's office staff will:

- **Give Vermont taxpayers an excellent value.**

  Excellent value to Vermont taxpayers implies highly competent investment and funds management; and initiative and creativity to "leave no stone unturned" with regard to either maximizing returns on investments or achieving maximum savings without compromising other office objectives.

- **Offer the best customer service possible.**

  Excellent customer service implies an effort to understand customer needs, a timely and appropriate response, and a proactive approach to solving problems.

- **Deliver the highest quality operational services.**

  Providing high-quality services requires the pursuit of operating practices within the office that utilize valuable resources efficiently.

- **Create a productive employee work environment.**

  A productive employee work environment implies teamwork, satisfied and motivated staff, and an appropriate set of core objectives and values.

CORE VALUES & SUPPORTIVE BEHAVIORS

Integrity above all
Supported by honesty, fairness, trust, and self-reflection.

A strong team spirit
Supported by open communication, mutual respect and support, and consistent treatment of all.

Desire for excellence
Supported by professionalism, accountability, and pride in work.

Letter of Transmittal

Beth Pearce
State Treasurer

TO: Members of the General Assembly
Honorable Peter Shumlin, Governor
Citizens of Vermont

I am pleased to transmit my third annual report as your State Treasurer. The Office of the State Treasurer serves the citizens of Vermont in a variety of ways. In fiscal year 2013, the Treasurer's office maintained its strong performance in core functions including retirement administration, investments, cash management, debt issuance, and liquidity and capital financing needs. We also took on new challenges to promote local investment, supporting the goals of the General Assembly to further economic development, affordable housing, and energy in Vermont.

Legislative Session Priorities

Disagreements in Washington have introduced an era where budgets are constrained, impacting all states. While we cannot control decisions made at the national level, it is important that we continue to make the right budgetary and financial decisions for Vermont. To that end, I urge the Governor and the General assembly to focus on four priorities in the coming legislative session:

1. Continue 100 percent funding of the annual required contribution (ARC) of the Vermont State Employees' Retirement System and the Vermont State Teachers' Retirement System;
2. Continue to maintain the 5 percent budget stabilization reserve, and build the newly-created General Fund Balance Reserve, or "rainy day reserve," to a target level of 3 percent of the general fund;
3. Fund retired State teachers' healthcare costs from the annual budget; and
4. Be prudent in the use of borrowing for capital projects that do not run up the State's credit card and maintain levels consistent with the recommendations of the Capital Debt Affordability Advisory Committee.

We recognize the tough decisions that need to be made in this year's budget and urge fiscal restraint. The Treasurer's office is a partner and will work with you on these important issues.

Key Accomplishments

I would like to take this opportunity to highlight some of our key accomplishments from the past year.

Bond Rating

Maintaining the State's bond rating is a critical issue. The aforementioned legislative priorities are essential to maintaining and potentially improving our rating. The bond rating is an indicator of our economic condition, debt structure, overall financial condition, and the management practices of the State. Vermont has a reputation as a state that meets its fiscal challenges. As a result, we have the highest bond rating in New England. We are rated triple-A by two rating agencies, the highest rating available, and AA+ by the third agency, the second highest rating available to states and municipalities. In September 2012, S&P revised its outlook

on the State's General Obligation Bonds to "positive" from "stable," acknowledging Vermont's strong position.

A bond rating is analogous to your personal credit rating. Vermont's high bond rating enables us to borrow funds for critical infrastructure at low rates that save taxpayers millions of dollars. It also lowers the cost of financing for affordable housing, higher education loans, economic development, and capital projects in our local communities by providing a credit support to the agencies that provide these services. Given that our bond rating has an impact on every city, town, and citizen of Vermont, it is important that we maintain our financial health and take steps to improve it.

A bond rating is analogous to your personal credit rating. Vermont's high bond rating enables us to borrow funds for critical infrastructure at low rates that save taxpayers millions of dollars.

Local Investment

Fiscal responsibility is about making the best use of taxpayer dollars and I am pleased to advise you of several new initiatives focusing on local investment and economic development. The focus of the Treasurer's office is to invest State cash in local initiatives where feasible and consistent with our fiduciary responsibility. To accomplish this we assembled an informal working group. Attendees included legislators, the Vermont Economic Development Authority (VEDA), the Vermont Housing Finance Agency (VHFA), the Vermont Municipal Bond Bank, staff from the Gund Institute, community groups, the Vermont Bankers Association, financial institutions, Efficiency Vermont, NeighborWorks of Western Vermont, and many others. The results, enumerated here in various initiatives, have provided a framework to leverage State dollars for investment in up to $17 million in economic development, energy efficiency, renewable energy, child care, and affordable housing. The working group continues to meet and will identify other areas where the Treasurer's office can make investments in the local economy.

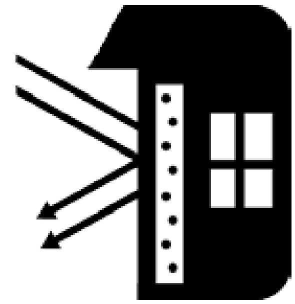
Economic Development

The Treasurer's office continues to work closely with VEDA to optimize investment in economic development. Act 87 (H.395) granted the Treasurer authority to extend $15 million of additional moral obligation to VEDA. Moral obligation lowers the cost of borrowing for VEDA, which is then passed on to Vermont businesses in the form of loans. In addition, the Treasurer's office has taken an additional step in providing a credit facility of up to $10 million to lower the cost of financing. This will replace $10 million in commercial paper borrowing typically conducted with a large investment bank, thereby keeping more dollars in Vermont.

The Treasurer's office worked with VEDA, the Administration, legislative leaders, the Department of Public Service, the Vermont Energy Investment Corporation, the Lake Champlain Regional Chamber of Commerce, and the Vermont Bankers Association to support passage of legislation that promotes energy efficiency and clean energy.

Energy Financing

During the 2013 Legislative session, the Treasurer's office supported the passage of legislation, also included in H.395, that enables VEDA to increase and consolidate financing available for commercial and agricultural sustainable energy generation and efficiency projects. The newly authorized Vermont Sustainable Energy Loan Fund will permit VEDA to make loans and provide other forms of financing for projects that stimulate and encourage development and deployment of sustainable energy projects in the State of Vermont. The $10 million credit facility will be used to support this program. H.395 further authorized the Treasurer to offer an additional credit facility of $6.5 million to finance residential efficiency improvements in Vermont's housing stock. Partnerships were formed to lower the cost of financing in the commercial, residential, single and multi-family housing sectors, making efficiency upgrades more accessible across a range of income levels. The Treasurer's office completed a $2 million loan agreement with NeighborWorks to fund single-family efficiency projects. NeighborWorks' portfolio of energy efficiency retrofits is estimated to reduce annual carbon emissions by more than 5,300 pounds annually for an average cost savings of $1,000 per household. We also worked with VHFA on a multi-family energy financing strategy and provided $2.8 million for VHFA's 2014 Multifamily Bond transaction, which involved financing for 329 housing units. The $2.8 million will finance 12 multi-family projects, including energy efficiency improvements representing 111 units of housing at Wright House in Shelburne and Bardwell House in Rutland. As part of the agreement, the State will provide its moral obligation to support bonds which will, among other things, fund rehabilitation and efficiency improvements at Rail City in St. Albans and Richmond Terrace in Rutland.



H.395 authorized the Treasurer to offer an additional credit facility of $6.5 million to finance residential efficiency improvements in Vermont's housing stock.

Expanding on an idea first proposed at the Treasurer's local investment working group by State Representative Diane Lanpher, the Treasurer's office partnered with VEDA, the Agency of Commerce and Community Development, and the Vermont Energy Investment Corporation to utilize Vermont State Infrastructure Bank monies to lower the cost of financing for plug-in electric vehicle charging stations. Municipalities and businesses may now obtain loans to install electric vehicle charging stations at a fixed interest rate of 1 percent. It is expected that this program will incentivize cities and towns to invest in the emerging technology of electric vehicles and stimulate economic activity in Vermont's downtowns.

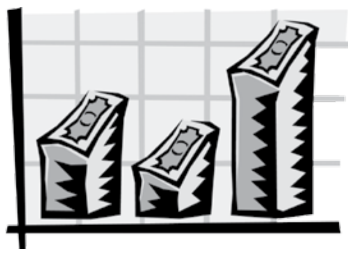
Consumer Protection

Recognizing that unclaimed life insurance benefits represent an important consumer protection issue, we made this matter a priority of the 2013 Legislative session. We want to encourage more proactive approaches by insurers to identify when a policy holder has passed away and to take reasonable steps to locate and pay the beneficiaries. National audits of insurance companies indicated, that in many cases, proceeds had not been paid to the beneficiary upon the passing of the insured. As President of the National Association of Unclaimed Property Administrators (NAUPA), I testified on the issue before the National Conference of Insurance Legislators (NCOIL). NCOIL adopted national model legislation that protects a citizen's right to their proceeds and requires insurance companies to take more proactive steps to find beneficiaries. The Vermont General Assembly adopted the NCOIL model legislation, with the assistance of the Commissioner of the Department of Financial Regulation and the House and Senate Economic Development committees. I am especially thankful for the efforts of Representative Bill Botzow, also a member of NCOIL, and his committee for sponsoring this important legislation and Senator Kevin Mullin for his work to obtain its final passage.

The Treasurer's office is committed to protecting the rights of citizens that seek to obtain their rightful proceeds from life insurance policies. Through unclaimed property audits of national life insurance companies, $2.86 million in unpaid death benefits have been turned over to the Vermont Unclaimed Property Division, representing approximately 2,301 Vermonters. We continue work to locate claimants through advertising and by doing various database searches to locate beneficiaries.

In addition to the insurance legislation, I testified before the Uniform Law Commission (ULC), as they determined whether to proceed with a project to consider revisions to the national Uniform Unclaimed Property Act, the basis for Vermont's and the vast majority of state unclaimed property statutes. It has been 18 years since the last revision of the national act. The law has not kept pace with changes in technology and with new financial products. It is time for a review. The ULC has voted to move forward on this project and I have been appointed as one of two advisors from NAUPA. In that capacity, I and NAUPA will serve as the states' advocates to ensure optimal legislation is drafted in the collective best interest of the states to enhance and preserve consumer protection.

While serving this past year as NAUPA President, I also have had the opportunity to advocate for consumers on issues related to unclaimed property. Unclaimed



Financial literacy is about learning skills that provide the opportunity for a lifetime of financial well-being.

property is one of this country's original consumer protection programs. Nationwide, more than 2.5 million claims totaling $2.25 billion were returned to rightful owners in fiscal year 2011 as a result of state unclaimed property program efforts. I am proud to be associated with this organization.

Financial Literacy

As you will see in our report, our programs for financial literacy are in great demand and continue to expand with the help of our partners. Financial literacy is about learning skills that provide the opportunity for a lifetime of financial well-being. It means implementing a budget, comparing prices, effectively analyzing and using financial products such as bank accounts, credit cards, and loans. It means saving for future goals. Our programs benefit individuals and families across the state, but they also serve the State's long-term economic goals. This is evident when considering the need to save for retirement. While saving for retirement is a personal choice, it is taxpayers who will bear the ultimate responsibility for those with insufficient savings. In contrast, citizens with adequate financial resources for retirement are able to buy goods and services and continue contributing to the state economy. This, in turn, helps create more economic demand and jobs. As Vermont citizens increase their practice of sound money management practices like saving for retirement, both the individual and the Vermont economy will benefit.

We observe the following general principles in our decision-making for the Vermont State Retirement System:

Recruitment - The plans must act as an incentive for employee recruitment;

Retention - The plans should help retain high-quality employees and maintain a stable work force;

Reward - The plans must provide a solid foundation for retirement security following a career in public service;

Sustainability - Plan costs should be sustainable and predictable;

Affordability - Plan costs should be affordable for current and future employees and taxpayers;

Fairness - The plans should be fair to workers and taxpayers; and

Equity - The plans should be equitable for all parties.

Retirement Security

As the administrator for more than 47,500 active, vested and retired members, retirement security is one of the key functions of the Treasurer's office. We undertook numerous initiatives in 2013 that culminated in new laws and policies. While many are described in detail in the retirement section of this report, I would like to highlight a few of these initiatives.

1. In the municipal retirement plan, the General assembly authorized a one-time opportunity for employees in the defined contribution system to transfer to the defined benefit system and 43 members availed themselves of this opportunity.
2. Overall costs were reduced in the defined contribution plans for both State and municipal employees as participant and administrative fees were reduced by 22 percent; administrative fees also were reduced in the deferred compensation program for State, teacher and municipal employees.
3. In a move to reinforce the solid financial footing of VMERS, the Board of Trustees voted to increase employer contribution rates and has recommended to the General Assembly that employee contribution rates for fiscal year 2015 be raised for employee groups, B, C and D.
4. An Employee Group Waiver Plan (EGWP) was adopted within the teachers' system for retirees on Medicare; the resulting annual savings on prescription drug benefits to Medicare-eligible retirees is estimated at up to $4 million.
5. The Treasurer's office assisted in the development of pension forfeiture legislation that provides for the partial or full forfeiture of public employee retirement benefits in the event of certain financial crimes.

The most pressing concern in the area of retirement security lies in the manner in which we pay for teacher health care benefits. I have raised this issue in my previous reports for 2011 and 2012, and in testimony to the General Assembly. As you know, we have made many changes to the retirement and health care benefit structures for retirees in the past several years. These have had the effect of lowering the ongoing costs for retirement by more than $15 million per year. Health care changes negotiated in 2010 had the effect, in concert with other actuarial adjustments, of reducing the OPEB liabilities from $872 million to $704 million. We also expect to see cash impacts from these adjustments as retirees subject to the changes begin to retire in 2015 – roughly $700,000 in 2015; just under $3 million per year by 2020; and up to $6 million annually by 2025.

While benefit changes have improved our position, they cannot replace the need for a permanent funding source to cover costs. Currently, health care benefits are paid out of a sub-fund of the teacher pension, unlike the State system where there is a separate trust with an explicit funding source. Historically, teacher health care premiums have not been funded, but are treated as a loss that gets amortized and added to the next year and future pension contributions. The result is an upward trend in the ARC and an inability to make-up ground in the unfunded liability. This retrospective funding is costing the system, and ultimately taxpayers, millions of dollars. For every dollar not paid today, but added to our "credit card," it is costing the taxpayers $3. This is compounded each year, and with the lack of funding, it creates an escalating problem. The funding shortfall represents the single greatest risk to the financial integrity of the system and could ultimately impact progress on our bond rating.

We have been working with the General Assembly, Administration, Vermont NEA and various stakeholders to resolve the teachers' health care funding question. Our objective is to identify funding sources and to segregate the retired teachers' health benefit obligation out of the teachers' retirement fund and into its own, separate trust fund. Any solution should be considered a bridge to Green Mountain Care. In the course of our discussions, several stakeholders expressly stated that teacher health care is an education expense. Others suggested that this is a State obligation. While there are arguments to be made for either position, I believe that any solution will need to be crafted within the confines of shared responsibility as the problem impacts all stakeholders as the funding shortfall grows. This is a tough issue, long neglected, but I hope we can address it this year in the same, proactive way we have tackled other problems – through a collaborative approach.

I believe that any solution will need to be crafted within the confines of shared responsibility as the problem impacts all stakeholders as the funding shortfall grows.

Conclusion

In closing, I want to thank the dedicated staff at the Treasurer's office for their efforts on behalf of all Vermonters. I am privileged to work with this group of top professionals. I look forward to continuing to work with the legislature to increase efficiencies and explore cost-saving ideas. Our aim remains to provide the best services at the lowest cost possible to the people of Vermont and promote retirement security, local investment and economic prosperity. There are many challenges ahead, but with our shared commitment, I am confident we will meet our goals.

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.

About the Treasurer's Office

The State Treasurer's Office serves as the State's banker and chief investment officer. The office is organized into an executive office and five divisions. The executive office is responsible for overall strategic planning, legislative initiatives, constituent relations, debt management, financial literacy, and supervision of the divisions.

The Treasury Operations Division is responsible for the State's banking, cash management, and financial transaction services. The Retirement Division administers three public retirement systems authorized by the legislature (see report section on Vermont Retirement Systems). Investment Services provides cash and investment management for the State of Vermont and the three pension systems administered by the office. The Unclaimed Property Division serves as the caretaker of abandoned or unclaimed financial property, while seeking to return it to its proper owner. Technology Services is responsible for developing and maintaining automated systems, providing appropriate access to information, maintaining the office web site, and maintaining the overall security of the office network and automated interactions with other State departments and entities outside of State government.

We handle money that belongs to all of the citizens of Vermont to support government operations. We are committed to managing these funds professionally, efficiently, and responsibly, and to maintaining Vermont's hard-earned reputation as a fiscally sound, disciplined state.

Executive Office
(802) 828-1452

Beth Pearce
State Treasurer

Stephen Wisloski
Deputy Treasurer

Dylan Giambatista
Executive Staff Assistant

Employee of the Year

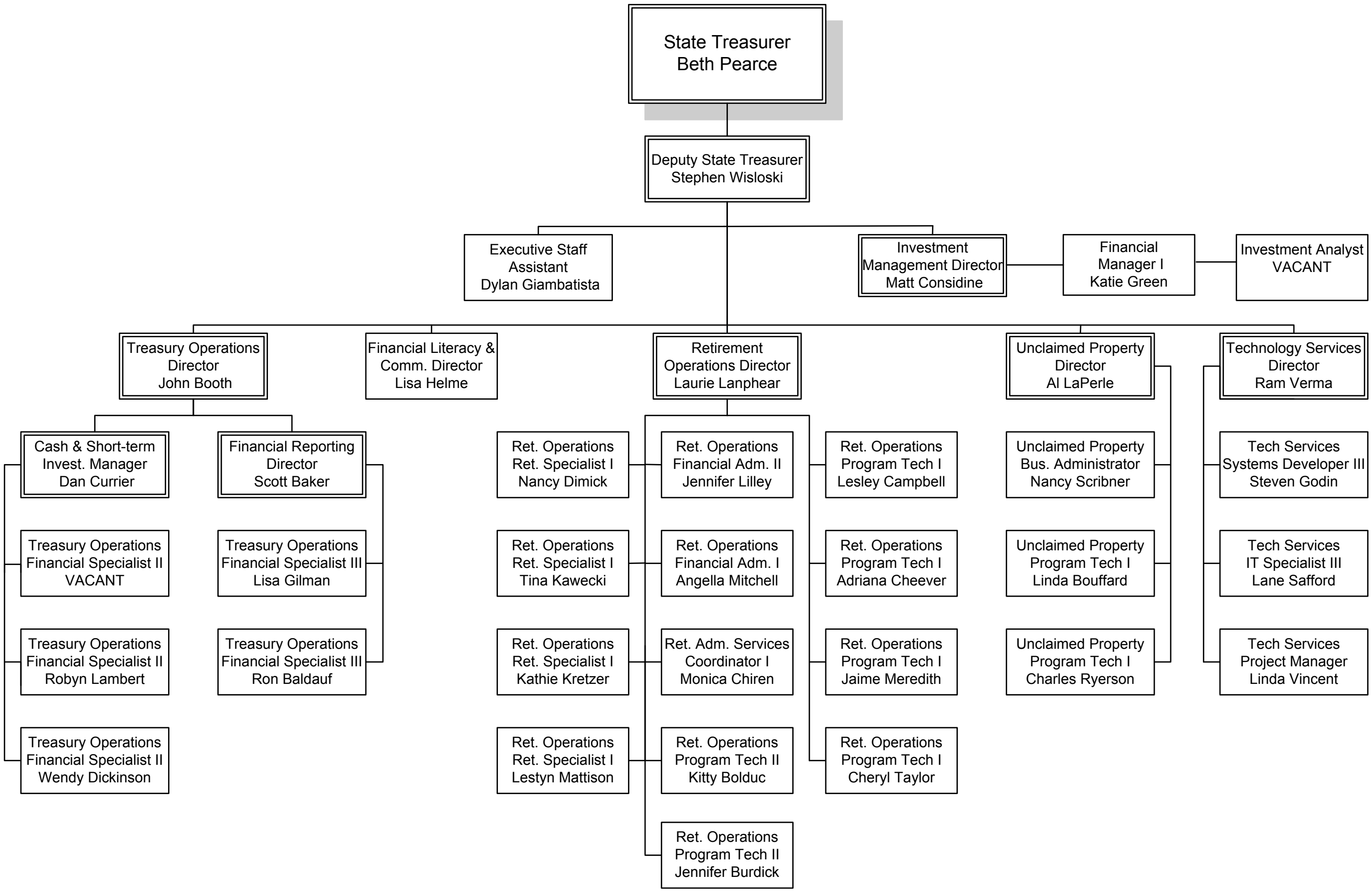
The State Treasurer's Office "Employee of the Year" selection for 2013 was Jaime Meredith, a Program Technician I staff member within retirement operations. Jaime was recognized for her consistently high-quality work, team-player attitude, and for using her knowledge to trouble-shoot stiuations and work toward solutions.

Jaime Meredith was named the 2013 Employee of the Year for the State Treasurer's Office.

One of Jaime's major job responsibilities is to scan paper documents so that they can be accessed via computer. Since starting her job in December of 2007, Jaime has personally scanned more than 236,000 documents. She has also assisted in organizing and archiving hundreds of documents related to Vermont's state-wide Section 218 Agreement regarding Social Security coverage.

"All through the retirement project, Jaime has played a critical role," said State Treasurer Beth Pearce. "She has been a great asset in the development and testing of our new computer system."

Vermont State Treasurer's Office



The State Treasurer's Office is comprised of a team of 37 individuals. The organizational chart and staff listing above are effective as of January 1, 2014.

Specific administrative and service duties 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 three major pension plans, the deferred compensation plan, and the defined contribution plans for State employees, teachers, and participating municipalities.**

Vermont Retirement Systems

Boards Administration
(802) 828-2305

Monica Chiren
Assistant to the Boards

Retirement plans administered by the State Treasurer's Office serve approximately 47,500 active and retired members. These plans 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.

The Boards of Trustees

The boards have the responsibility of considering the needs of their members, addressing those needs in the face of escalating costs, while at the same time working to provide secure and adequate benefits after retirement. It is a challenging task. As of June 30, 2013 there were 15,684 retirees and beneficiaries receiving pensions totaling more than $241 million annually.

The boards have the responsibility of considering the needs of their members, addressing those needs in the face of escalating costs, while at the same time working to provide secure and adequate benefits after retirement.

The boards of trustees are statutorily charged with establishing rules and regulations for the administration of their systems and for the transaction of their

ACCOMPLISHMENTS IN 2013

- Voted to support pension forfeiture legislation that would cause a retirement allowance to be suspended and/or revoked if an employee was convicted of certain financial crimes relating to his or her public office.
- Voted to upgrade the dental coverage to a PPO Plus Premium package and to extend the current dental provider's contract for an additional year.
- The VSERS board voted to reduce administrative fees in the State of Vermont Deferred Compensation (457) Plan from 12 basis points to 10 basis points.
- The VSTRS board voted to move from the current Retiree Drug Subsidy (RDS) program that reimburses the retirement system for providing prescription coverage to retired teachers to the Employer Group Waiver Plan (EGWP). The EGWP program will allow for a savings to the VSTRS through reduced drug costs at the point of purchase level that is expected to exceed the annual amount typically reimbursed through the RDS program.
- The VSTRS board voted to retain Great-West as the plan administrator of the 403(b) tax-sheltered investment program after completion of a Request for Proposals bidding process.
- The VMERS board voted to support legislation to offer a one-time option for defined contribution members to transfer back to the defined benefit plan. The board also extended the contract for ICMA-RC to provide administrative and investment services for the Retiree Health Savings Plan. The addition of two new municipal entitites to VMERS was approved by the board.

business. The boards delegate the day-to-day administration of the plans to the Retirement Division staff, utilizing the governing statutes and board-established rules and policies as guidelines. If questions arise, or if a member or retiree does not agree with a decision made by staff, they may appeal to their board for reconsideration.

The Attorney General's Office provides legal counsel to the boards when necessary. The boards also are charged with approving regular retirement applications, disability retirement applications, and withdrawals from membership. Each board of trustees acts as a fiduciary of the funds held on behalf of its members and retirees. Each board designates an actuary to make an annual valuation of the assets and liabilities of the funds of the system. Based on the actuarial recommendation, the State and teachers' boards advise the Governor on the annual amount of State contribution that should be appropriated for the next fiscal year to achieve and preserve the financial integrity of the funds.

Work of the Boards

The boards of trustees generally meet once a month. The boards are required to keep a record of their proceedings, which are open to the public. Minutes from each meeting are posted on the Treasurer's office web site. To read in detail actions taken by the boards, go to www.VermontTreasurer.gov and click on "Retirement" located in the menu on the left side of the page. Each retirement system has its own set of web pages. Click on the pension plan for VSERS, VSTRS or VMERS. There is a link to each system's board of trustees located in the menu on the right side of the page. For updates on the individual systems, see the Retirement Division Operation section of this report. Information on pension fund performance is located in the Investments section of the annual report.

VMERS Board Recommends Rates to Legislature

At its meeting on November 22, 2013 the VMERS Board of Trustees voted to adopt the fiscal year 2015 (July 1, 2014 to June 30, 2015) employer contribution rates, many of which will be increased for the second year in a row. The board also voted to recommend to the State Legislature that employee contribution rates for fiscal year 2015 be raised for employee groups B, C and D. Like almost every other public pension plan in the country, VMERS saw its ratio of funding need to funds available decline substantially during the economic downturn. The system has experienced a decline in funded status over the past year.

The ***employer*** contribution rates beginning July 1, 2014 were set as follows: Group A – no change, stays at 4 percent; Group B - an increase of 0.25 percent to 5.375 percent; and Group D – an increase of 0.125 percent to 9.75 percent. Group C rates will see a two-step increase. On July 1, 2014, rates will increase 0.125 percent to 6.875 percent and on January 1, 2015, rates will increase an additional 0.125 percent to 7 percent.

The proposed ***employee*** contribution rate changes to start July 1, 2014 are: Group A - no change, stays at 2.5 percent; Group B - an increase of 0.125 percent to 4.75 percent; and Group D - an increase of 0.125 percent to 11.25 percent. In Group C, as was approved by the board for employers, the board is recommending an increase of 0.125 percent to 9.625 percent on July 1, 2014, then an additional 0.125 percent for January 1, 2015.

While the legislature is responsible for setting employee rates, the board typically makes a recommendation. In making its recommendation, the long-term financial health of the system is of critical importance to achieving reliable and adequate pensions in a manner affordable to employees and taxpayers.

Retirement Division Operations

Retirement Operations

(802) 828-2305
(800) 642-3191 (toll free in VT)

Laurie Lanphear
Director of Retirement Operations
Monica Chiren
Administrative Services Coordinator I
Nancy Dimick
Retirement Specialist I
Tina Kawecki
Retirement Specialist I
Kathleen Kretzer
Retirement Specialist I
Lestyn Mattison
Retirement Specialist I
Jennifer Lilley
Financial Administrator II
Angella Mitchell
Financial Administrator I
Kitty Bolduc
Program Technician II
Jennifer Burdick
Program Technician II
Jaime Meredith
Program Technician I
Cheryl Taylor
Program Technician I
Adriana Cheever
Program Technician I
Lesley Campbell
Program Technician I

Overview

There are more than 47,500 active, vested and retired members within the Vermont Retirement System. The three defined benefit plans are statutorily defined. These plans are the Vermont State Employees' Retirement System, Vermont State Teachers' Retirement System, and the Vermont Municipal Employees' Retirement System. The largest expenditure for all three defined benefit plans is the retirement benefit. During fiscal year 2013, the three retirement systems paid out more than $241 million in monthly benefit payments. In addition, both the Vermont State employees' and the teachers' retirement systems have traditionally offered health insurance to their members by picking up a portion of the premium – 80 percent for participating retired teachers and 80 percent for participating retired State employees and their dependents. In fiscal year 2013, these health care expenses for the two retirement systems totaled more than $46.3 million. The Vermont Municipal Employees' Retirement System does not offer a health insurance plan, but instead instituted a health retirement savings plan in fiscal year 2008.

Retirement Division staff oversee enrollments, transfers, refunds, processing of employee and employer contributions, and adjustments to members' accounts for all active members. On the retiree side, the division oversees the issuance of payroll, changes to dependents, adjustments to payments, and replacement checks.

Responsibilities include system enrollments, transfers, refunds, contribution processing, account adjustments, employee reinstatements, calculation of buy-backs and refunds, disability retirements, and determination of survivor benefits. The division's accountant maintains all retiree data and ensures the timely processing of pension payment checks each month. The Retirement Division Performance Indicators chart on page 13 provides an update of division activities.

ACCOMPLISHMENTS IN 2013

- Working with the Vermont NEA, we implemented an Employee Group Waiver Plan (EGWP) effective on January 1, 2014 for 4,221 retired teachers receiving health care services, applicable only to Medicare-eligible participants.
- Completed the user acceptance phase for the final component of the Vermont Pension Administration System (VPAS). The new computer system replaces a more than 36-year-old legacy retirement system that has become inefficient, unsustainable and costly to maintain.
- Based on legislation enacted by the General Assembly, the division implemented a one-time conversion provided to VMERS members to voluntarily transfer from a defined contribution plan back to a defined benefit plan.
- Successfully transferred 4,298 retirees from the CIGNA health care system to Blue Cross Blue Shield by January 1, 2014.
- The Retirement Division staff calculated approximately 6,344 retirement estimates for prospective retirees and met with 751 individual members to provide retirement counseling during fiscal year 2013. The staff conducted 42 member informational sessions across the state with 1,243 individuals in attendance.

UPDATES

Pension Overview

The Treasurer's office remains committed to implementing cost saving measures for our citizens, the taxpayers of Vermont, and all retired and active members within the Vermont Retirement System. The following are recent administrative actions taken by the Treasurer's office aimed at reducing costs to the system and to our members.

The Treasurer's office remains committed to implementing cost saving measures.

- **Employee Group Waiver Plan (EGWP)** - Within the teachers' system, the Treasurer's office implemented this waiver plan for retirees on Medicare. Under EGWP, the Vermont Health Educational Initiative (VEHI), in partnership with Blue Cross Blue Shield of Vermont, will provide prescription drug benefits to Medicare-eligible retirees that match the previous plan, but at a lower cost to the state. The cost savings come from leveraging pharmaceutical discounts and government subsidies. Employer group waiver plans are being adopted through the Centre for Medicare and Medicaid Service to make the program easier to implement and more cost-effective for employers and retirement systems. The expected savings to the State of Vermont is up to $4 million annually in Medicare retiree prescription drug costs (net $2.5 million over previous retiree drug subsidy program). Additionally, participation in the waiver plan allows low-income retirees to receive subsidies.

- **Renegotiation of State and Municipal Defined Contribution Plans** - Over the summer, the Treasurer's office requested proposals for plan administration of the existing defined contribution plans. Fidelity was re-engaged to administer both plans. As part of their proposal, Fidelity offered institutional share class funds and lower administrative fees, providing overall fee savings to plan participants of 22 percent.

- **Participant Fee Reductions for Deferred Compensation Plan** - A reduction in participant fees for the State of Vermont 457 Deferred Compensation Plan were implemented following a review by the Treasurer's office. In 2011, the Treasurer's office determined that the per participant fee could be reduced from 15 basis points, or 0.15 percent of assets, to 12 basis points -- a reduction of 20 percent. In 2012, the Treasurer's office further determined, based upon a 10-year projection of fee collections and expenses, that the per participant fee could be further reduced from 12 basis points to 10 basis points -- an additional reduction of 16.7 percent and a combined reduction of 33.3 percent over two years. This became effective on March 1, 2013.

Retirement Division Performance Indicators

Activity	2013	2012	2011	2010	2009	2008	2007
Estimates	6,344	6,028	7,019	7,231	7,999	6,377	8,213
Individual Counseling	751	889	1,054	1,077	1,196	1,136	1,173
Retirements	1,082	1,068	1,008	1,023	907	867	788
Withdrawals	1,257	1,393	1,312	1,386	937	945	1,507
Deaths	377	349	376	291	316	368	333
Seminars	42	26	45	64	90	61	88
Seminar Attendance	1,243	783	1,000	1,496	1,623	1,285	1,881

These numbers are for the fiscal year, not calendar year.

GASB 67/68

The Governmental Accounting Standards Board (GASB) is an organization whose main purpose is to improve and create accounting reporting standards or generally accepted accounting principles (GAAP). These standards make it easier for users to understand and use the financial records of both state and local governments. GASB approved two new standards in June 2012 that will impact the Vermont State Retirement System and its participating employers. GASB 67 will change the accounting and financial reporting of the Vermont State Retirement System and other public employee public pension plans starting in fiscal years commencing after June 15, 2013--that is, fiscal years ending June 30, 2014 or later. GASB 68 will change the financial reporting of participating state and local governments beginning in fiscal years commencing after June 15, 2014--that is, fiscal years ending June 30, 2015 or later. It should be emphasized that these are new accounting standards and not funding methods. The new accounting standards relate only to accounting and financial reporting and create a definitive separation of accounting and financial reporting from funding. While this will have an impact on the financial statements, the basic financial reality of pensions has not changed. There will, however, be increased reporting requirements for the state and teacher's systems but especially for the municipal system, where a net pension liability will need to be calculated for each participating entity, over 440 at present. To assist municipalities, Treasurer Pearce provided an overview to municipal financial leaders at the Government Accounting and Audit symposium sponsored by the Vermont League of Cities and Towns and the State Auditors' Office. The Treasurers of Vermont and New Hampshire combined efforts to present to the New England Government Finance Officers Association in the fall. The Treasurer's office has also created a GASB resource page on its web site.

Historically, the Treasurer's office has worked with administrations, State Legislatures, employees, and other concerned groups to implement meaningful reforms. In 2007, changes were made within the State employees' retirement system for new employees to achieve future cost savings for the system. In 2011, additional changes to contribution rates for all State employees resulted in another $5.3 million in annual savings. Within the teachers' retirement system, $15 million in savings per year was achieved in 2010 by lengthening the date for retirement and increasing contribution rates. For the municipal retirement system, small increases in employee and employer contribution rates were made within the past two years, providing greater financial stability to the system.

Funding Overview

Pension benefits represent a partnership between the employees that make ongoing contributions to the plan and the employer who pledges to meet a future benefit obligation for its retirees. The VSERS, VSTRS and VMERS plans are defined benefit systems. As a defined benefit plan, there is a promise to provide members with a monthly benefit beginning with each member's retirement. In order to fulfill the promise of paying employees future retirement benefits, each system has developed a funding plan. This plan aims at accumulating funds, that when properly invested, will fund member retirements. The funds come from three sources: employee contributions, employer contributions and investment income. See the historical summary of operations charts in this report's appendices.

The funds come from three sources: employee contributions, employer contributions and investment income.

Interest earned on investments from the retirement fund is the largest source of funds used to pay benefits. Investments vary from year to year and are based on market conditions. Investments produce interest income to fund retirement benefits. As more members approach retirement, it's anticipated that significant increases in benefit payouts will occur as employee life span lengthens and health care expenses rise. Each system must accumulate funds now to meet future funding needs. This is an ongoing challenge for the systems.

Currently, the State's contribution to VSERS and VSTRS is based on a percentage rate of each member's annual earnable compensation. These rates include a "normal contribution" rate and an "accrued liability contribution" rate. These rates are calculated based upon the liabilities of each system as determined by actuarial valuations. The actuarial method for both the VSTRS and the VSERS plans is set by State statute. Through fiscal year 2005, the method used was entry age normal (EAN) with frozen initial liability (FIL). The legislature enacted a statute change revising the method to entry age normal without FIL for the actuarial valuation for the year ending June 30, 2006. This change in methodology effectively reset the starting balance. Under the previous method, set by statute, the unfunded liability was frozen at 1988 levels. Any impact of underfunding subsequent to the "freezing" of the liability in 1988 falls to normal cost, instead of being added to the unfunded liability as in more conventional funding methods. In the case of VSERS, changing the method did not have a significant impact because the contributions received closely mirrored the actuarial requirements. However, the 30-year period for amortization of the unfunded actuarial accrued liability was restarted effective July 1, 2008.

Comparative Information--Vermont Retirement System

Vermont State Employees' Retirement System (VSERS)

Active Members	June 30, 2013	June 30, 2012	% Change
Vested	5,763	5,735	0.49%
Not Vested	2,395	2,143	11.76%
Total Active members	8,158	7,878	3.55%
Average Age	46.17	46.35	-0.39%
Average Service	12.15	12.45	-2.41%
Average Compensation	$ 51,087	$ 48,937	4.39%
Retired Members and Beneficiaries			
Number	5,795	5,600	3.48%
Annual Retirement Allowances	$ 98,932,427	$ 93,712,861	5.57%
Inactive Members	796	835	-4.67%
Terminated Vested Members	741	767	-3.39%

Vermont State Teachers' Retirement System (VSTRS)

Active Members	June 30, 2013	June 30, 2012	% Change
Vested	7,822	7,941	-1.50%
Not Vested	2,279	2,321	-1.81%
Total Active members	10,101	10,262	-1.57%
Average Age	46.61	46.87	-0.55%
Average Service	13.09	13.06	0.23%
Average Compensation	$ 55,799	$ 54,685	2.04%
Retired Members and Beneficiaries			
Number	7,743	7,376	4.98%
Annual Retirement Allowances	$ 138,079,875	$ 128,765,217	7.23%
Inactive Members	2,322	2,193	5.88%
Terminated Vested Members	751	793	-5.30%

Vermont Municipal Employees' Retirement System (VMERS)

Active Members	June 30, 2013	June 30, 2012	% Change
Vested	4,102	3,985	2.94%
Not Vested	2,475	2,621	-5.57%
Total Active members	6,577	6,606	-0.44%
Average Age	48.76	48.51	0.52%
Average Service	9.10	8.90	2.25%
Average Compensation	$ 33,506	$ 32,557	2.91%
Retired Members and Beneficiaries			
Number	2,146	1,991	7.79%
Annual Retirement Allowances	$ 16,532,859	$ 14,733,346	12.21%
Inactive Members	1,765	1,653	6.78%
Terminated Vested Members	652	623	4.65%

State Employees:

Benefit Changes Effective FY2013

The legislature approved changes in the 2010 session to the Vermont State Employees' Retirement System through passage of Act 139. One change pertained to members of groups A, C and F who retire on or after July 1, 2012. If a member's compensable hours in any year used to calculate average final compensation exceeds 120 percent of average compensable hours, the compensation for hours worked in excess of 120 percent shall be excluded from average final compensation for that particular year. Average compensable hours form the benchmark to preclude abuses by implementing a 20-percent limit on increases in compensable hours in any year used to calculate average final compensation.

Actuarial Accrued Liability Determinations

In the case of VSERS, the actuarial accrued liability for current retired members, terminated vested members, and beneficiaries is $1,084,391,920. The actuarial accrued liability for current active and inactive members is $829,908,064. Together, the total actuarial accrued liability comes to $1,914,299,984. The actuarial value of assets is $1,469,169,902, resulting in an unfunded accrued liability of $445,130,082.

The actuarial accrued liability for current retired members, terminated vested members and beneficiaries of VSTRS is $1,533,804,217 and the actuarial accrued liability for current active and inactive members is $1,033,030,438. The total actuarial accrued liability is $2,566,834,655. The actuarial value of assets is $1,552,924,370, resulting in an unfunded accrued liability of $1,013,910,285.

Annual Actuarial Required Contributions (ARC)

Under State law, an approved actuary is required to make a valuation of each system's assets and liabilities annually. This report valuation is delivered in late October of each year. It contains an actuarial valuation of the system as of the end of the most recent fiscal year, as well as recommendations for the ARC for the current fiscal year and the next two fiscal years. Budgeted appropriations to fund the ARC for the system are determined based on the actuarial report that is completed and delivered in October of the prior fiscal year. When the next actuarial report is delivered the following October, the ARC calculation for the current fiscal year may increase or decrease relative to the ARC used for appropriation in that fiscal year. Appropriations, however, are not adjusted to reflect the true-up ARC calculation, but rather remain based on the projected ARC calculated in the prior fiscal year's October report. Using this framework, the fiscal year 2011 actuarial report is used to set the ARC for fiscal year 2013, the fiscal year 2012 for fiscal year 2014, and so on.

The ARC for the teachers' system for fiscal year 2015 is $73,859,170 and the funding percentage as of the most recent actuarial valuation of June 30, 2013 is 60.5 percent. For the State system (VSERS) the ARC is $44,651,783 and the funding percentage, as of the most recent actuarial valuation of June 30, 2013 is 76.8 percent. Both ratios are slightly below June 30, 2012 ratios of 61.6 percent and 77.7 percent.

Health care for teachers remains the most significant issue. Benefit changes cannot replace the need for a permanent funding source to pay benefits.

The unfunded liability for the teachers' system increased by $68,407,969 and the unfunded liability for the State system increased by $43,305,337. Of the teachers' total, 65 percent is attributable to a more conservative investment approach by resetting the interest rate assumption for the unfunded liability to a more conservative interest rate assumption. In the State system, this accounts for 77 percent of the total. In addition, the annual payments for amortization of the unfunded liability increase 5 percent each year per statute through 2038; this has the effect of deferring the repayment of the unfunded liability so that through 2022 the unfunded liability will rise, even if all actuarial assumptions were to hold, before declining to zero in 2038. The Treasurer's office has recommended to the legislature a review of preamortization tables that would reduce the long-term cost to the taxpayer and improve the funding status of the funds.

Health care for teachers remains the most significant issue. The new benefit structures have reduced the overall liabilities of the system. However, benefit

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	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	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	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%

changes cannot replace the need for a permanent funding source to pay benefits. Lacking an explicit funding source creates an actuarial loss each year that adds to the unfunded liability and increases the ARC each year to pay for the prior year's costs. The result is an upward trend in the ARC and an inability to make-up ground in the unfunded liability. This "retrospective funding" is costing the system millions of dollars. Health care premiums in fiscal year 2012 totaled $20.6 million. By absorbing this as an actuarial loss over the remaining amortization period of the plan, the "cost'" absorbed in the unfunded liability grows to well over $60 million. This is compounded each year, and with the lack of funding, it creates an escalating problem. The funding shortfall represents the single greatest risk to the financial integrity of the system.

The General Assembly made some incremental increases in funding in fiscal year 2012 ($1,750,000) and additional funds were appropriated ($4,750,000) in fiscal year 2013. In addition, the VSTRS system has benefited from the receipt of approximately $4.5 million over the last two years through an application filed by the Treasurer's office for the federally funded Early Retiree Reinsurance Program. The program is intended to provide health care relief in a transition to the national health care program. The Treasurer has been working with the Vermont NEA, Administration, legislators, and other partners on the funding issue. It is hoped a plan can be adopted this legislative session to address the health care funding challenge.

Deferred Compensation 457 & 403(b) Plans

The deferred compensation program has been available since 1979 as a savings option for State employees, municipal employees, employees of agencies such as VEDA and VHFA, and members of the General Assembly. The program is administered by Great-West Retirement Services. Since the deferred compensation plan qualifies as a Section 457 plan under the Internal Revenue Code, the portion of salary that is deferred is not taxed at the time of deferral. As of June 30, 2013, the plan had 6,541 participants. Total assets in the plan were valued at $327.94 million. During fiscal year 2013, participating employees made contributions in the amount of $18.95 million to the plan.

The Treasurer's office collects 12b-1 fees from Great-West, as well as a per participant fee that is a percentage of assets invested in the plan. These amounts are then used to pay administrative expenses to Great West. In 2011, the Treasurer's office determined that the per participant fee could be reduced from 15 basis points, or 0.15 percent of assets, to 12 basis points -- a reduction of 20 percent. In 2012, the Treasurer's office further determined, based upon a 10-year projection of fee collections and expenses, that the per participant fee could be further reduced from 12 basis points to 10 basis points -- an additional reduction of 16.7 percent and a combined reduction of 33.3 percent over two years.

A 403(b) Investment Program for public school districts was implemented on January 1, 2009. The program allows school employees to deduct money from their wages on a tax-deferred basis that may be invested in a variety of mutual funds during the employee's working years. The 403(b) contributions reduce taxable wages during employment, and the money accumulates tax-free until the funds are withdrawn after retirement. At that time, all of the money is taxable as regular income to the participant. The program is administered by Great-West Retirement Service. The initial enrollment endeavor resulted in 25 supervisory unions adopting the 403(b) program. There are currently 29 supervisory unions that have adopted the program. As of June 30, 2013, 1,910 school employees were participating in the program and assets had grown to $45.26 million. Participating employees made contributions in the amount of $10.64 million to the plan during fiscal year 2013.

Single Deposit Investment Account

The Single Deposit Investment Account (SDIA), a non-contributory defined contribution plan reported in the Pension Trust Funds, was established according to the provisions of Public Act 41 of the 1981 session. The SDIA was intended to provide an investment vehicle in which to deposit contributions made by members of the State and teachers' contributory retirement systems who voluntarily elected to transfer to the newly established non-contributory retirement systems. In addition to the initial deposits made into the SDIA in 1981, there were three subsequent opportunities (in 1984, 1987, and 1990) for contributory members to transfer to the non-contributory plans and invest their accumulated contributions and interest in the SDIA. No new monies have been invested in the SDIA since 1990. As of June 30, 2013, there were 1,722 SDIA members, with net assets of $68,461,221. Administrative services for the SDIA are provided by Great-West Retirement Services. Great-West administers the day-to-day activities of the SDIA, including maintaining all demographic and beneficiary information, processing all requests for withdrawals and minimum distributions, and maintaining member account value information

	VSERS	VSTRS
Unfunded actuarial accrued liability, June 30, 2012	401,824,745	945,502,316
Normal cost	39,217,558	36,673,377
Contributions	(81,856,395)	(97,722,641)
Interest on unfunded liability, normal cost & contribution	25,045,898	58,378,429
Actuarial (gains) and losses/experience		
Salary experience	23,416,670	(26,621,253)
New members and rehires	2,552,115	
New entrants with prior service		2,106,997
Net Retirement experience, COLA mortality, other factors	102,309	26,348,815
Health care expense	-	22,249,219
Other expenses and investment expense	1,286,020	2,495,750
Restart of select-and-ultimate interest structure	33,541,162	44,499,276
Changes in plan provisions	-	-
Unfunded actuarial accrued liability, June 30, 2013	$ 445,130,082	$ 1,013,910,285

Defined Contribution Plan

The defined contribution plan for State and municipal employees is administered by Fidelity.

State Defined Contribution Plan

Established in 1999, the State's defined contribution plan had 419 participants and net assets of $49.1 million as of June 30, 2013. Under the defined contribution plan, which is modeled after private sector 401(k) plans, employees contribute 2.85 percent of their annual salary to their individual accounts. The State makes a fixed contribution of 7 percent to each employee's account. Employees are responsible for making all investment decisions. Fund line-ups are negotiated by the Treasurer's office and included in the contract with plan administrator, Fidelity Investment. At retirement or termination, employees receive the amount of contributions in their accounts, plus investment earnings. The defined contribution plan provides portability for an increasingly mobile workforce. The plan offers 11 mutual funds in equity, balanced, and fixed income asset classes, and age-based "life-cycle" funds that rebalance a multi-asset class portfolio of mutual funds appropriate to the age of the plan participant. Options include a stable value fund that has insured principal value; an intermediate term bond fund; a balanced fund of stocks and bonds, large-, mid- and small-capitalization domestic equity funds; and an international equity fund. The plan is self-directed with respect to investment selection, meaning that participants elect investment options consistent with their risk and reward preferences along with the timing of their need to access funds. In calendar 2012, the State modified and renewed its contract with the plan's administrator following a lengthy RFP (Request for Proposals) process. The new contract provides for increased flexibility to change investment options when warranted, and the plan continues to be provided to participants without costs above the fund investments' intrinsic expense ratios.

Municipal Defined Contribution Plan

The Vermont Municipal Employees' Retirement System was given statutory authority in 1999 to approve a defined contribution plan for its members. The board implemented a defined contribution plan on July 1, 2000. The plan provides the employer municipality with the first option of deciding whether or not to offer a defined contribution plan to its employees. Once a municipality elects to offer the plan to all eligible employees or to specific employment groups,

Retiree Health Savings Plan

In July of 2007, the Vermont Municipal Employees' Retirement System (VMERS) Board of Trustees created a Retiree Health Savings (RHS) plan, designed to provide members and retirees with funds which could be used on a tax-free basis to reimburse medical expenses and insurance premiums incurred and paid for after retirement. As of June 30, 2013, there were 5,251 active and retired members participating in the VMERS RHS plan, with investments in members' accounts totaling $11,692,728. The VMERS board deposited an initial amount of $5.1 million in July 2007. Additional employer contributions totaling approximately $6 million were collected and deposited in fiscal years 2008 and 2009. Future contributions and subsequent transfers to member accounts will be made as directed by the VMERS Board of Trustees. The RHS plan funds are invested into individual, age-appropriate Milestone accounts at ICMA-RC. Active members cannot use the RHS plan funds until they begin to draw their VMERS pension benefits. Retired members may use the money at any time for medical and insurance expenses.

an individual employee has the choice to remain with the defined benefit plan or transfer to the new defined contribution plan. New employees of municipalities offering both a defined contribution plan and a defined benefit plan have a choice of either plan. As of June 30, 2013, there were 70 contributing municipalities with 289 participants and assets of $18.5 million.

Other Post-Employment Benefits (OPEB): Health Care

Vermont State Employees' Retirement System

Employees retiring directly from active State service for any reason, may carry whatever coverage is in effect at that time into retirement for themselves and their dependents. During the lifetime of the retiree, currently only 20 percent of the cost of the premium is paid by the retiree. (See changes detailed below for Group F employees hired after 2008.) If the retiree chooses the joint and survivor pension option, and predeceases his or her spouse, the medical benefits may also continue for the spouse, along with the pension. However, the surviving spouse must generally pay 100 percent of the cost of the premium. In addition, once retirees become eligible for Medicare coverage (at age 65) it is mandatory that they enroll in both Medicare Part A and Part B, making Medicare the primary insurer. If an employee, other than a Group C member, does not retire directly from State service, he or she is not eligible to participate in the State's medical insurance plan. Group C members who terminate with 20 or more years of service, but are not yet 50, may pick up the medical coverage at the time they begin retirement benefits. If the insurance is terminated at any time after retirement, coverage will not be able to be obtained again at a later date. Based on legislation enacted during fiscal year 2008, Group F employees hired after July 1, 2008, will receive a tiered retiree health care reimbursement—a pro-rated percentage of paid premium based on years of service. This group also may recapture (access) subsidized health insurance at 80 percent upon initiation of retirement benefits in a manner comparable to regular retirements. This applies even if the employee terminated prior to his or her early retirement date, providing the member has 20 years of service.

As of June 30, 2013, 4,223 retirees were enrolled in the medical plan in the single, spouse, and family plan options. The retirees contributed $6.7 million in premiums and incurred $34.4 million in claims expenses for the fiscal year ending June 30, 2013. The State's fiscal year 2013 contributions to this trust fund totaled $25.6 million which included a $1.7 million Medicare D reimbursement received from the federal government. The trust fund then paid premium payments of $23.9 million (calculated on a pay-as-you-go basis) to the State's Medical Insurance Fund. At June 30, 2013, the trust fund had total net assets of $15,662,783 being held in trust for post-employment benefits other than pension benefits.

Vermont State Teachers' Retirement System

VSTRS retirees participate in multi-employer health coverage plans operated by the Vermont Education Health Initiative (VEHI) which is managed jointly by the Vermont School Boards Insurance Trust and the Vermont National Education Association. VEHI partners with Blue Cross Blue Shield to provide health insurance to retired and active teachers. The system pays 80 percent of the retiree's premium only, for members with a minimum of 10 years of creditable service as of June 30, 2010. Payment is based on the cost of the "standard plan" as defined by statute. The retiree pays the full cost of the premium for all covered dependents.

What is an OPEB?

Employees of state and local governments may be compensated in a variety of forms in exchange for their services. In addition to a salary, many employees earn benefits over their years of service that will not be received until after their employment with the government ends through retirement or other reason for separation. The most common type of these post-employment benefits is a pension. As the name suggests, other post-employment benefits (OPEB) are post-employment benefits other than pensions. OPEB generally takes the form of health insurance and dental, vision, prescription, or other healthcare benefits provided to eligible retirees, including in some cases their beneficiaries. It may also include some types of life insurance, legal services, and other benefits.

- Taken from GASB (Governmental Accounting Standards Board) Other Postemployment Benefits: A Plain-Language Summary of GASB Statements No. 43 and No. 45

As of June 30, 2013, 4,946 retirees are enrolled in the single, spouse, and family medical plan options. The retirees contributed $13.6 million in premiums and the system contributed $21 million in premiums and paid $22.5 million on a pay-as-you-go basis, during fiscal year 2013. VEHI incurred $34.9 million in retiree claims expense for the fiscal year ending June 30, 2013.

The actuarial valuation reflects plan changes in health care coverage effective July 1, 2010. The changes affect future retirements only as no changes were adopted for those retired prior to July 1, 2010. Eligibility criteria and premium sharing levels were revised for active employees who did not attain 10 years of service as of June 30, 2010. In addition, the plan now offers subsidized spousal coverage for the first time. For new hires and those with less than 10 years of service as of July 1, 2010, there is no subsidized coverage for those retiring with less than 15 years of service at retirement, 60 percent single coverage at 15 years, 70 percent single coverage at 20 years and 80 percent single or spousal coverage at 25 years. Current employees with more than ten years of service as of July 1, 2010 continue with the current 80 percent coverage. At 25 years of service, employees in this category are generally eligible to elect subsidized spousal coverage at retirement.

Once a retiree becomes eligible for Medicare coverage at age 65, it is mandatory that they enroll in both Medicare Part A and Part B. Medicare becomes the primary insurer and the VSTRS's medical plans become the secondary insurer. Two of the plans offered become "carve-out" plans to coordinate with Medicare, and one of the plans is replaced with a true Medicare supplemental plan. The premiums for all plans are reduced in accordance with the decrease in liability once Medicare becomes the primary insurer.

VSTRS members have access to three plans in retirement that are identical to those offered to active teachers in Vermont's public school systems. Members may pick up medical coverage under one of the plans for themselves and all eligible dependents at the time of retirement, or anytime thereafter during semi-annual open enrollment periods.

Vermont Retirement Systems -- Year Ended June 30, 2013
Summary of Operations

	Vermont State Retirement System	Vermont State Retirement System-OPEB	State Teachers' Retirement System	Municipal Employees' Retirement System
SOURCES OF FUNDS				
Employee Contributions	$ 29,847,352	-	32,343,368	15,060,665
Employer Contributions	51,370,307	23,888,787	63,646,240	12,014,186
Other Income	638,736	1,668,896	1,733,034	170,381
Investment Income	110,715,697	613,290	120,403,030	34,838,507
APPLICATION OF FUNDS				
Retirement Benefits	96,241,493	-	129,416,052	16,101,187
Refunds	2,515,758	-	1,604,283	1,587,311
Health/Life Insurance Expenses	-	23,887,003	22,459,219	-
Administrative Expenses	1,374,643	71	1,680,723	749,447
Other Expenses	437,367	-	233,735	999,434
Addition (Reduction) to Net Assets Held In Trust for Pension Benefits	$ 92,002,831	2,283,899	62,731,660	42,646,360

OPEB Funding Status

The State's independent actuary has prepared valuations of the OPEB liabilities for VSERS and VSTRS as of June 30, 2013. This is the seventh annual OPEB valuation for each system. Both the VSERS and VSTRS reports present two separate calculations of the State's OPEB liability, depending on whether the liability would be prefunded or remain on a pay-as-you-go basis. Since the VSERS has accumulated some assets, a third blended calculation is also included. The Vermont Municipal Employees' Retirement System (VMERS), a cost-sharing, multiple-employer public employees' retirement system, is administered by the State, but has no associated State health care benefit or liability. While the Vermont Municipal Employees' Health Benefit Fund is classified as a post-employment benefit fund, there is no accrued liability in excess of the assets of the fund. There is no annual required contribution and unfunded actuarial accrued liability. Component units and authorities of the State will perform their own valuation as the State does not assume the risk or financial burden for their health care costs. See the Vermont Retirement System Summary of Operations chart for details on the funding status of the plans, with amounts in the thousands of dollars, as of June 30, 2013.

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of occurrence of future events. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information immediately following these notes to the financial statements, presents multi-year trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

OPEB Actuarial Valuation: Method and Assumptions

For VSERS, the actuarial accrued liability for OPEB obligations earned through June 30, 2013 is $947.9 million. With fund assets totaling $15.7 million, the unfunded actuarial liability is $932.2 million. This is a decrease as compared to the June 30, 2012 unfunded actuarial liability of $998.4 million. The net decrease in liability was due to premiums declining slightly, rather than increasing as expected.

The health care trend cost rate assumption was modified to extend the period until the ultimate trend rate is reached from two years to eight years in order to reflect general market expectations. Age morbidity factors were adjusted, eliminating the assumed increase in cost for ages above 65 for prescription drug costs for Medicare-eligible participants in light of recent internal studies of claims experience for credible retiree populations comparable to the population covered by the system. Assumed costs for pre-65 medical and prescription drug and Medicare-eligible medical costs continue to reflect age adjustments. All other assumptions, including the assumed discount rate, were the same as those used in 2010.

An OPEB trust has been established, as required by statute, for VSERS that is funded in part through the deposit of Medicare-D subsidies received for State employees' prescription programs. Therefore, the VSER system reflects a "blended rate" reflecting some level of prefunding, resulting in an assumed discount of 4.25 percent instead of the pay-as-you-go liability calculated at 4 percent.

An OPEB valuation also was completed for VSTRS. An OPEB trust has not been created for VSTRS and no prefunding has been made. As noted above, an experience study was completed for the VSTR system. Valuation assumptions

Role of the Actuary

A key to determining how much money the system should have in the retirement fund to pay current and future benefits is the recommendation made by an actuary. An actuary is a specialist in the mathematics of risk, in which assumptions are made and evaluated. Each year an independent actuary (Buck Consultants) makes a recommendation as to the amount of funds that the employer(s) must contribute to keep the system on a funding plan. In the case of VMERS, this is in the form of a recommendation for employer rates for the various options available for participating municipalities. The State was statutorily responsible for contributions to the VMERS' pension accumulation fund prior to July 1, 1987. However, since July 1, 1987, all payments to the system's pension accumulation fund are supported entirely by employer (municipal) and employee contributions. In the case of VSERS and VSTRS, the calculation of the employer share is in the form of an annual actuarial required contribution (ARC) appropriated by the General Assembly. The other key indicators are the percentage to which the plan is funded, the unfunded accrued liability and the plan to achieve full funding. Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Actuarially determined amounts are subject to continual revision, as actual results are compared with past expectations and new estimates are made about the future.

were updated to reflect the post-retirement benefit plans changes and the effects of changes to pension benefits adopted concurrently. Retirement rates were updated in order to reflect expected retirement patterns under the revised pension benefits. Assumptions regarding incidence of spouse coverage and spouse age difference are introduced. Benefits are attributed to expected date of retirement, consistent with the new tiered structure. Finally, the valuation no longer reflects age-morbidity factors, as it is has been determined that VSTRS liabilities are fully insured and any implicit rate subsidy is completely born by the Vermont Health Education Initiative (VEHI) health insurance purchasing arrangement. There were no changes to the discount rate.

An OPEB trust has been established, as required by statute, for VSERS that is funded in part through the deposit of Medicare-D subsidies received for State employees' prescription programs.

For VSTRS, assuming no prefunding, the actuarial accrued liability and the unfunded actuarial liability for OPEB obligations earned through June 30, 2013 is $712.7 million. This is a decrease compared to the unfunded actuarial liability of $827.2 million as of June 30, 2012. The net decrease in the liability was primarily due to the change in structure of the prescription drug benefits plan to an employer group waiver plan (EGWP), effective January 1, 2014.

OPEB - Schedule of Funding Progress

Actuarial Valuation Date 6/30	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 (1)						
2013	$ 15,663	$ 947,864	$ 932,201	1.7%	$ 436,949	213.3%
VSTRS (2)						
2013	$ -	$ 712,666	$ 712,666	0.0%	$ 563,534	126.5%

(1) Reflects blended discount rate of 4.25% in 2013.
(2) Discount rate for 2013 at 4.0%, reflecting no prefunding.

Financial Literacy

Overview

The three main goals of the State Treasurer's Office financial literacy program are: (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. The Treasurer's office continues work to support financial literacy efforts by groups like the Vermont Jump$tart Coalition, Chittenden County CASH Coalition, and Vermont Works for Women.

Financial Literacy
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Lisa Helme
Financial Literacy & Communications Director

UPDATES

Reading is an Investment

The 2012-2013 school term marked a noticeable increase in the number of students completing financial literacy reading logs and sending them to the Treasurer's office. There were 3,952 students who completed the logs, compared with 2,236 turned in the previous year! We also have 130 schools participating in the program this school term, the same number as last year. However, the increase

ACCOMPLISHMENTS IN 2013

- Now in its fourth year, the Reading is an Investment program is being used in the 2012-2013 school term in 130 Vermont elementary schools. At the conclusion of year three, almost 4,000 Vermont children (3,952) completed the personal money reading requirement for the program and submitted their reading logs. This fall, 22 public libraries are continuing to support the program in the second year of a pilot project aimed at determining how Reading is an Investment can promote financial literacy in local communities.

- In May 2013, the Treasurer's office conducted the fifth Vermont Treasury Cup Challenge. A record 12 high schools entered the competition. The Treasurer's office also assumed the main management role for the tournament as the Federal Reserve Bank of Boston stopped participation due to resource concerns. The academic competition tests student knowledge of personal finance and economics. The winning high school was Missisquoi Valley Union High School in Swanton.

- There were 383 posters entered in the 2013 statewide Be Money Wi$e Financial Literacy poster competition. The 2013 theme was "I can grow my money by …" The purpose of the competition is to promote financial education instruction and student discussion of core financial concepts.

- Conducted nine "Keeping the Gold in Your Golden Years" adult retirement workshops for 164 people. Conducted "How to Raise a Money Smart Child" as part of an educational conference. Sixteen people attended.

- The Treasurer's office assisted in planning and promotional support for the first-ever Chittenden County Saves week held September 23-28, 2013. The Treasurer's office also assisted the Vermont Jump$tart Coalition with a November 2013 financial literacy educator's conference.

in the number of reading logs returned and school librarian evaluations indicate that schools are stepping up their use of the program materials.

The program was first started in 2010 after the Treasurer's office noted a lack of specific financial education programs for elementary age children. Reading is an Investment aims to build school library collections of books that teach money management concepts; supply librarians and teachers with ready-to-use lesson plans that teach money concepts; and encourage individual learning through a statewide reading program of "money" books. Each year, ten $250 college savings accounts are awarded through a random drawing of completed and submitted reading logs. For the 2013-2014 school term, we will be able to offer twenty college savings account awards, thanks to the generosity of the Vermont Student Assistance Corporation.

"While discussing `Stock Market Pie,' a 5th grader asked why she would ever need that information. This opened a great discussion about finances and one we would not have had without the material provided."

– North Hero Elementary School

Last year, the Treasurer's office initiated a pilot project with 30 Vermont public libraries. These libraries were sent the same materials as their local schools. We are evaluating the program's effectiveness in promoting not only youth financial literacy, but also adult financial literacy. The majority of the libraries reported that their patrons were very positive about the program and appreciated the focused attention given to teaching children about money. Libraries chose to set up their money book displays at a variety of times in the year. November was a popular month for displays, followed by several libraries which set up displays continuously from January through March. There were four libraries that chose to offer adult programs to patrons. Two libraries offered, "How to Raise a Money Smart Child." One library offered, "Keeping the Gold in Your Golden Years." The fourth library offered a program on women and finances. The remaining libraries offered specific activities for children, most centered around a story-time format. Of course, the stars of the program were the books themselves. Most librarians expressed appreciation for the books and commented that the program created more of a demand for money-themed books among patrons. In year two of the pilot, we plan to give libraries access to some adult financial books and materials.

The educational theme for the 2013-2014 school term is "Choices Have Costs and Benefits." The three hardback books sent to all participating schools and public libraries were: ***Betty Bunny Wants Everything*** by Michael Kaplan; ***The Boy Who Harnessed the Wind*** by William Kamkwamba and Bryan Mealer, and ***The Can Man*** by Laura Williams.

The program is made financially possible through major financial support from the TD Charitable Foundation and Windham Foundation. Additional financial support is provided by Comcast.

Vermont Treasury Cup Challenge

In an academic challenge of personal finance and economic knowledge, a dozen Vermont high school competed in May to be named champion of the 2013 Vermont Treasury Cup Challenge. The large gold traveling trophy was won by Swanton's Missisquoi Valley Union High School. Second place was won by Bellows Free Academy in Fairfax and Fair Haven Union High School took home

"Love the rewards and encouragement to think and discuss money matters."
– Browns River Middle School

"My favorite part of the program was the easy to use lessons. It was very easy to use the guide to organize the program."
– Chester-Andover Elem. School

"We are building a nice financial literacy collection in our library and they are frequently circulating."
-- Fair Haven Grade School

2013 College Savings Accounts Winners

- Tressia Allard
  Browns River Middle School
- Ariana Heist
  Central Elementary School
- Cristo Buckley
  Central Elementary School
- Storm Dusablon
  Founder's Memorial School
- Connor Leclair
  Founder's Memorial School
- Harmony Smith
  Lunenburg School
- Cheyenne Burke
  Mary Hogan Elementary School
- Cooper Quinn
  Mary Hogan Elementary School
- Matthew Haskins
  Middletown Springs Elementary
- Rylan Plattner
  Swanton Elementary School

third place. The aim of the challenge is to encourage Vermont high school students to learn about personal finance and economics. The annual tournament provides students and teachers with a fun educational event where they can showcase and grown their knowledge of finance. May 3, 2013 marked the fifth year for the competition. Since it was started in 2009, 21 different high schools have competed in the challenge. As the winner of the tournament, MVUHS won the right to display the gold challenge cup for one year. Individual student members of the first place team also won trophies and each received a $250 college savings account donated by the Vermont Student Assistance Corporation. Student team members were: Taylor Marquis, Kraig McFadden, Elijah Eaton, Cole St. Francis and Eamon Murphy. In addition to the schools that placed in the competition, teams participated from Burlington High School, Harwood Union High School, Lyndon Institute, Montpelier High School, Mount Mansfield Union High School, North Country Career Center, St. Johnsbury Academy, South Burlington High School and U-32 High School.

Above, the MVUHS team is awarded the gold challenge cup by State Treasurer Beth Pearce.

Financial Literacy Poster Contest

For the sixth year in a row, the State Treasurer's Office, in partnership with the Vermont Bankers Association, has sponsored the Be Money Wise financial literacy poster competition. The contest is open to students in grades 3-12. The contest encourages adults to discuss the annual poster theme with students and provides a creative outlet for students to demonstrate their knowledge. The 2013 theme was, "I can grow my money by . . ." There were 383 posters entered this year.

Students placing in the elementary division were: first place, Emily Glickman, Williston Central School; second place, Isabella Carrabino, Fair Haven Grade School; and third place, Evan Forrest, Williston Central School. Students placing in the middle school division were: first place, Nicole Laplante, Winooski Middle School; Charlotte Brace, Main Street Middle School in Montpelier; and third place, Anna Harrigan, Orwell Village School. High School division winners were: first place, Allison Lau, Montpelier High School; Devon Boy, Windsor High School; and third place, Morgan Blanchard, Lake Region Union High School.

Students placing first in each division received a $100 cash prize and their school a $100 cash award in recognition of their support for financial literacy.

Other Financial Literacy Projects

Since 2008, the Treasurer's office has offered a retirement planning workshop titled, "Keeping the Gold in Your Golden Years." The session is designed to train people how to complete a personal retirement needs assessment. In 2013, we conducted nine workshops serving 164 people. To date, a total of 917 people have taken this class.

The Treasurer's office continues to partner with existing organizations who are working on financial literacy initiatives. The Treasurer's office Financial Literacy Director serves on the board of the non-profit Vermont Jump$tart Coalition. In November, Jump$tart conducted its 8th annual Common $ense Conference for educators. As a coalition member, the Treasurer's office assisted in the organization and execution of the November 14 conference held in Montpelier. Fifty teachers and others interested in financial literacy attended the day-long event.

State Treasurer Beth Pearce served on a Task Force on Young Women and the Vermont Economy. Convened by Vermont Works for Women, the task force was comprised of business, labor, government, non-profit and philanthropic leaders from across the state. The task force recommended actions to build personal financial skills; promote supportive relationships among girls and young women; and expand exposure to careers and role models.

"Whether it's a child saving for his first bike, a couple saving to buy their first home, or an adult putting money away for retirement--the practice of saving for the future brings continued short- and long-term benefits."

– State Treasurer Beth Pearce, Chittenden Saves Kick-off Event

Also, in 2013, the Treasurer's office supported the first-annual Chittenden County Saves Week. The coalition is a group of non-profits, banks, credit unions, and other entities dedicated to assisting low- and moderate income Chittenden County residents in achieving their financial goals through free tax assistance and asset-building opportunities. The Treasurer's office helped with planning and promotion for the September 23-28 event. Among the many free workshops offered to the public was the office's "Gold" retirement planning workshop.

Debt Management

Overview

The State of Vermont has continued to benefit from disciplined debt issuance and debt management policies and has adhered 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. These efforts are the result of years of attention to rat-

Debt Management
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Stephen Wisloski
Deputy State Treasurer

Scott Baker
Financial Reporting Director

ACCOMPLISHMENTS IN 2013

- In July, the Treasurer's office sold $11.165 million of Special Obligation Transportation Infrastructure Bonds, or "TIBs", 2013 Series A. This was the third TIBs sale, following sales in 2010 and 2012, and the bond proceeds were used to leverage an additional $64.3 million of federal transportation funds to replace, rehabilitate and improve interstate and State highway bridges and roadways across Vermont. Rating agencies Standard & Poor's (S&P), Fitch Ratings (Fitch) and Moody's Investors Service (Moody's) also reaffirmed their respective ratings of AA+, AA and Aa2 on the TIBs program, all with stable outlooks.

- In July and August, the Treasurer's office conducted a request for proposals (RFP) for bond underwriting services for its Citizen Bond sales, receiving responses from eleven firms. Morgan Stanley was selected as senior manager. Three firms – Bank of America Merrill Lynch, Citi and J.P. Morgan – were selected as co-managers. Tthe remaining seven respondents were invited to participate in the selling group.

- In August and September, the Capital Debt Affordability Advisory Committee (CDAAC) met three times to review the State's debt affordability guidelines, analyze Vermont's critical debt ratios compared to those of triple-A rated peer states, and discuss critical capital needs. The CDAAC reaffirmed its two-year net tax-supported debt authorization recommendation of no more than $159.9 million for the legislative biennium for fiscal years 2014 and 2015. The committee also cautioned that muted bond issuance by Vermont's triple-A rated peer states was lowering debt medians across the board, potentially constraining Vermont's recommended debt affordability in future years.

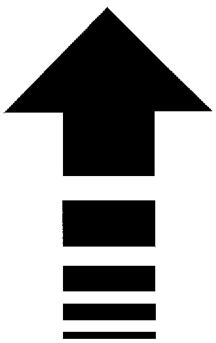
- In October, the Treasurer's office conducted a General Obligation bond sale in three parts, including a series of Vermont Citizen Bonds (2013 Series A), a series of competitively-sold tax-exempt bonds (2013 Series B), and a competitive refunding (2013 Series C). Moody's and Fitch maintained their top ratings of Aaa and AAA, respectively, both with stable outlooks, and S&P reaffirmed its rating of AA+ with a positive outlook.

- The Private Activity Bond Advisory Committee met twice during the year to explore potential uses and specific projects for private activity bonds and to provide recommendations to the Emergency Board in connection with the reallocation of the State's 2013 volume cap totaling $291.875 million. The committee also provided the Emergency Board with its recommended initial allocation for Vermont's 2014 volume cap totaling $296.825 million.

ing agency and investor interests and concerns and have resulted in the high debt rating – and corresponding very low borrowing costs – that the State currently enjoys. Vermont has also benefited from its reputation for rigorous and thorough financial disclosure, and has steered clear of financial and regulatory concerns.

Municipal Bond Market Update

Calendar year 2013 saw a sharp rise in interest rates and a corresponding steep reduction in municipal bond issuance. Municipal issuers also wrestled with increased regulatory initiatives and threatened changes to tax policy. Market participants closely monitored the fallout from the largest-ever municipal bankruptcy of the City of Detroit. The following are significant market features and notable events during 2013.



Sharply higher interest rates: A modestly improved outlook for the U.S. economy, coupled with the fear of an impending reduction or “taper” of the Federal Reserve’s unprecedented bond purchases (“quantitative easing” or simply “QE”), triggered a sharp decrease in bond prices and corresponding increase in interest rates. The 10-year triple-A rated benchmark bond rate, which hit an all-time low of 1.47 percent in late November 2012, rocketed to more than 3 percent by early September 2013. As of December, rates had trended down slightly, but were still around 1.25 percent above last year’s levels. However, rates remain low compared to historical averages in the 4 percent to 5 percent range.

Substantially lower bond issuance: Higher interest rates depressed bond issuance in 2013, as opportunities to refinance older, higher-coupon debt disappeared. Through November 30, only $301 billion of municipal bonds had been sold nationwide, a decrease of almost 15 percent compared to the first 11 months of 2012 and the second-lowest volume since 2003 (only 2011 was lower). This substantial reduction in issuance is almost certain to impact Vermont because our forward-looking debt projections are benchmarked against other states, and lower issuance could constrain estimates of Vermont’s future debt capacity.

Federal policy uncertainty: The continued deliberations over the federal budget have had several negative consequences for tax exempt bonds. First, automatic budget cuts, or “sequestration,” have reduced Vermont’s federal interest subsidy associated with Build America Bonds (BABs) by almost $55,000 in fiscal year 2014, as of the date of this report. Unless relief is provided via a budget agreement, another $45,000 is projected to be trimmed. Second, several proposals have been made to reduce or eliminate the exemption of municipal bond interest from income tax. If enacted, this change could cost the State millions in additional interest payments.

Increased federal regulatory presence: The Securities and Exchange Commission (SEC) has asserted greater authority over the municipal bond market during 2013. The SEC has sanctioned several states and cities for inadequate disclosure during bond sales, and in one case, for inaccurate statements by public officials regarding financial conditions.

2013 Bond Issues (Calendar Year)

$11,165,000 par amount of 2013 Series A Special Obligation Transportation Infrastructure Bonds, sold via competitive internet-based bid process to Morgan Stanley, which provided the lowest true interest cost, or “TIC” of 3.68 percent. The average life of the bonds was 11.6 years and the State received bids from nine banks.

$25,000,000 par amount of 2013 Series A Vermont Citizen Bonds, which were sold via negotiated transaction with Morgan Stanley. The TIC of the bonds was 2.20 percent and the average life was 5.83 years.

$42,810,000 par amount of 2013 Series B bonds, which were sold via competitive bid to Wells Fargo, which provided the lowest TIC of 3.42 percent. The average life of the bonds was 12.83 years and the State received bids from thirteen banks.

$18,935,000 par amount of 2013 Series C refunding bonds, competitive bid to Morgan Stanley, which provided the lowest TIC of 1.90 percent. The average life was 3.37 years, the State received bids from twelve banks, and the refinancing reduced the State’s interest payments by $1.36 million through 2025.

New England General Obligation Bond Ratings

STATE	FITCH	MOODY'S	S&P
Vermont	AAA	Aaa	AA+
Connecticut	AA	Aa3	AA
Maine	N/A	Aa2	AA
Massachusetts	AA+	Aa1	AA+
New Hampshire	AA+	Aa1	AA
Rhode Island	AA	Aa2	AA

Vermont's Bond Ratings

Vermont was upgraded to a Aaa rating by Moody's in February of 2007 and Fitch "recalibrated" Vermont's rating from AA+ to AAA in April 2010. Combined with a AA+ bond rating from S&P, Vermont enjoys the highest general obligation bond ratings of any New England state (see bond rating chart below). Vermont's Moody's and Fitch ratings carry a stable outlook and S&P revised its outlook for Vermont from stable to positive. The triple-A ratings by Moody's and Fitch and the excellent rating from S&P are reflective of sound fiscal practices that include: (1) budgetary discipline; (2) an economy with significant breadth; (3) strong debt management practices; and (4) effective State governance reflecting sound statutes and legislative history.

Since a higher rating enhances the State's reputation in the municipal marketplace, it makes Vermont's bonds very marketable to a broad range of individual and institutional investors. As noted previously, this generally results in a lower interest rate or cost of capital for borrowing. It also is likely to reduce borrowing costs for municipalities that issue debt through the Vermont Municipal Bond Bank or other borrowers issuing State moral obligation debt through other State agencies, as the State's rating supports these bond issues.

Aaa

Debt Affordability

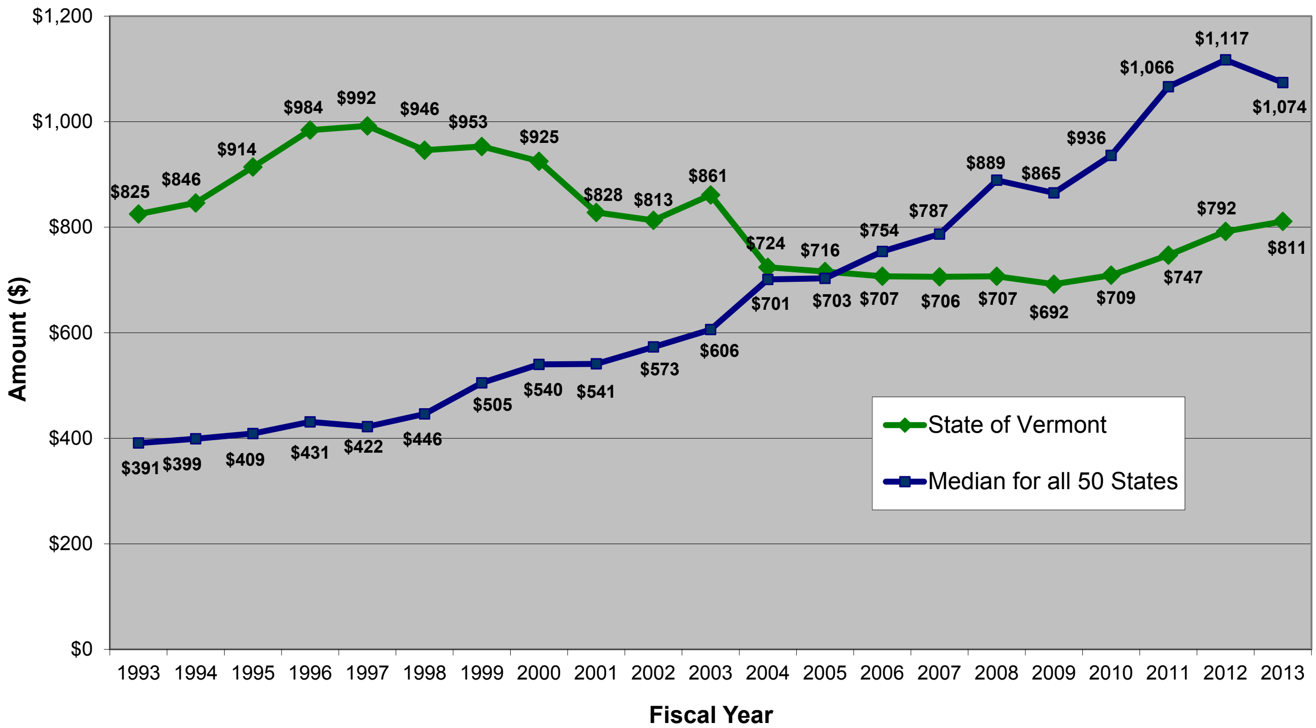
The Treasurer's office, in conjunction with the Governor and General Assembly, has historically set a course of maintaining modest levels of new authorizations of long-term debt and net tax-supported debt outstanding. As a result, bond issuance is currently at substantially lower levels than in the early and mid-1990s. Reduction in debt, plus continued improvement in the State's economic indices and financial condition over recent years, has improved the State's debt ratios to those among the highest-rated states. The State's practice of issuing debt with level annual principal installments has also resulted in a favorable amortization rate. At a rate of more than 70 percent retirement within 10 years, the State's bond payoff ratio continues to be favorably received by the rating agencies.

Reduction in debt, plus continued improvement in the State's economic indices and financial condition, has improved the State's debt ratios to those among the highest-rated states.

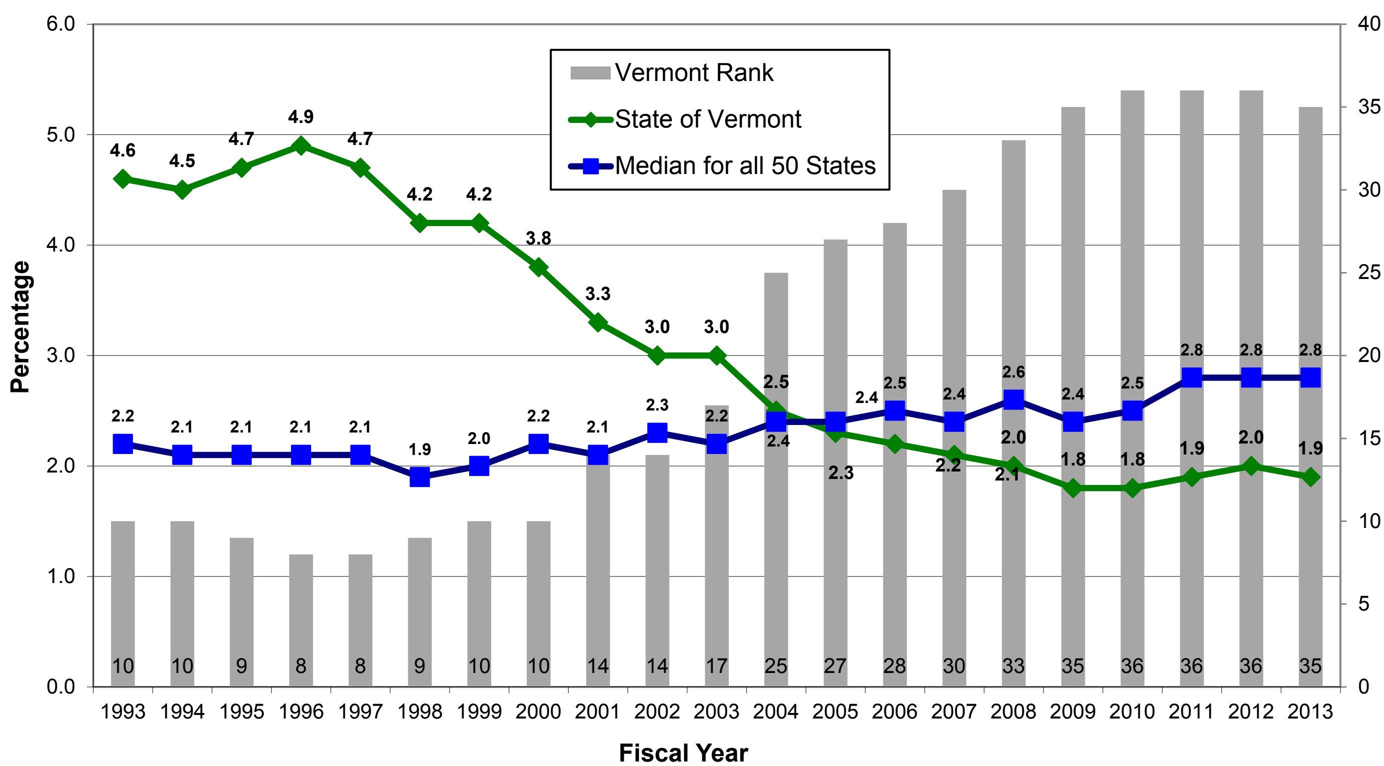
A major contributing factor to Vermont's respected debt management is the work of the Capital Debt Affordability Advisory Committee (CDAAC). The CDAAC completes an annual review of the size and affordability of the State tax-supported general obligation debt and submits to the Governor and to the General Assembly an estimate of the maximum amount of new long-term general obligation debt that prudently may be authorized for the next fiscal year. The estimate of the committee is advisory, but historically has been adopted by the State as a bonding limit. The CDAAC is made up of three ex officio members, two appointees of the Governor, one appointee of the State Treasurer, and an appointee of the Vermont Municipal Bond Bank. The State Treasurer serves as chair of the committee.

In 2012, the CDAAC recommended a two-year maximum net tax-supported debt authorization of $159,900,000 for fiscal years 2014 and 2015 and in September 2013 the committee reaffirmed this recommendation.

Net Tax Supported Debt Per Capita - Vermont Versus 50 States Median



Net Tax Supported Debt as a Percent of Personal Income - Vermont Versus 50 States Median



Debt Ratios

The fiscal discipline of recent years has paid off as Vermont's debt ratios rank favorably among triple-A rated states. The key to maintaining and obtaining other triple-A ratings will be to demonstrate continued diligence in the areas just discussed while making improvements on other major sustainability issues. Those issues are: Medicaid funding; State employees' and teachers' pension funding; the funding of other post-employment benefits (OPEBs); and preservation and development of the State's infrastructure. Summarized below are some of the key debt indicators for Vermont.

Debt Per Capita

One of the key debt factors monitored by the CDAAC and the rating agencies is the State's net tax-supported debt per capita. The guideline adopted by the CDAAC establishes a target debt per capita at Moody's median and means for triple-A rated states. In 2013, the State's debt per capita was $811 versus the Moody's five-year triple-A median and mean of $853 and $922, respectively (see charts on pages 31 & 33). The State's ranking versus all 50 states improved steadily from 28th in 2007 to 37th in 2011, but slipped to 34th in 2012 and 33rd in 2013. The higher the ranking figure, the lower a state's debt per capita is relative to all other states. The State's net tax-supported debt per capita is forecast to grow to $1,236 by 2024. That forecast assumes a steady level of debt authorization and the issuance of $79.95 million in future years starting in fiscal year 2015 and employs the population forecast developed by Economic Policy Resources. This increase is expected to remain consistent with the State's debt per capita guideline (triple-A states' five-year median and mean) each year through 2024.

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. The guideline adopted for this ratio is again to target Moody's five-year median and mean for triple-A rated states. The State has steadily improved in this area. The State's ratio of debt to personal income for fiscal year 2013 decreased slightly to 1.9 percent versus Moody's triple-A median and mean ratios of 2.8 percent (see chart on page 31). The State's ranking in its debt as a percentage of personal income improved steadily from 30th highest among all states in 2007 to 36th highest in 2010 through 2012, slipping slightly to 35th in 2013.

The guideline adopted by the CDAAC establishes a target debt per capita at Moody's median and means for triple-A rated states.

Debt as a Percentage of Revenue

The guideline used for this ratio states that projected annual State debt service on bonds should not be in excess of 6 percent of projected revenues in the combined general and transportation funds. The debt service as a percentage of revenues ratio was 4.6 percent for fiscal year 2013. This percentage is expected to fall to 4.3 percent by fiscal year 2015 and then rise to 5.2 percent by fiscal year 2024. This is based on the assumption of the issuance of $79.95 million of debt from fiscal year 2015 through fiscal year 2024.

Moody's Investors Service -- Debt Per Capita -- State of Vermont

Triple-A Rated States--5-Year Average Mean and 5-Year Median Excluding Vermont

MEAN: $942 MEDIAN: $884 5-Year Average - VERMONT: $750

Triple-A Rated States[1]	Moody's Ratings[2]	S&P Ratings[2]	Fitch Ratings[2]	Moody's Debt Per Capita 2009	2010	2011	2012	2013
Alaska	Aaa/Stable	AAA/Stable	AAA/Stable	$861*	$1,345*	$1,257	$1,454	$1,251
Delaware	Aaa/Stable	AAA/Stable	AAA/Stable	2,128	2,489	2,676	2,674	2,536
Florida	Aa1/Stable	AAA/Stable	AAA/Negative	1,115	1,123	1,150	1,167	1,087
Georgia	Aaa/Stable	AAA/Stable	AAA/Stable	984	1,120	1,103	1,099	1,061
Indiana	Aaa/Stable	AAA/Stable	AAA/Stable	482	492	471	446	424
Iowa	Aaa/Stable	AAA/Stable	AAA/Stable	79	73	270	310	287
Maryland	Aaa/Stable	AAA/Stable	AAA/Stable	1,507	1,608	1,681	1,742	1,799
Minnesota[3]	Aa1/Negative	AA+/Stable	AA+/Stable	866	1,037	1,159	1,148*	1,315*
Missouri	Aaa/Stable	AAA/Stable	AAA/Stable	670	780	775	741	699
Nebraska	NR/Stable	AAA/Stable	Not Rated	17*	15*	13	15	14
New Mexico	Aaa/Stable	AA+/Stable	Not Rated	1,394*	1,398	1,827	1,406	1,316
North Carolina	Aaa/Stable	AAA/Stable	AAA/Stable	832	765	782	815	853
South Carolina	Aaa/Stable	AA+/Stable	AAA/Stable	899	917	887	827	780
Tennessee	Aaa/Stable	AA+/Positive	AAA/Stable	233*	318	345	343	343
Texas[4]	Aaa/Stable	AA+/Stable	AAA/Stable	520*	520	612	588	580
Utah	Aaa/Stable	AAA/Stable	AAA/Stable	447	957	1,222	1,393	1,275
Virginia	Aaa/Stable	AAA/Stable	AAA/Stable	782	895	1,058	1,169	1,315
Wyoming	Not Rated	AAA/Stable	Not Rated	84*	77*	71	64	59
MEAN[5]	__________	__________	__________	**899**	**966**	**964**	**956**	**922**
MEDIAN[5]	__________	__________	__________	**849**	**917**	**973**	**827**	**853**
VERMONT	Aaa/Stable	AA+/Positive	AAA/Stable	692	709	747	792	811

[1] Indiana carries a Municipal Issuer Rating from S&P, assigned in 2008 and it is reflected in 2009 and 2010 numbers – this is a G.O. bond equivalent rating. The Fitch rating for Indiana (AAA) is implied from the AA+ rating on its lease revenue bonds. Fitch raised Florida, Iowa, Vermont, Tennessee and Texas to triple-A in 2010 as part of their Ratings Recalibration effort. Moody's raised Indiana, Iowa, New Mexico, Tennessee and Texas to triple-A in 2010 as part of their Ratings Recalibration effort. Eighteen states are currently rated triple-A by one or more of the nationally recognized rating agencies. Triple-A ratings assigned as follows: Delaware and Florida (2005), Georgia, Maryland, Missouri, North Carolina, South Carolina, Utah, Virginia and Vermont (2007), Indiana (2008), Iowa (2009), New Mexico, Tennessee and Texas (2010), Alaska, Nebraska and Wyoming (2011).

[2] Ratings as of July 25, 2013.

[3] Minnesota was downgraded by Fitch to AA+ from AAA on July 7, 2011 and it was downgraded by Standard and Poor's to AA+ from AAA on September 23, 2011. Minnesota is included in calculating the means and medians in the years from 2009 to 2011.

[4] Texas, which also carries an Issuer rating from Standard & Poor's, was upgraded to AAA from AA+ on September 27, 2013.

[5] These calculations exclude all Vermont numbers.

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

Short-Term Borrowing

The seasonal nature of the revenue and expenditure cycles occasionally requires the use of short-term borrowing. Typically, education payments to local towns and school districts occur in the first half of the fiscal year, while tax revenues are collected later in the year, primarily April. By April, the revenue flow is generally positive. In the early 1990s, Vermont was issuing approximately $150 million of short-term debt obligations annually, not including $65 million in deficit notes. The State did not require the issuance of short-term debt in fiscal years 1999-2002. With the economic decline in 2002, the State issued $75 million in revenue anticipation notes (RANs) for part of 2003 and $48 million in September to early March 2004.

Current economic conditions and declining State revenues require monitoring in the context of short-term borrowing needs. The State has been diligent in managing expenditures according to revised revenue projections and has not needed to borrow short-term funds since 2003. At this point, the Treasurer's office is reasonably confident it will not need to borrow during the balance of fiscal year 2014. If the State is required to borrow funds, such needs are planned to be met using the letter of credit, which can be repaid immediately. Using the letter of credit is preferable to longer-term financing alternatives such as revenue anticipation notes (RANs), which would generate higher interest costs for the State. The State began fiscal year 2014 with approximately $385 million in unrestricted cash and investments on hand, and maintained $157 million in unrestricted cash and investments as of December 31, 2013. While these cash balances do not bear a direct one-to-one relationship to fund balance, they indicate a stable and solid position as of fiscal year 2014.

Additional Factors Affecting Bond Ratings

There are many other factors considered in a state's bond rating besides ratio analysis. These include:

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 and for the Education Fund are 3.5 percent to 5 percent of the previous year's appropriations. Currently, all three funds are at their statutory requirements and as stated above, have not yet been tapped in response to the recent economic conditions. The combined effect of full budget stabilization reserves, plus the caseload reserves, is positive for the State's ratings. Additionally, both the Governor and the State Treasurer have recommended a long-term goal to increase the general fund reserve to 8 percent and in its 2012 session the State Legislature created a General Fund Balance Reserve (or "Rainy Day Fund"). The Treasurer's office recommends building to a target of 3 percent for the Rainy Day Fund, which combined with the budget stabilization reserves, would match the rating agencies' preferred 8 percent total reserves level.

Pension Funds Funding Percent:
Of the three State-level pension funds, two receive State contributions—the Vermont State Employees' Retirement System (VSERS) and the Vermont State Teachers' Retirement System (VSTRS). Inasmuch as State contributions derive from taxes, the rating agencies are very concerned with the percentage of future pension liabilities that are funded in these plans. As of June 30, 2013, the VSERS funding level is at 76.8 percent and the VSTRS funding level is 60.5 percent. These levels are down from 77.7 percent and 61.6 percent, respectively in 2012. While budgets are squeezed as a result of the recent economic downturn, continued discipline in funding the actuarial required contribution (ARC) is an important factor for the rating agencies. In 2010, the Vermont National Education Association (Vermont-NEA) worked with the Treasurer's office to help pass some of the most progressive pension reform in the country, significantly improving the sustainability of the teachers' pension system. In addition, changes to other post-employment benefits (OPEBs) significantly reduced the unfunded liability associated with retired teacher health care costs. In 2011, the State enacted employee rate increases improving the long-term stability of State employee pension benefits. In 2013, the teachers' system enacted changes to retiree drug subsidies that further reduced unfunded liabilities.

Other Factors: 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.

State of Vermont - Historic and Projected Debt Ratios

	Net Tax-Supported Debt Per Capita (in $)			**Net Tax-Supported Debt as Percent of Personal Income**			**Net Tax-Supported Debt Service as Percent of Revenues [5]**		
Fiscal Year (ending 6/30)	State of Vermont	Moody's Median	State's Rank [4]	State of Vermont	Moody's Median	State's Rank [4]	State of Vermont [5]	Moody's Median	State's Rank [4]
Actual [1]									
2002	813	573	18	3.0	2.3	14	6.5	n.a.	n.a.
2003	861	606	16	3.0	2.2	17	6.7	n.a.	n.a.
2004	724	701	24	2.5	2.4	25	6.0	n.a.	n.a.
2005	716	703	25	2.3	2.4	27	5.4	n.a.	n.a.
2006	707	754	29	2.2	2.5	28	5.1	n.a.	n.a.
2007	706	787	28	2.1	2.4	30	5.1	n.a.	n.a.
2008	707	889	32	2.0	2.6	33	5.0	n.a.	n.a.
2009	692	865	34	1.8	2.5	35	5.5	n.a.	n.a.
2010	709	936	36	1.8	2.5	36	5.7	n.a.	n.a.
2011	747	1066	37	1.9	2.8	36	5.1	n.a.	n.a.
2012	792	1117	34	2.0	2.8	36	4.9	n.a.	n.a.
2013	811	1074	33	1.9	2.8	35	4.6	n.a.	n.a.
Current [2]	870	n.a.	n.a.	2.0	n.a.	n.a.	4.6	n.a.	n.a.
Projected (FYE 6/30) [3]		State Guideline [6]			State Guideline [7]			State Guideline	
2014	918	915		2.1	2.5		4.8	6.0	
2015	971	947		2.1	2.5		4.3	6.0	
2016	1,015	981		2.1	2.5		4.4	6.0	
2017	1,056	1,015		2.2	2.5		4.5	6.0	
2018	1,095	1,051		2.2	2.5		4.6	6.0	
2019	1,129	1,088		2.2	2.5		4.8	6.0	
2020	1,159	1,126		2.2	2.5		4.9	6.0	
2021	1,182	1,166		2.2	2.5		5.1	6.0	
2022	1,204	1,207		2.2	2.5		5.1	6.0	
2023	1,221	1,250		2.2	2.5		5.2	6.0	
2024	1,236	1,294		2.2	2.5		5.2	6.0	
5-Year Average of Moody's Mean for Triple-A States		941			2.5			n.a.	
5-Year Average of Moody's Median for Triple-A States		884			2.5			n.a.	

Note: Shaded figures in fiscal years 2015-2021 represent the period when Vermont's debt per capita is projected to exceed the projected State Guideline consistent with the current debt per capita guideline calculation methodology and the assumption that the State will issue bonds consistent with the remaining two-year authorization (footnote (3)). See Section 6, "State Guidelines and Recent Events, Debt Per Capita State Guideline – Future Debt Capacity Risk."

(1) Actual data compiled by Moody's Investors Service, reflective of all 50 states. Moody's uses states' prior year figures to calculate the "Actual" year numbers in the table.

(2) Calculated by Public Resources Advisory Group.

(3) Projections are calculated by Public Resources Advisory Group and assume the issuance of $84,625,000 in fiscal year 2014, $84,880,000 in fiscal year 2015 and $79,950,000 of G.O. debt annually thereafter through 2024.

(4) Rankings are in numerically descending order (i.e., from high to low debt).

(5) Revenues are adjusted reflecting "current law" revenue forecasts based on a consensus between the State's administration and legislature. Current debt service is net of the 35% federal interest subsidies on the Build America Bond issues, and projected debt service is based on estimated interest rates ranging from 5% to 6.5% over the project period. Calculated by Public Resources Advisory Group.

(6) State Guideline equals the 5 year average of Moody's median for triple-A states $884 increasing annually at 3.53%.

(7) The 5-year Moody's median for triple-A States (2.5%) has not been increased for the period 2014-2024 since the annual number is quite volatile, ranging from 2.3% to 2.6% over the last five years.

Moody's Investors Service -- Debt as % of Personal Income -- Vermont

Triple-A Rated States--5-Year Average Mean and 5-Year Median Excluding Vermont
MEAN: 2.5% MEDIAN: 2.5% 5-Year Average VERMONT: 1.9%

Triple-A Rated States	Moody's Debt as % 2011 Personal Income				
	2009	2010	2011	2012	2013
Alaska	2.2%*	3.2%*	3.0%	3.3%	2.8%
Delaware	5.4	6.2	6.8	6.8	6.2
Florida	2.9	2.9	3.0	3.0	2.8
Georgia	3.0	3.3	3.3	3.1	3.0
Indiana	1.5	1.5	1.4	1.3	1.2
Iowa	0.2	0.2	0.7	0.8	0.7
Maryland	3.3	3.4	3.5	3.6	3.6
Minnesota	2.1	2.4	2.8	2.7*	3.0*
Missouri	2.0	2.2	2.2	2.0	1.8
Nebraska	0.0*	0.0*	0.0	0.0	0.0
New Mexico	4.6	4.4	5.6	4.2	3.8
North Carolina	2.5	2.3	2.3	2.3	2.4
South Carolina	2.9	2.9	2.7	2.5	2.3
Tennessee	0.7*	0.9	1.0	1.0	0.9
Texas	1.4*	1.4	1.6	1.5	1.5
Utah	1.5	3.2	3.9	4.4	3.8
Virginia	1.9	2.1	2.4	2.6	2.9
Wyoming	0.2*	0.2*	0.1	0.1	0.1
MEAN[1]	**2.4**	**2.6**	**2.6**	**2.5**	**2.3**
MEDIAN[1]	**2.3**	**2.6**	**2.6**	**2.5**	**2.4**
VERMONT	1.8	1.8	1.9	2.0	1.9

[1] These calculations exclude all Vermont numbers and include only states rated triple-A by any one of the three rating agencies during the periods shown, year ended June 30th.

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

Investments

Overview

The State Treasurer's Office administers the investment policies and strategies adopted by the Vermont Pension Investment Committee (VPIC) for the benefit of the Vermont State Employees' Retirement System, Vermont State Teachers' Retirement System, and the Vermont Municipal Employees' Retirement System. The combined assets of the retirement plan portfolios were approximately $3.46 billion as of June 30, 2013. VPIC also oversees the investment assets of the Burlington Employees' Retirement System. The Burlington Employees' Retirement System, which became a participating investor with the VPIC at the end of October 2007, had assets of approximately $135 million as of June 30, 2013. VPIC acts as the trustee for the defined benefit plan investments, while the board of trustees for each system maintains its fiduciary role in the area of benefits administration and actuarial recommendations. The State Treasurer serves on the retirement boards and the VPIC and is also the custodian of the funds, providing

Investments
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Treasury Operations Director

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Cash & Short-term Investments Manager

ACCOMPLISHMENTS IN 2013

- The Vermont Pension Investment Committee continued to fine tune an asset allocation plan begun in 2009 with modest changes to some allocations and continued semi-annual rebalancing. Year-over-year, the asset allocation changes have reduced equities to 31.4 percent and fixed income to 33 percent. Alternatives have been increased to 15.6 percent and risk parity and global asset allocation strategies were unchanged at 20 percent. The portfolio's total return was approximately 8.6 percent for fiscal year 2013.

- The addition of the private equity allocation was completed on November 27, 2012, with an additional $10 million dollars to be allocated in fiscal year 2014. The commodities area received an increased allocation and a decision was made to replace one high yield manager--negotiations and approval of a new manager will take place early in fiscal year 2014.

- During the fiscal year, the Treasurer's office completed a review of the fee structure associated with the deferred compensation (457) plan under its administration. For the second year in a row, the administrative fee levied on participants was reduced. The Treasurer's office also restructured the Trust Investment Account with a mandate to lower fees and diversify the allocation across a wider breadth of investment strategies. The final transition will take place in early fiscal year 2014.

- A number of RFPs were issued and evaluated. Among the outcomes were renewed contracts for proxy voting services and monitoring of state sponsors of terrorism and genocide, and a renewed contract to be finalized in fiscal year 2014 for the 403(b) administrator that will reduce fees for participants.

- VPIC policies were reviewed by the VPIC board and were updated to include an Environmental, Social & Governance (ESG) policy in May 2013. The VPIC proxy voting policies also were reviewed by the boards. Language was strengthened and added to policies to encourage transparency by firms on resolutions pertaining to topics specific to energy and environmental issues.

administrative support and oversight. Investment services, within the Treasurer's office, provides cash and investment management for the State of Vermont and the pension systems administered by the office.

The VPIC board has made significant efforts to restructure the asset allocation since 2009 to reduce portfolio risk and improve diversificiation.

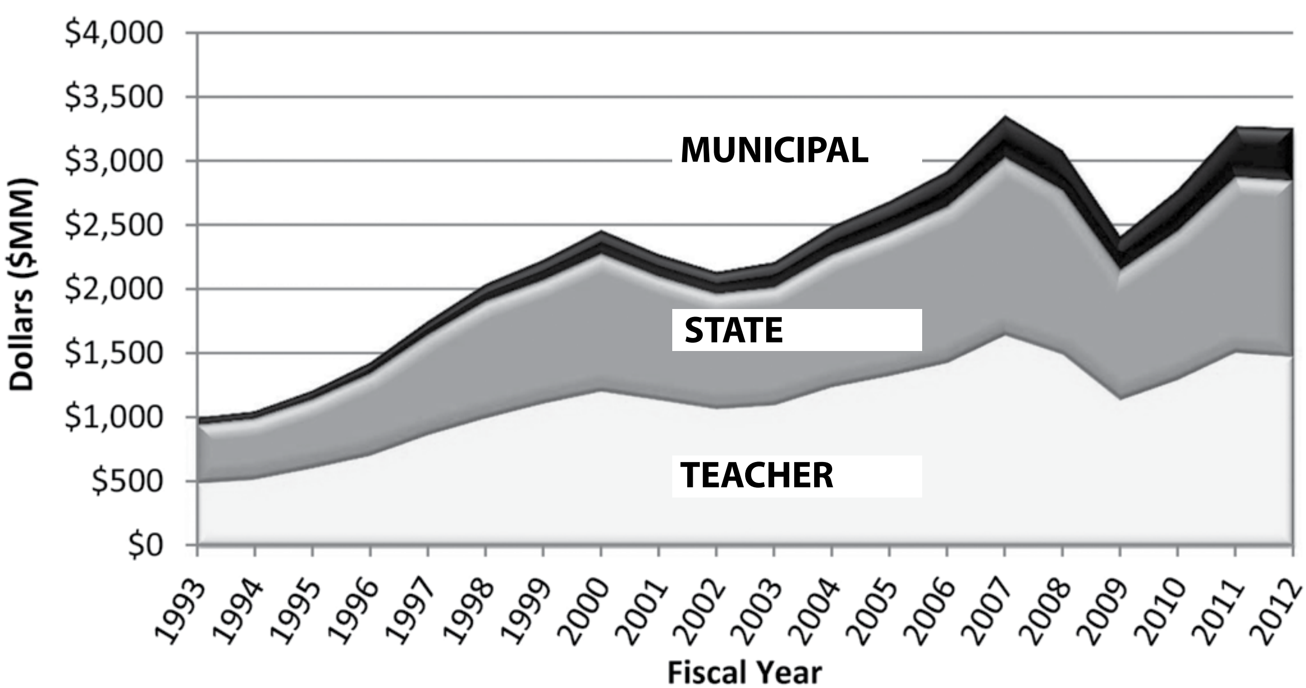
UPDATES

Pension Fund Investments

In fiscal year 2013, one-year investment returns were 8.6 percent for VSERS, 8.4 percent for VSTRS, and 8.8 percent for VMERS versus the median public fund return of 11.7 percent. The relatively low return level compared to the median public fund return should be viewed in light of the fact that the VPIC board has made significant efforts to restructure the asset allocation since 2009 to reduce portfolio risk and improve diversification. Such moves will serve the system better during down markets or periods of high volatility. Part of this diversification has been achieved by incorporating a number of additional total return investment strategies, while reducing exposure to equity risk, leading to a more resilient portfolio. As a result, the "capture" of performance in up and down markets has improved and become more stable. The current asset allocation is summarized in the chart on page 40.

Through a competitive process, in fiscal year 2013 the VPIC renewed its contract with an advisor to assist with its previously adopted policy relating to investing in companies involved in genocidal or terrorist states. The vendor provides VPIC with the tools required to identify issuers that may be in conflict with its policy and relay this information to managers on a quarterly basis to ensure they are in compliance with the VPIC policy. Furthermore, the switch in investment custodians at the end of 2012 expanded the capacity of the Treasurer's office to monitor managers' adherence to investment guidelines on a higher-frequency basis than in prior years.

Growth of Pension Assets -- Fiscal Year 1993-2012
(Amount in $Millions)



Short-Term Investments

The State Treasurer's Office is committed to meeting the cash needs of State operations while protecting the value of its assets, and approaches these responsibilities using a prudent and deliberative process. This past fiscal year presented a number of challenges, most notably a continuation of the Federal Reserve's "ZIRP" or zero interest rate policy for short-term investment rates, continued political uncertainty, and economic volatility. In response to continued slow economic growth and high unemployment, Federal Reserve Chairman Ben Bernanke and the Federal Open Market Committee (FOMC) have, since December 2008, targeted the federal funds rate to a range between 0 percent and 0.25 percent. In December 2012, Chairman Bernanke announced that the Federal Reserve would also employ unlimited quantitative easing (QE) until the unemployment rate falls below 6.5 percent, which was not expected until 2015. As a result, yields on high quality short-term fixed income securities maturing in three years or less are expected to remain near or below 0.25 percent. This limits the returns available on operating funds - including the general fund, transportation, and education fund - for which preservation of principal and daily liquidity are the most important objectives. The short-term portfolio earned $959,450 in interest income in fiscal year 2013 on average daily available balances of $352.35 million. Of this amount, $281,054 was credited to interest earning funds, and the balance of $678,396 remained in the general fund. The yield on the available cash in the portfolio was 0.27 percent for the year, which exceeded the average three-month Treasury bill yield of 0.077 percent. Long term funds in the Trust Investment Account earned 5.33 percent. (See page 42)

The VPIC board passed an Environmental, Social and Governance policy on May 28, 2013 that documented how it would evaluate opportunities to either make or divest from investments for the purpose of achieving certain environmental, social or governance goals that do not appear to be primarily investment-related initiatives. The published criteria for consideration allows for transparency in the VPIC board decision-making process for such proposals. The policy is available on the State Treasurer's web site.

In 2013, the VPIC board continued to review and update its domestic and international proxy voting policies. Corporate responsibility and accountability guidelines in these policies include: (1) voting policies on environmental issues

Asset Allocation of Pension Funds as of June 30, 2013

Investment Category	Allocation
Equity	
Domestic Large Cap	10%
Domestic Mid Cap	3%
Domestic Small Cap	3%
International Established	9%
Emerging Market	6%
Total Equity	**31%**
Fixed Income	
Diversified Bonds	18%
High Yield Bonds	4%
Global Bonds	3%
Emerging Market Debt	5%
TIPS	3%
Total Fixed Income	**33%**
Alternatives	
Real Estate	5%
* Private Equity	2%
Hedge Fund-of-Funds	5%
Commodities	4%
Total Alternatives	** **15%**
Multi-Strategy	
Risk Parity	8%
Global Asset Allocation	12%
Total Multi-Strategy	**20%**
Cash	**0%**
Grand Total	**100%**

** $65 million was allocated to Private Equity, as voted by the VPIC board on May 22, 2012.*

*** Numbers may not total 100 percent due to rounding.*

Investment Performance of Vermont's Retirement Systems

As of September 30 of each Fiscal Year - Gross of Fees

Retirement System:	2013	2012	2011	2010	2009
Teachers Composite	8.50%	6.6%	5.8%	3.7%	2.9%
State Composite	8.60%	6.6%	5.8%	3.1%	2.5%
Municipal Composite	8.80%	6.4%	5.9%	4.0%	2.8%
Median Public Fund	11.70%	6.4%	5.7%	3.4%	2.9%

Source for table above: New England Pension Consultants

such as global warming-related initiatives; (2) environmental reporting related to transparency in hydraulic fracturing; and (3) workplace issues such as equal employment opportunities, human rights, executive compensation and labor codes. These policies can be viewed on the State Treasurer's web site under the cash and investments section. Select the Vermont Pension Investment Committee link located in the menu on the right side of the page.

Local Investment

The Treasurer's office convened a capital gaps/local investment working group to identify areas where capital was not matched to needs and then take steps to address these barriers with substantial proposals. This group met regularly over the past year and included members of the Vermont General Assembly, VEDA, and VHFA, staff from the Gund Institute, community groups, Bond Bank, the Vermont Bankers Association, financial institutions, Efficiency Vermont, NeighborWorks of Western Vermont, and many others. The Treasurer's office is pleased to have had the opportunity to bring this diverse group together and our collaborative approach to finding potential solutions and bringing recommendations to the General Assembly. Below are some of the working group initiatives taken over the last several months.

- Working with the Vermont League of Cities and Towns and the Bond Bank, the group proposed a change in the municipal bonding statute to extend from twenty years to thirty years the period over which municipalities can bond to finance any capital project, with a useful life of at least 30 years. This will expand the range of long-lived capital projects that municipalities can finance to assist communities hard hit by Irene. This was submitted to House and Senate institutions committees.
- Increased the Treasurer's office current loan commitment to the Vermont Community Loan Fund from $200,000 to $500,000. The funds are dedicated to support VCLF's child care loan program. This, in turn, will provide child care subsidies, including services to lower income households and support jobs in the early education and child care industry.
- Worked with VEDA to develop a program to provide public and private financing of electric vehicle charging stations through the State Infrastructure Bank.
- Working with VEDA, developed proposal to extend a line of credit from the Treasurer's office to VEDA to support their activities, including commercial energy efficiency and renewable energy capacity. This will lower VEDA's reliance on outside investment bank financing and lower the cost for entities financing though VEDA, supporting Vermont jobs and economic development. The Treasurer's office is committed to provide up to $10 million in financing at terms acceptable to the Treasurer and with a guaranteed repayment. This was included in H.395, enacted by the State Legislature. H.395 also increased the State's moral obligation, based on a recommendation by the State Treasurer, to VEDA by $15 million to lower the cost of financing for economic development projects.

The working group continues to meet and will identify other areas where the Treasurer can make investments in the local economy. The group hopes to bring additional proposals to the legislature in the upcoming session. For more information, please see the summary report by the State Treasurer on credit facility for residential energy efficiency loans in the appendix section of this report.

VPIC Membership

The 11-member Vermont Pension Investment Committee consists of six voting members and the VPIC Chair. The VPIC Chair is a seventh, non-voting member, and is elected by the six voting VPIC members and four alternates. The active and retired employee members of the Vermont State Employees' Retirement System and Vermont State Teachers' Retirement System boards of trustees each appoint one member and one alternate. The employee and municipal official members of the board of the Vermont Municipal Employees' Retirement System appoint one member and one alternate. In addition, two members and one alternate are appointed to the VPIC by the Governor. The sixth member is the State Treasurer or designee. In considering appointments, the legislation directs that the experience and knowledge of potential appointees be considered in light of the purpose of the committee. The members serve staggered four-year terms with no term limits. As of December 2013, individuals appointed to the committee are: Chair, Stephen Rauh; Vice-Chair and State Treasurer Beth Pearce; VSERS voting member, Robert Hooper; VSERS alternate member, Kevin Gaffney; VMERS voting member, Tom Golonka; VMERS alternate member, Steven Jeffrey; VSTRS voting member, Joseph Mackey; VSTRS alternate member, Linda Deliduka; Governor's appointees, Richard Johannesen and Vaughn Altemus; and Governor's alternate appointee, Karen Paul.

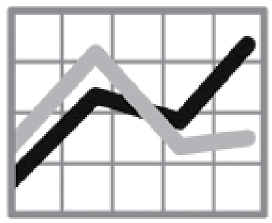
Bank in Vermont

The Treasurer's office continues to maintain its Bank in Vermont program to invest State funds on a predictable basis through certificates of deposit (CDs) via a competitive bidding process in banks with branches in Vermont. The program is designed to be attractive to the wide range of banking institutions in Vermont, and is predicated on the belief that investing Vermont funds in Vermont, consistent with earning a competitive rate of return, is a good policy. A block of funds is set aside for the scheduled bid in specified time frames. The CDs may be short duration, or have longer maturities, depending on the yield curve and cash management requirements. Between its inception in August, 2004, and December, 2013, $705.95 million in CDs have been awarded. As of December 31, 2013, there were four CD's outstanding. During 2013, a total of $22 million was invested in CDs, with varying maturities and rates well above comparable maturity Treasury rates. There have been no losses associated with this program.

Trust Investment Account

The 2000 State Legislature authorized the establishment of a Trust Investment Account (TIA) administered by the State Treasurer for purposes of investing restricted funds with non-expendable principal balances and other long-term funds. As of June 30, 2013, the fund had a principal balance of approximately $65.6 million, of which $30.5 million was allocated to the Higher Education Endowment Trust Fund, $10.7 million to the Tobacco Trust Fund, and the remainder to various smaller trust funds.

The current target allocation of the Trust Investment Account is 70 percent fixed-income securities and 30 percent equities. For fiscal year 2013, the fund had a total return of 5.33 percent versus the target return of 5.05 percent, which is based on actual asset allocation, and the performance of the S&P 500 Stock Index (20.6 percent) and the Barclays (formerly Lehman) Mortgage Backed Securities Index (-1.10 percent).



In fiscal year 2013, the Treasurer's office undertook a study of the fund's asset allocation in light of the depressed returns in the fixed income industry due to the Federal Reserve's ongoing actions. It concluded that a more optimal portfolio allocation, utilizing a broader range of asset classes beyond large cap equities and mortgage-backed securities, could be achieved at a lower fee to the fund through the use of index funds. The Treasurer's office will focus its administrative efforts on analyzing optimal portfolio allocations using total return, standard deviation, and correlation assumptions, available from professional investment advisors, to construct a portfolio with the lowest expected risk relative to the TIA's return objectives. This transition to passive funds will take place in fiscal year 2014.

Updates on several trust funds within the TIA:

Higher Education Trust Fund

The 1999 State Legislature established the Vermont Higher Education Endowment Trust Fund and appropriated $6 million for the creation and management of the fund by the State Treasurer. An additional $22.5 million of contributions were added between fiscal years 2002 through 2013. This includes, pursuant to legislation introduced by the Treasurer, all unclaimed property worth less than $100 that has been under State custody for ten years or longer. On June 30, 2013, the fund had a market value of $30,462,454.46. In September of 2013, the State Treasurer distributed 5 percent of the average market value of the assets over the prior 12 quarters equally among the University of Vermont, the Vermont State Colleges, and the Vermont Student Assistance Corporation. Each entity received $441,322 to be applied as non-loan financial aid to Vermont students attending Vermont post-secondary institutions.

Trust Litigation Settlement Fund & the Tobacco Trust Fund

In November 1998, Vermont was one of 46 states to enter into a settlement agreement with four major tobacco companies. The State's estimated share of settlement payments at that time was expected to total $806 million over the first 25 years of payment, with an additional $156 million of strategic contribution payments to be paid between 2008 and 2017. Through fiscal year 2013, the State has received payments totaling $440.2 million.

In fiscal year 2000, the Vermont State Legislature established a Tobacco Litigation Settlement Fund ("Settlement Fund") to be administered by the State Treasurer and subject to further appropriations. In fiscal year 2013, the legislature has appropriated $31.3 million for Medicaid health services; $3.6 million for enforcement, prevention, and education; and $1.4 million for substance abuse and youth protection programs. In fiscal year 2014, $35.98 million from the settlement fund was directed to healthcare services (Medicaid; includes funds redirected to the Medicaid Global Commitment Fund). A total of $4.02 million was spent on programs in various departments for tobacco enforcement, prevention, and education programs. Additionally, $1.42 million funded substance abuse and youth protection programs in the Agency of Human Services. Any remainder of the settlement fund receipts is to remain in the fund for appropriation in fiscal year 2014. In fiscal year 2013, $2.1 million was transferred from the Tobacco Trust Fund to the Tobacco Litigation Settlement Fund per Act 162 of 2012 D.105. The balance of the Tobacco Trust Fund investments at June 30, 2013, was $10.7 million and down from $17.8 million at the end of fiscal year 2012. Of the $10.7 million invested, $2.1 million is committed to the above mentioned transfer to cover the deficit in the tobacco Litigation Settlement Fund as in past years. The fund is expected to be depleted in fiscal year 2014.

Vermont's Expected and Actual Receipt of Tobacco Settlement Funds

Fiscal Year	Master Settlement Amount* ($millions)	Expected* ($ millions)	Actual* ($millions)
2000	$36.23	$36.23	$33.22
2001	$28.47	$28.47	$24.68
2002	$34.18	$34.18	$31.00
2003	$34.51	$34.51	$30.55
2004	$28.80	$28.80	$25.82
2005	$28.80	$26.10	$26.20
2006	$28.80	$24.50	$24.06
2007	$28.80	$22.60	$24.99
2008	$29.37	$39.50	$39.91
2009	$29.37	$39.91	$40.66
2010	$29.37	$36.00	$36.22
2011	$29.37	$33.00	$33.86
2012	$29.37	$31.00	$33.26
2013	$29.37	$33.86	$34.51

** Source: JFO. Master Settlement amounts shown are at time of initial settlement. Expected amount determined third quarter of Fiscal Year unless noted. Actual excludes Settlement Fund Account performance.*

Vermont Veterans Home

By legislative act in fiscal year 2001, the Vermont Veterans' Home was required to transfer its endowment fund to the State for administration by the State Treasurer. The legislation allows the State Treasurer to invest these funds, if appropriate, with the long-term investments in the Trust Investment Account. During fiscal year 2013, there were no withdrawals from the Vermont Veterans' Home TIA. As of June 30, 2013, the balance of the fund first contributed to the TIA was $556,488.95, and the balance of the second (later) fund was $672,801.58, for a combined total of $1,229,290.53.

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 and funds are not available to the members until they retire or terminate employment. The State Treasurer's Office, in concert with the State and teachers' retirement boards, made a significant change to the structure of the SDIA two years ago. Until fiscal year 2011, funds were invested in two intermediate term bond portfolios managed by two different investment managers. The bonds were "wrapped" by an insurance policy guaranteeing the book principal value of investments to SDIA participants. In response to a limited wrap environment and rising fees, the State opted to transition to a new investment model. The portfolio is now a commingled stable value fund designed to combine the assets of unrelated plans, with resulting economies of scale, within a single stable value strategy. This strategy also has the advantage of multiple wrap providers, thus, providing improved security to fund participants. The fund has demonstrated improved investment performance since that time, while still meeting its stated objectives to provide a relatively high fixed income yield with little market-related risk. Of primary importance is the preservation of principal and earned interest. Secondary to the preservation of capital is the need to generate, over time, a composite yield in excess of short-term yields available in the fixed income money market marketplace. The balance as of June 30, 2013 was $68,461,221.

Unclaimed Property Division

Overview

The primary goal of the Unclaimed Property Division is to reunite citizens and their unclaimed financial property. Financial property becomes "unclaimed" after a business or non-profit entity loses contact with a customer for a period of years. The property is sent to the Treasurer's office to protect the funds and centralize search efforts to locate property owners. The Unclaimed Property Division's primary goal is to reunite individuals with their unclaimed financial property. To accomplish this goal, the division uses a variety of tools. Foremost, the division must ensure that holders of the property file their annual unclaimed property report. At right is a list of some of the types of property that can become unclaimed. The Office of State Treasurer acts only as custodian for the missing owners, holding the property in trust until it is claimed. Vermont never takes legal ownership of the property; there is no time limit for filing a claim, and never a fee to claim the property.

- **Savings Accounts**
- **Checking Accounts**
- **Uncashed Checks**
- **Telephone/Utility Deposits**
- **Rental Security Deposits**
- **Wages**
- **Insurance Benefits/Policies**
- **Safe Deposit Box Contents**
- **Mortgage Insurance Refunds**
- **Stocks and Dividends**
- **Mutual Funds**
- **Certificates of Deposit**

Unclaimed Property Division
(802) 828-2407
(800) 642-3191

Al LaPerle
Unclaimed Property Director

Nancy Scribner
Business Administrator

Linda Bouffard
Program Technician I

Charles Ryerson
Program Technician I

UPDATES

Unclaimed Life Insurance Benefits Law Passed

In fiscal year 2013, the Treasurer's office, working with the Vermont Legislature and the Department of Financial Regulation, adopted and passed the National Conference of Insurance Legislators Unclaimed Life Insurance Benefits Model Act. This important consumer protection law does three things:

ACCOMPLISHMENTS IN 2013

- Working with the Vermont Legislature and the Department of Financial Regulation, the Treasurer's office supported the adoption of a new consumer protection law that requires life insurance companies to make a good faith effort to contact beneficiaries when a policy holder has died.
- The division paid 13,435 claimants approximately $5.179 million, with an average claim of $385.50.
- Holders of unclaimed property reported $9.62 million worth of unclaimed funds to the State in fiscal year 2013.
- In fiscal year 2013, there were 280,471 web searches for unclaimed property on the Vermont State Treasurer's web site -- with more than 17,700 searches in one day during our spring advertising campaign.
- Managed the unclaimed property database of more than $64 million and 350,000 properties.

1. **Establishes a requirement to use the Social Security Administration Death Master File (DMF), or a similar database, as a cross-reference against an insurer's list of in-force life insurance policies twice per year.**

2. **Requires the insurer must perform a good-faith effort to seek out and locate any beneficiaries and provide the necessary claim forms and instructions, within 90 days of identifying a match.**

3. **In the event the beneficiary cannot be located, it requires that the monies be escheated to the Treasurer's unclaimed property funds, so that we can advertise the funds availability and make efforts to locate the beneficiary.**

Last year, Vermont had a record number of successful claims for unclaimed life insurance benefits and expects that ongoing efforts in this area will assist many more Vermonters going forward. Nationally, more than a billion in unpaid death benefits has been distributed as a result of work in this area. Approximately $600 million has been disbursed to state unclaimed property offices in an attempt to locate beneficiaries and more than $400 million directly to beneficiaries located as a result of these efforts.

Claims Processing

During fiscal year 2013, Vermont's unclaimed property program paid 13,435 claims with an average claim amount of $385.50. In total, the State Treasurer's Office returned more than $5.1 million. The division uses a proven system of outreach efforts to reunite owners with their property, such as a publication of our annual list of names in daily newspapers; a spring and fall advertising campaign; staffing a booth at the Champlain Valley Exposition; distribution of local listings to town clerks and legislators; cross-matching our database

Life Insurance Policies - Unclaimed Benefits

The Vermont State Treasurer's Office has received more than $2 million in unclaimed property as the result of a national multi-state initiative to require life insurance companies to pay out on old, sometimes forgotten, policies of people who have died. The money represents previously unreported insurance accounts that were being held by companies because no one had claimed them at the time the policyholder died.

Check the Vermont unclaimed property database at: **MissingMoney.Vermont.gov**

Suggestions for Identifying Lost Policy Information

If you believe you may be entitled to benefits from a life insurance policy, the American Council of Life Insurers offers these additional suggestions for conducting your own search for old policies.

- **Check your loved one's papers and address and telephone books to look for life insurance policies and the names of insurance agents. Contact every insurance company with which they may have had a policy, even if you're not sure the policy is still in force.**
- **Check with the employee benefits office at their latest and previous places of employment. Or, check with the union welfare office.**
- **Check bank books and canceled checks for the last few years to see if any checks may have been written to pay life insurance premiums.**
- **Check the mail for one year after death for premiums notices, which usually are spent annually. If a policy has been paid up, there will not be any notice of premium payments due. However, the company may still send an annual notice regarding the status of the policy or it may pay or send notice of a dividend.**
- **Review your loved one's income tax returns for the past two years. Look for interest income from and interest expenses paid to life insurance companies. Life insurance companies pay interest on accumulations on permanent policies and charge interest on policy loans.**
- **Contact the life insurance companies directly to see if a policy exists. Each state insurance department has a listing of life insurance companies licensed to do business in its state.**

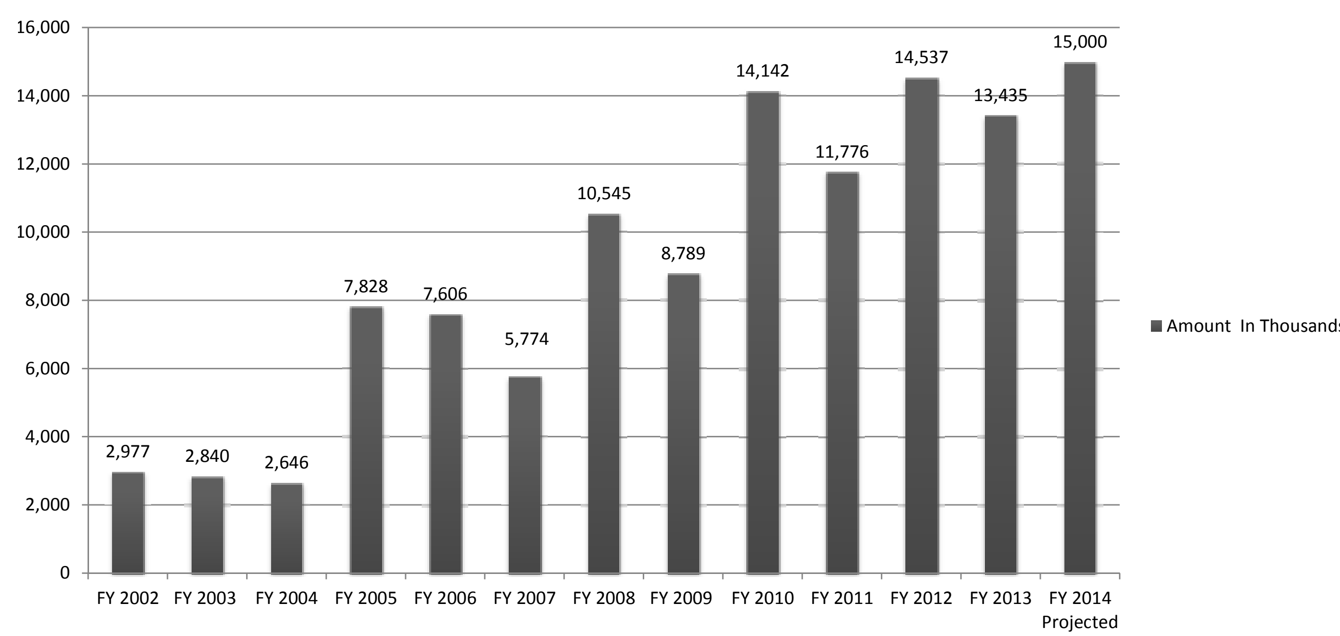
Useful Links in Searching for Lost Life Insurance Policies

The State Treasurer's Office provides a special consumer page with links to the organizations below. You may access the page by going to www.MissingMoney.Vermont.gov.

Vermont Department of Financial Regulation: DFR can help you check the licensure of an insurance company or individual.
National Association of Unclaimed Property Administrators: You can search the unclaimed property databases of other states to see if there is financial property being held for you or your loved one.
National Association of Insurance Commissioners: NAIC and the Center for Insurance Policy and Research offers tips and links to identify and track down an insurance company.
MetLife Policy Finder: MetLife has set up this page to assist you in checking for an unclaimed MetLife life insurance policy.
John Hancock: The company offers a link on this page to submit an account request to initiate an inquiry into a lost or unclaimed life insurance policy.
U.S. Department of Veteran Affairs Unclaimed Insurance Funds: At this search page, you may look to see whether you or a member of your family is entitled to any insurance policy payouts, dividend checks, and premium refunds that were mailed to policyholders, but could not be delivered. The Department of Veterans Affairs will hold these payouts indefinitely.

In April, a web page on locating unclaimed life insurance benefits was created and posted on the MissingMoney.Vermont.gov page. The office promoted the web site with a press release. The media coverage resulted in the second-highest search day in the history of the unclaimed property program. On April 9, 17,716 searches were recorded. On an average day, there are 300-400 searches for unclaimed property.

Unclaimed Property Number of Claimants Paid



Above is the cover for the fall 2013 annual list of names. This publication is inserted into daily newspapers throughout Vermont. The Unclaimed Property Division conducts two annual outreach campaigns each year.

with the Department of Taxes; and our annual postcard mailing. Enhancing our ability to return property, the division uses the Unclaimed Property Management System 2000. This is the most advanced, secure and reliable unclaimed property management systems available to the State. Fiscal year 2014 claims processing is currently on pace to exceed last fiscal year's record total. Claim information for the past twelve fiscal years is shown in the chart on page 55.

Reporting and Compliance

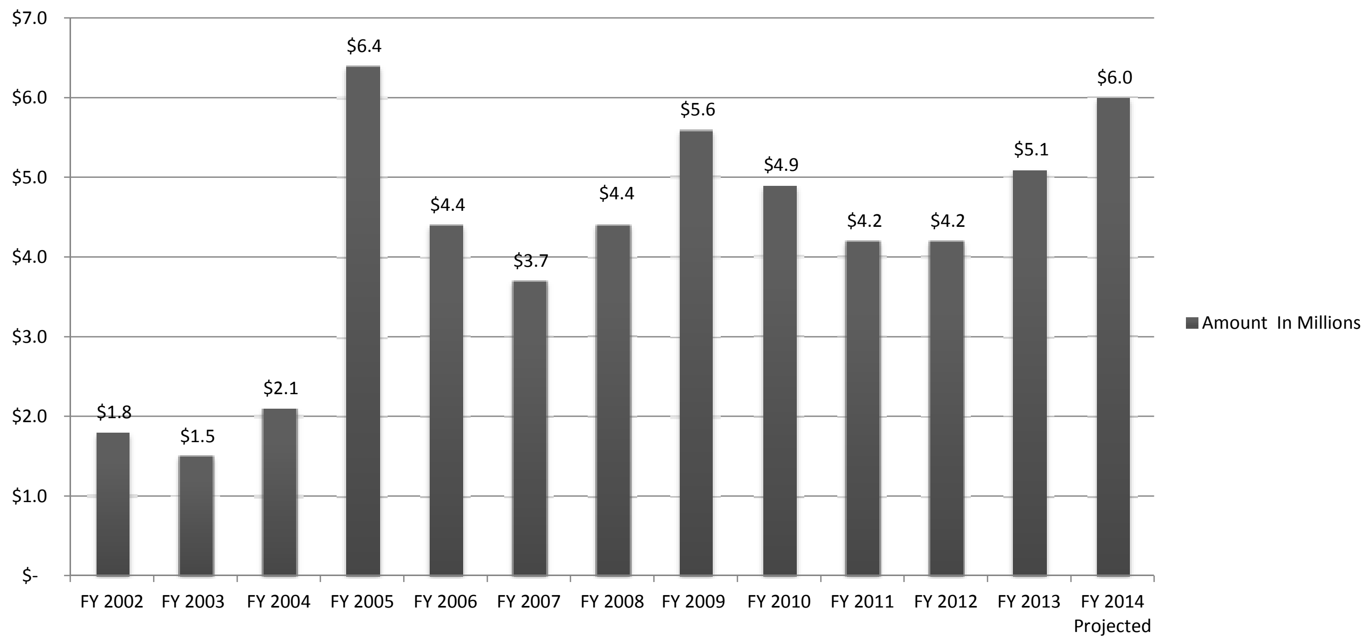
By law, banks, insurance companies, corporations and the courts are among the many organizations known as holders, These entities are required to report dormant accounts to the Unclaimed Property Division. Vermont's Unclaimed Property Law requires organizations to annually review their records and transfer accounts that have reached certain dormancy thresholds to the State Treasurer, who serves as custodian of the funds until they can be returned to their rightful owners. The State of Vermont is currently in possession of more than $64 million in unclaimed property belonging to approximately 350,000 individuals and organizations.

Holders of unclaimed property include business associations, banking and financial organizations, life insurance corporations, and other entities holding property belonging to another person.

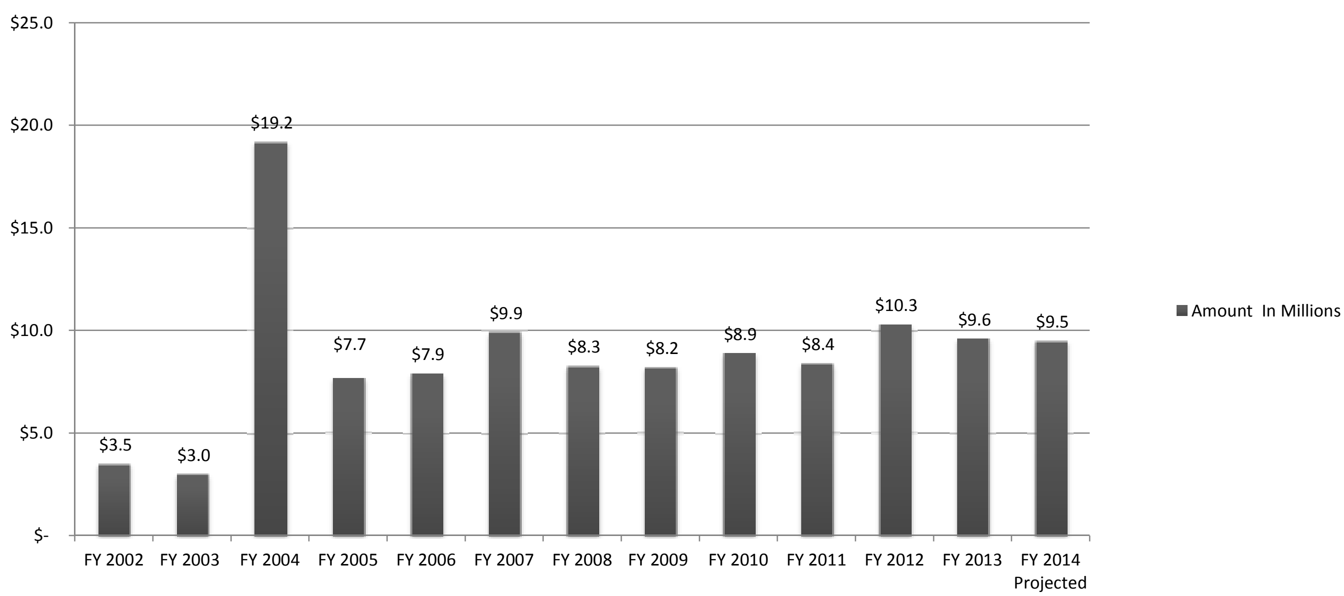
Vermont's Unclaimed Property Law states that holders are required to review their records each year to determine if they hold any property that has remained unclaimed for the required dormancy period. Once property has remained unclaimed for the required dormancy period, it becomes reportable. Before unclaimed funds are turned over to the State, all holders of property valued at $50 or more are mandated by law to notify the individual by mail at the last known address on record. Despite these efforts, many accounts remain unclaimed and are turned over to the State Treasurer.

The Treasurer's office continues to be very successful with our voluntary compliance program. This program allows holders to submit to a process of disclosing and remitting property and thereby avoiding costly audits, fines and penalties. Since the program's inception, $2,861,458 has been turned over to the State. In fiscal year 2013, 35 new holders have signed up for the voluntary compliance program.

Unclaimed Property Amount Returned to Vermonters



Unclaimed Property--Property Value Turned Over to the Treasurer's Office



Treasury Operations Division

Overview

The Treasury Operations Division is responsible for the banking and cash management of more than $5 billion annually in both receipts and disbursements; the establishment and maintenance of the State's banking network; the disbursement of the State's warranted payments and debt service; the collection of certain receipts, including those related education tax payments to the State; and the recording of accounting transactions associated with these activities. Monitoring and reconciliation of internal and external accounts comprises a major portion of the division's staff time, in addition to the proper reporting and recording on the State's books for financial reporting.

In addition, the division is responsible for preparing financial statements and schedules for the annual audit of the State's books (as it relates to cash and investment disclosures); administering the Municipal Equipment Loan Fund; and the preparation of the pension trust fund financial statements for the pension systems managed by the State Treasurer's Office. TD Bank, N.A. serves as the State's master banking contractor. Bank personnel and Treasury staff work continuously together to provide new and improved services and processes.

Treasury Operations Division: (802) 828-2301

John Booth
Treasury Operations Director

Scott Baker
Financial Reporting Director

Dan Currier
Cash & Short-term Investments Manager

Ron Baldauf
Financial Specialist III

Lisa Gilman
Financial Specialist III

Joanne Costantini
Financial Specialist II

Wendy Dickinson
Financial Specialist II

Robyn Lambert
Financial Specialist II

UPDATES

Reconciliations

The Treasurer's office staff reconciles approximately 30 State core bank accounts. In fiscal year 2013, more than 113,000 deposits were processed to State accounts through a network designed to accelerate the collection of cash so that it may be used for operating needs or efficiently placed in short-term investments. On the disbursement side, 1.77 million payments were processed, either through paper checks or electronic funds transfers (EFT). Working cooperatively with all of the Treasury's business partners, we have been able to assure that the number and duration of reconciling items from user department entries remains low.

ACCOMPLISHMENTS IN 2013

- In fiscal year 2013, more than 113,000 deposits were processed to State accounts and 1.77 million payments were processed, either through paper checks or electronic fund transfers.
- During fiscal year 2013 the division responded to more than 1,000 information requests received via the division's centralized email accounts.
- In response to fiscal challenges to municipalities resulting from flood-related, federally-declared natural disasters in May, June and July of 2013, the Treasury Operations Division facilitated and implemented actions aimed at aiding Vermont's impacted communities. As directed by the State Treasurer, in cooperation with the Administration and as requested by specific municipalities, the division processed the acceleration of certain State payments.

Electronic Payments

Electronic payments reduce bank fees, printing and postage costs, the potential for fraud, as well as staff time to reconcile bank accounts. In contrast, the issuance of paper checks is labor-intensive and costly. Tracking of lost checks is time-consuming and can be largely eliminated through electronic payment processing. Costs associated with searching for cleared payments and replacing lost or destroyed checks is eliminated, as is the inconvenience to the payee. This past year, the Treasurer's office reissued 880 check payments. The reissued payment may be made by check or by electronic payment. The Treasurer's office has an ongoing initiative to encourage State agencies and departments to use electronic payments whenever feasible.

The State currently issues and mails a remittance advice for each electronic payment. Of the more than 1.77 million payments processed during fiscal year 2013, approximately 69 percent were electronic transfers. The State Treasurer's Office rolled out a "Vendor Portal" secure web site during fiscal year 2009 to provide payees with electronic access to remittance information. This eliminated one of the potential barriers to the acceptance of electronic payments and reduced the number of information requests received by the Treasurer's office.

In November of 2013, 97.1 percent of monthly benefit payments to retired State employees were made via direct deposit. For retired teachers, the percentage of monthly benefit payments via direct deposit was 97.8 percent and for retired municipal employees it was 94.5 percent. This is an increase from the November 2012 percentages of 96.8 percent-State; 97.4 percent-teachers; and 93.4 percent-municipal.

Act 68 Receipts

Per statute, the Treasury Operations Division monitors the receipt of education tax payments to the State mandated by Act 68. Notification and initial invoicing of the municipalities for the principal payment are completed by the Agency of Education. In fiscal year 2013, all municipalities remitted the billed education tax principal payments.

Accelerated Payments to Towns

Following federally declared disaster declarations due to record-breaking rainfall in May and in subsequent months, the State Treasurer's Office implemented an accelerated payment of State funds to towns located within the FEMA designated areas. The early payment program mirrored one implemented in 2011 to assist towns hard-hit by Tropical Storm Irene.

"By accelerating payments to towns, we hope to mitigate the financial impacts of costly repairs. Many projects can't wait until federal funds are in-hand, but must be addressed immediately."

– State Treasurer Beth Pearce, Payment Announcement Event

Payments that were eligible to be released early were:

- **State aid to town highways, disbursed quarterly;**
- **Payment-in-lieu-of taxes, normally dispersed to towns in October;**
- **Current use payments, typically disbursed in November;**
- **State aid to education payments, normally released in December and April; and**
- **Payment-in-lieu-of taxes for Agency of Natural Resources land, normally disbursed on an annual basis in November.**

To be eligible for accelerated State payments, towns were required to request it and document the amount of anticipated repairs.

Technology Update

Technology Services

The Technology Services Division (TSD) is committed to providing technology support services to the Office of the State Treasurer. The technology support staff provides business analysis, system design, programming, help desk support, hardware maintenance, system and data security and project management support services. TSD administers and maintains the entire range of software and hardware facilitating the operations of the office, including banking reconciliation software, check and EFT issuance, unclaimed property, and the software applications that support the retirement services for Vermont's approximately 47,500 active, vested, and retired members across our State employee, municipal employee and teacher retirement funds.

UPDATES

The Technology Services staff continued to implement important upgrades to the office's infrastructure and applications suite to improve the speed, reliability and dependability of its systems during 2013. Listed below are some of our major accomplishments.

ACCOMPLISHMENTS IN 2013

- Our servers in our primary and disaster recovery data centers were upgraded this year to improve system performance and reliability. Our disc capacity at our primary data center was increased by 300 percent. Disc capacity was increased by 200 percent at our disaster recovery data center to enable faster recovery of our systems from a disaster recovery event. Our discs are also configured with advanced technologies that are more resilient to disc failures. Further upgrades are planned for the coming year as advancements in technology become available that further improves system capacity and reliability in support of the Treasurer's office and the citizens of Vermont.

- The remaining deliverables for the Vermont Pension Administration System (VPAS) are in the final phase that is set to complete in February 2014. User acceptance testing has been successfully completed for all elements. The final deliverables include the tracking and reporting for our defined contributions funds, ad hoc reporting capabilities, automated benefit calculations, customer services functions and seminar/counseling functions. The majority of the functionality (including database benefits and payroll) from VPAS has been in use since 2009. The phased in approach to implementation has resulted in a longer implementation timeline, but will result in a better pension administration system for all our members.

Technology Services
(802) 828-2498

Ram Verma
Technology Services Director

Lane Safford
Network Administrator II

Steve Godin
System Developer III

Linda Vincent
Project Manager

Legislative Reporting Requirements

Burma (Myanmar)

Act 13 of the Public Acts of 1999 specifies that the Treasurer shall implement the purposes of the Act by voting in favor of shareholder resolutions concerning individual companies doing business with the government of Burma. In addition, the Treasurer shall separately notify the company that Vermont wishes to convey its grave concerns regarding the company's economic ties to the government of Burma. The Treasurer complies with this Act through measures including mandating compliance through VPIC investment guidelines that must be observed by investment managers and by the proxy voting firm engaged by VPIC to vote its proxies. Proxy voting guidelines adopted by the three Vermont Retirement Systems and the Treasurer's office for U.S. domestic equity managers also specify manager voting compliance including support of labor standards in connection with a company's involvement in Burma, and reporting on Burmese operations and activities.

Financial Literacy Trust Fund

The legislature authorized the establishment of a trust fund in 2008 to finance financial literacy in Vermont. According to the legislation, "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 Treasurer is authorized to collect money from a variety of sources to fund these activities. For fiscal year 2013, the fund received deposits of $11,250. The fund earned $48.31 in interest. There was $11,684.36 expended from the trust fund during fiscal year 2013. Of that amount, approximately $9,990.30 was expended in support of the third year of the Reading is an Investment program, $1,631.90 was expended for the state tournament of the Vermont Treasury Cup Challenge, and the remainder expended for the annual financial literacy poster competition.

MacBride Principles

Act 50 of the Public Acts of 1989 specifies that the State Treasurer and the retirement boards compile a list of corporations that conduct business in Northern Ireland in which the State Treasurer and retirement boards have invested funds. Notifications from external investment managers listing such businesses are due in the Treasurer's office on January 1 of each year, and these notifications are kept on file in the Treasurer's office. The Act further requires that the Treasurer and the boards of the trustees of the Vermont State Employees' Retirement System and the Vermont State Teachers' Retirement System shall support the MacBride Principles addressing worker equality and security issues through support of shareholder issues. The Treasurer's office and the trustees comply with Act 50 by mandating MacBride Principles compliance through Vermont Pension Investment Committee (VPIC) investment guidelines to be observed by investment managers and by the proxy firm engaged by VPIC to vote its proxies. Proxy voting guidelines approved by the three Vermont Retirement Systems and the Treasurer's office for U.S. domestic equity managers also specify manager voting compliance with MacBride principles.

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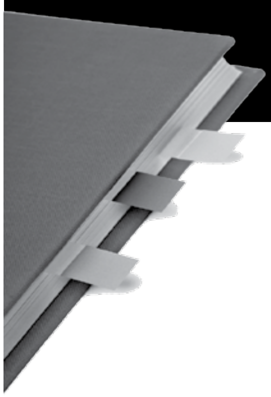

Appendices

HISTORICAL SUMMARY OF OPERATIONS: *Pension Fund Operations*

State Employees' Retirement System -- Summary of Operations

Category	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
SOURCE OF FUNDS										
Employee Contributions	$ 13,716,264	$ 15,112,105	$ 14,561,467	$ 15,456,691	$ 18,614,102	$ 22,148,754	$ 22,840,354	$ 22,269,041	$ 27,708,009	$ 29,847,352
Employer Contributions	26,645,619	36,493,435	36,866,451	39,297,002	39,179,823	25,134,235	31,468,884	37,572,599	40,302,433	51,370,307
Other Income	695,397	777,792	1,171,516	205,321	169,984	1,041,870	227,524	743,172	377,562	638,736
Investment Income (Reduction)	138,426,552	90,452,723	115,146,415	192,625,279	(84,156,254)	(242,976,381)	182,593,261	238,386,383	23,604,774	110,715,697
APPLICATION OF FUNDS										
Retirement Benefits	44,637,116	48,893,673	53,435,617	58,859,659	64,060,488	70,043,119	79,001,908	84,716,513	90,170,209	96,241,493
Refunds	1,171,957	1,402,481	1,351,911	1,526,140	1,414,144	1,403,995	1,521,440	1,731,375	1,908,752	2,515,758
Health/Life Insurance Expenses	9,236,526	11,329,269	11,590,588	13,541,092	16,371,373	-	-	-	-	-
Administrative Expenses	659,447	1,255,852	1,329,081	511,435	1,254,577	1,219,287	891,477	1,147,576	1,328,919	1,374,643
Other Expenses	617,658	635,618	668,929	344,719	631,321	477,966	568,278	613,899	702,136	437,367
Addition (Reduction) to Net Assets Held In Trust for Pension Benefits	$ 123,161,128	$ 79,319,162	$ 99,369,723	$ 172,801,248	$ (109,924,248)	$ (267,795,889)	$ 155,146,920	$ 210,761,832	$ (2,117,238)	$ 92,002,831

State Employees' Retirement System -- (OPEB) Summary of Operations*

Category	2008	2009	2010	2011	2012	2013
SOURCE OF FUNDS						
Employee Contributions	$ -	$ -	$ -	$ -	$ -	$ -
Employer Contributions	1,444,757	19,893,129	20,888,347	24,963,027	25,865,470	23,888,787
Other Income	-	-	1,640,420	2,431,447	1,786,719	1,668,896
Investment Income (Reduction)	7,886	86,454	480,064	802,020	375,423	613,290
APPLICATION OF FUNDS						
Retirement Benefits		-	-	-	-	-
Refunds		-	-	-	-	-
Health/Life Insurance Expenses		17,894,518	20,860,032	24,878,272	25,863,989	23,887,003
Administrative Expenses		-	-	68	275	71
Other Expenses		-	-	-	-	
Addition (Reduction) to Net Assets Held In Trust for Pension Benefits	$ 1,452,643	$ 2,085,065	$ 2,148,799	$ 3,318,154	$ 2,163,348	$ 2,283,899

*** In 2008, changes made to the Government Accounting Standard Board requirements mandated that institutions report the future cost of other post-employment benefits (OPEB).**

Teachers' Retirement System -- Summary of Operations

Category	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
SOURCE OF FUNDS										
Employee Contributions	$ 21,088,345	$ 21,158,452	$ 21,884,140	$ 22,533,479	$ 22,918,798	$ 20,937,686	$ 25,315,397	$ 32,062,253	$ 31,827,995	$ 32,343,368
Employer Contributions	24,446,282	24,446,282	24,446,282	37,341,609	39,549,097	35,960,934	40,545,321	47,134,361	51,731,875	63,646,240
Other Income	267,330	373,705	1,180,606	2,093,219	1,628,242	3,754,020	1,817,540	3,341,877	4,505,246	1,733,033
Investment Income (Reduction)	166,325,045	115,058,694	130,835,585	244,437,213	(110,019,634)	(307,382,559)	208,723,610	261,886,311	24,726,665	120,403,030
APPLICATION OF FUNDS										
Retirement Benefits	55,246,342	60,147,731	66,272,471	74,368,306	82,157,642	89,825,986	96,448,102	106,930,467	117,801,002	129,416,052
Refunds	711,806	1,104,278	1,290,197	1,625,140	1,280,715	1,420,776	1,183,659	1,218,955	1,521,099	1,604,283
Health/Life Insurance Expenses	8,279,332	10,167,601	11,233,854	13,040,783	15,081,847	16,421,176	17,203,669	18,749,675	20,620,144	22,459,219
Administrative Expenses	805,495	1,052,772	1,679,883	817,052	866,473	1,249,774	1,078,762	1,399,732	1,604,735	1,680,722
Other Expenses	543,746	682,438	580,403	203,444	542,665	606,434	303,741	609,091	391,832	233,735
Addition (Reduction) to Net Assets Held In Trust for Pension Benefits	$ 146,540,281	$ 87,882,313	$ 97,289,805	$ 216,350,795	$ (145,852,839)	$ (356,254,065)	$ 160,183,935	$ 215,516,882	$ (29,147,031)	$ 62,731,660

Municipal Retirement System -- Summary of Operations

Category	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
SOURCE OF FUNDS										
Employee Contributions	$ 6,507,268	$ 7,404,119	$ 8,744,718	$ 9,769,882	$ 9,906,709	$ 9,557,973	$ 10,711,600	$ 11,702,728	$ 11,337,926	$ 15,060,665
Employer Contributions	7,114,813	8,058,810	7,926,436	8,535,396	-	8,008,862	10,592,919	11,117,363	11,532,230	12,014,186
Other Income	2,125,294	298,475	228,746	206,101	124,132	1,321,919	203,549	266,425	118,191	170,381
Investment Income (Reduction)	27,271,821	18,165,861	27,697,371	46,637,360	(19,472,654)	(56,937,342)	47,598,096	66,957,781	7,671,464	34,838,507
APPLICATION OF FUNDS										
Retirement Benefits	5,694,080	6,418,097	7,120,325	7,969,703	9,064,725	10,228,263	11,073,098	12,298,902	14,214,160	16,101,187
Refunds	1,110,243	1,140,245	1,102,940	1,389,583	1,143,397	1,223,465	1,127,574	1,275,979	1,664,687	1,587,311
Health/Life Insurance Expenses	-	-	-	-	-	-	-	-	-	-
Administrative Expenses	151,228	367,810	439,983	687,382	623,619	798,458	393,947	569,603	672,851	749,447
Other Expenses	668,624	423,937	1,101,883	560,473	506,817	588,899	795,522	886,709	469,599	999,434
Addition (Reduction) to Net Assets Held In Trust for Pension Benefits	$ 35,395,021	$ 25,577,176	$ 34,832,140	$ 54,541,598	$ (20,780,371)	$ (50,887,673)	$ 55,716,023	$ 75,013,104	$ 13,638,514	$ 42,646,360

STATE OF VERMONT: *Pension Trust Funds—Combining Statement of Plan Net Assets—6/30/2013*

	Defined Benefit Plans			Defined Contribution Plans			Other Postemployment Benefit Funds			
	Vermont State Retirement Fund	State Teachers' Retirement Fund	Vermont Municipal Employees' Retirement Fund	Vermont State Defined Contribution Fund	Single Deposit Investment Account Fund	Vermont Municipal Employees' Defined Contribution Fund	Vermont State Postemployment Benefits Trust Fund	Municipal Employees' Health Benefit Fund	Eliminations	Total
ASSETS										
Cash and short-term investments	$ 2,999,756	$ 2,263,586	$ 2,319,068	$ 109,259	$ 966,007	$ 70,150	$ 2,543,040	$ 305,906	$ -	$ 11,576,772
Investments at fair value										
Pooled investments	1,463,483,913	1,545,109,222	450,276,937	-	-	-	-	-	-	3,458,870,072
Fixed income	-	-	-	-	-	-	7,950,726	-	-	7,950,726
Equities	917	641,401	240,789	-	-	-	4,089,864	-	-	4,972,971
Mutual and commingled funds	-	-	-	48,911,978	67,495,205	18,454,963	66,076	11,386,823	-	146,315,045
Total investments	1,463,484,830	1,545,750,623	450,517,726	48,911,978	67,495,205	18,454,963	12,106,666	11,386,823	-	3,618,108,814
Receivables										
Contributions - current	4,354,781	3,563,940	2,908,204	104,858	-	25,470	236,521	-	-	11,193,774
Contributions - non-current	-	-	6,907,977	-	-	-	-	-	-	6,907,977
Interest and dividends	4	27,675	331,898	-	9	-	-	-	-	359,586
Due from other funds	59,270	525	49,212	-	-	26,131	814,744	-	(135,138)	814,744
Other	3,246	322,941	35,729	-	-	-	10,341	-	-	372,257
Total receivables	4,417,301	3,915,081	10,233,020	104,858	9	51,601	1,061,606	-	(135,138)	19,648,338
Prepaid expenses	-	2,048,261	15,573	4,540	-	-	-	-	-	2,068,374
Capital assets										
Construction in progress	1,407,147	1,634,136	482,429	-	-	-	-	-	-	3,523,712
Capital assets being depreciated										
Equipment	813,541	986,801	397,785	-	-	-	-	-	-	2,198,127
Less accumulated depreciation	(370,450)	(447,034)	(182,538)	-	-	-	-	-	-	(1,000,022)
Total capital assets, net of depreciation	1,850,238	2,173,903	697,676	-	-	-	-	-	-	4,721,817
Total assets	1,472,752,125	1,556,151,454	463,783,063	49,130,635	68,461,221	18,576,714	15,711,312	11,692,729	(135,138)	3,656,124,115
LIABILITIES										
Accounts payable	2,034,810	1,522,420	457,666	1,248	-	362	33,962	-	-	4,050,468
Retainage payable	224,143	273,261	111,329	-	-	-	-	-	-	608,733
Due to other funds	845	4,210	27,638	40,213	-	49,212	14,567	-	(135,138)	1,547
Total liabilities	2,259,798	1,799,891	596,633	41,461	-	49,574	48,529	-	(135,138)	4,660,748
NET POSITION HELD IN TRUST FOR EMPLOYEES' PENSION AND OTHER POSTEMPLOYMENT BENEFITS	$ 1,470,492,327	$ 1,554,351,563	$ 463,186,430	$ 49,089,174	$ 68,461,221	$ 18,527,140	$ 15,662,783	$ 11,692,729	$ -	$ 3,651,463,367

See Independent Auditors' Report.

STATE OF VERMONT: *Pension Trust Funds—Combining Statement of Changes in Plan Net Assets—Fiscal Year Ended 6/30/2013*

	Defined Benefit Plans			Defined Contribution Plans			Other Postemployment Benefit Funds			
	Vermont State Retirement Fund	State Teachers' Retirement Fund	Vermont Municipal Employees' Retirement Fund	Vermont State Defined Contribution Fund	Single Deposit Investment Account Fund	Vermont Municipal Employees' Defined Contribution Fund	Vermont State Postemployment Benefits Trust Fund	Municipal Employees' Health Benefit Fund	Eliminations	Total
ADDITIONS										
Contributions										
Employer - pension benefit	$ 51,370,307	$ 42,646,240	$ 12,014,186	$ 1,857,713	$ -	$ 678,918	$ -	$ -	$ -	$ 108,567,364
Employer - healthcare benefit	-	21,000,000	-	-	-	-	25,557,683	-	-	46,557,683
Plan member	29,847,352	32,343,368	15,060,665	723,894	-	627,840	-	-	-	78,603,119
Transfers from other pension trust funds	638,736	292,953	170,381	47,198	-	26,131	-	-	(1,175,399)	-
Transfers from non-state systems	-	-	-	16,742	-	6,971	-	-	-	23,713
Medicare part D drug subsidy	-	1,440,080	-	-	-	-	-	-	-	1,440,080
Total contributions	81,856,395	97,722,641	27,245,232	2,645,547	-	1,339,860	25,557,683	-	(1,175,399)	235,191,959
Investment Income										
Net appreciation (depreciation) in fair value of investments	917	641,401	240,759	3,932,390	7	1,509,883	268,113	1,151,791	-	7,745,261
Income from pooled investments	116,648,144	126,091,715	35,917,836	-	-	-	-	-	-	278,657,695
Dividends	-	-	-	1,650,014	1,940,606	621,463	126,477	-	-	4,338,560
Interest	13,961	30,002	548,422	374	99	288	272,606	885	-	866,637
Other income	171,299	278,476	6,606	1,995	-	-	-	-	-	458,376
Total investment income	116,834,321	127,041,594	36,713,623	5,584,773	1,940,712	2,131,634	667,196	1,152,676	-	292,066,529
Less Investment Expenses										
Investment managers and consultants	6,118,624	6,638,563	1,875,116	-	226,654	-	53,906	62,027	-	14,974,890
Total investment expenses	6,118,624	6,638,563	1,875,116	-	226,654	-	53,906	62,027	-	14,974,890
Net investment income	110,715,697	120,403,031	34,838,507	5,584,773	1,714,058	2,131,634	613,290	1,090,649	-	277,091,639
Total additions	192,572,092	218,125,672	62,083,739	8,230,320	1,714,058	3,471,494	26,170,973	1,090,649	(1,175,399)	512,283,598
DEDUCTIONS										
Retirement benefits	96,241,493	129,416,052	16,101,187	4,240,996	7,327,731	1,399,052	-	-	-	254,726,511
Other postemployment benefits	-	22,459,218	-	-	-	-	23,887,003	184,249	-	46,530,470
Refund of contributions	2,515,758	1,604,284	1,587,311	-	-	-	-	-	-	5,707,353
Death claims	198,205	91,749	205,183	-	-	-	-	-	-	495,137
Transfers to other pension trust funds	239,162	141,986	794,251	-	-	-	-	-	(1,175,399)	-
Depreciation	86,292	105,064	41,924	-	-	-	-	-	-	233,280
Operating expenses	1,288,351	1,575,657	707,523	40,647	-	86,275	71	-	-	3,698,524
Total deductions	100,569,261	155,394,010	19,437,379	4,281,643	7,327,731	1,485,327	23,887,074	184,249	(1,175,399)	311,391,275
Change in net position	92,002,831	62,731,662	42,646,360	3,948,677	(5,613,673)	1,986,167	2,283,899	906,400	-	200,892,323
Net position held in trust for employees' pension and postemployment benefits										
July 1	1,378,489,496	1,491,619,901	420,540,070	45,140,497	74,074,894	16,540,973	13,378,884	10,786,329	-	3,450,571,044
June 30	$ 1,470,492,327	$ 1,554,351,563	$ 463,186,430	$ 49,089,174	$ 68,461,221	$ 18,527,140	$ 15,662,783	$ 11,692,729	$ -	$ 3,651,463,367

See Independent Auditors' Report.

ELIZABETH A. PEARCE
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STATE OF VERMONT
OFFICE OF THE STATE TREASURER

TO: Jeb Spaulding, Secretary of Administration, and the Higher Education Subcommittee of the Prekindergarten-16 Council

FROM: Elizabeth Pearce, State Treasurer

RE: Annual Report on the Higher Education Endowment Trust Fund

DATE: September 20, 2013

I am pleased to present the Secretary of Administration and the Higher Education Subcommittee (Subcommittee) of the Prekindergarten-16 Council with the State Treasurer's thirteenth annual report on the Higher Education Endowment Trust Fund (Fund).

The General Assembly established the Fund in the Office of the State Treasurer in 1999 to provide non-loan financial aid to Vermont students attending the University of Vermont (UVM), the Vermont State Colleges, and other Vermont post-secondary institutions (16 V.S.A. § 2885).

Performance Summary

During Fiscal Year 2013, the Fund's investment return was 5.3% gross of fees slightly beating its benchmark. This return compares to the Barclays Mortgage Backed Securities Index return of -1.1% and to the S&P 500 Stock Index return of 20.6% for the same period. The Fund's target allocation index rate (that is, the rate of return that would have been realized if 30% of the Fund was invested in the S&P 500 Index, and 70% in the Barclays MBS) was approximately 5.0%.

Consistent with the conservative positioning of the Fund (the objective of which is capital preservation and a reasonable likelihood of annual distributions), the Fund's return has been particularly favorable during periods of financial stress over the past ten years. While the annualized return of the Fund has slightly outperformed its benchmark on a five, seven, and ten fiscal year basis, gross of fees, the recent overall performance of the Fund, and the Trust Investment Account in which it is invested, necessitates a new portfolio structure and approach to management. We discuss this plan to restructure the Trust Investment Account in more detail at the end of this report.

Since the financial crisis of 2008 and 2009, the Federal Reserve has been pursuing policies of quantitative easing – the purchase of trillions of dollars of U.S. Treasury and mortgage-backed securities – in hopes of stimulating the economy by lowering interest rates. This strategy has compressed the yield curve, and real rates of return have decreased over the last five years. This

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has depressed expectations for future real returns across asset classes – including the fixed income space. In the most recent fiscal quarters, underperformance relative to the target distribution return can be attributed to the Federal Reserve's announcement of their intentions to taper out of their quantitative easing strategy. This led to a sharp rise in rates during the fourth fiscal year quarter across all fixed income asset classes.

5% Distribution from Fiscal Year 2013

The statute 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, and the Vermont Student Assistance Corporation (VSAC). The amount appropriated, however, cannot exceed an amount that would bring the Fund balance below total contributions to principal. Total principal contributions through June 30, 2013 have been $28,500,823.66.

The 5% distribution available this year is $1,323,964.93 in total or $441,321.64 each for UVM, the Vermont State Colleges, and VSAC. This amount represents a 16.93% increase over the distribution made following Fiscal Year 2012 of $377,409.25 for each institution. **Appendix A** to this report includes quarterly market values and distributions for Fiscal Year 2013, and **Chart #1** shows principal contributions to date.

2% Distribution from Fiscal Year 2013

16 V.S.A. § 2885 further provides that during the first quarter of each fiscal year, the Secretary 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 exceed an amount that would bring the Fund balance below total contributions to principal. Further, each institution is required to match the appropriation by raising private donations of at least twice the appropriated amount, to certify to the Commissioner of Finance and Management (Commissioner) 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.

At its meeting last year, Secretary Spaulding and the Subcommittee authorized this 2% appropriation in the amount of $452,891.10, or $226,445.55 each for distribution to UVM and the Vermont State Colleges, dependent upon a finding by the Commissioner that the terms of this appropriation were met. Each of these institutions is in the process of establishing the required certification. Due to the Fund's positive return in Fiscal Year 2013, the Fund will be able to make the full distribution amount.

After payments of $1,323,964.93 and $452,891.10, the Fund balance at the end of Fiscal Year 2013 totals $28,685,598.43. An accounting of the Fund balances is provided below:

Ending balance prior FY 2012			$30,495,227.22
	Contributions received FY 2013		$53,908.47
Opening balance FY 2013			$30,549,135.69
	5% Distributions :	University of Vermont	(377,409.25)
		Vermont State Colleges	(377,409.25)
		Vermont Student Assistance Corp.	(377,409.25)
	2% Distributions :	University of Vermont	(182,408.87)
		Vermont State Colleges	(182,408.87)
	Income earned FY 2013		1,691,682.31
	Appreciation (Depreciation) FY 2013		(156,480.00)
	Fees and Other Charges FY 2013		(124,838.03)
Balance June 30, 2013			$30,462,454.46
	5% of 12-Quarter Moving Average as of June 30, 2013		(1,323,964.93)
	Distributions :	University of Vermont	(441,321.64)
		Vermont State Colleges	(441,321.64)
		Vermont Student Assistance Corp.	(441,321.64)
	2% Income Available for Endowments from FY 2012		(452,891.10)
Balance after distributions			$28,685,598.42
Total contributions as of June 30, 2013			$28,500,823.66
	2% Income Available for Endowments from FY 2013 (requires institutional match in FY 2014)		$529,585.97

2% Distribution for Fiscal Year 2014

All principal contributions to the Fund through June 30, 2013 total $28,500,823.66, which also represents the minimum balance that must be maintained in the Fund. The 2% distribution proposed for this year of $529,585.97 would leave a balance of $28,156,012.45 excluding contributions to be received, the 5% distribution following FY 2014, and any gains from investment activity in FY 2014. Because this balance would be below the minimum required balance noted above, it is unlikely that either the 5% or 2% distribution next year could be met in full unless returns during the next year are sufficient to cover these amounts. That said, if the Secretary and the Subcommittee authorize this distribution, each institution's share will be $264,792.99 with a required match to be raised by each entity in FY 2014 of $529,585.97. To re-emphasize: **any distribution is dependent upon the Fund's balance being greater than $28,500,823.66 by the end of FY 2014**. The attached **Chart #2** provides a graphical depiction of authorized distributions, including this 2% distribution subject to the Secretary's and the Subcommittee's approval.

Fund Balances

Appendix B to this report shows the total return of the entire Trust Investment Account, of which the Higher Education Endowment Trust Fund, with a balance of $30.5 million comprises approximately 44%. The Tobacco Trust Fund comprises 26% of the account, or $17.8 million, and the remaining 30% is made up of, in decreasing size, a State Employee's retirement benefit trust fund totaling $11.3 million, the ANR Stewardship Fund at $4.6 million, the Waterfowl Stamp Fund at $2.3 million, the Fish and Wildlife Trust Fund at $1.6 million, two Veterans' Home trusts totaling $1.2 million, and eight small trusts totaling just over $470,000. **Chart #3** displays the relative share of the Higher Education Endowment Trust Fund compared to the entire Trust Investment Account.

Chart #4 presents the Fund's balances, inclusive of distributions, for Fiscal Years 2000 through 2013. The balance increased significantly in FY 2007 due to Estate Tax receipts of $5,223,449.94, and a $600,000 contribution from the State's unclaimed property fund as a result of legislation proposed by the Treasurer in FY 2006. Assets decreased modestly in FY 2008 and FY 2009 due to low investment returns and minimal fund contributions and benefitted in FY 2010 and FY 2011 from a strong equity market. In FY 2010 and FY 2012 the Fund benefitted from estate tax contributions.

Asset Allocation, Investment Managers and Performance

The Trust Investment Account's target asset allocation is 70% fixed income securities and 30% equities. As of June 30, 2013, the Account's actual allocation was 66.3% in fixed income securities and 33.7% in equities, versus 68.6% fixed income securities and 31.4% equities, respectively, on June 30, 2012. This slight over-allocation to equities was due to a run-up in equity prices and corresponding decrease in fixed income returns due to rising interest rates. To minimize transaction costs, the Account is rebalanced annually in October, and other contributions and withdrawals from the various funds are used to "fine tune" the asset allocation during the year.

The Account has four investment managers, three of whom are Vermont-based and have managed Account assets for at least ten years: two equity managers, Prentiss Smith & Co. of Brattleboro, and Hanson & Doremus of Burlington, and fixed income manager Sentinel Asset Management (a National Life company), of Montpelier.

The fourth manager, Minnesota-based fixed income manager RBC Global Asset Management (formerly Access Capital), manages a fund that invests in debt securities that support affordable housing, job creation and community development for low- and moderate-income individuals and communities in Vermont. RBC underperformed in FY 2008 & 2009, and outperformed in FY 2010-2013. As such, this investment has been meeting its goals of capital preservation and investment return, along with providing benefits to Vermonters.

The Account achieved modest positive returns in both FY 2008 and FY 2009, during some of the worst financial market conditions since the 1930s, and has achieved sufficient returns to fully fund distributions in Fiscal Years 2010, 2011, 2012 and 2013. The Treasurer's Office has been mindful of the need to balance the allocations to equity and fixed-income assets given the expectation for annual distributions from the Fund while maintaining an appropriate risk profile. In the past, the asset allocation structure has enabled the Fund to perform reasonably well in both adverse and positive markets reinforcing the belief in the appropriateness of a diversified structure.

In FY 2013, the Account return slightly outperformed its benchmark. May and June performance particularly impacted the fiscal year results as the likelihood of a tapering in bond purchases by the Fed began to be reflected in asset prices. The primary exposure of the Sentinel fund is MBS, which are expected to underperform in a rising rate environment and have downside exposure to Fed actions. This is a concern going forward. Compared to the Barclay's MBS index Sentinel outperformed by 25bps during the FY 2013. The Fixed Income asset classes as a whole are expected to see compressed real returns as the Federal Reserve continues their efforts to stimulate the market and keep real rates compressed, and will experience headline risk and interest rate sensitivity as the Fed reduces their presence in the fixed income market.

Equity relative performance during the fiscal year was impacted primarily by underperformance stemming from investments in international stocks and a conservative posture during a bull market. The managers were hired with the intention of outperforming during periods of down equity markets and lagging the market during surges in equity performance. This strategy's strength can be seen in the relative performance during the Great Recession of FY 2008 and FY 2009.

Trust Investment Account Restructuring

While the Treasurer's Office believes that the Fund's asset allocation has been appropriate to its goals of asset growth, capital preservation and supporting distributions, and that the investment managers generally have performed in a manner consistent with these goals, we believe a re-examination of the expected annual distribution rate and asset allocation is warranted. Expected returns over an intermediate term horizon for both equity and fixed-income classes have been reduced due to the likelihood of higher interest rates over time, expanded equity valuations and the dampening effect that higher debt burdens have on economic growth around the world. Similarly, we believe it is prudent to reconsider the asset allocation and investments in light of asset class risk and return expectations that are markedly different from those that existed at the Fund's inception. These perspectives were reflected to the Subcommittee during the past fiscal year.

We conclude that a more optimal portfolio allocation, utilizing a broader range of asset classes beyond large cap equities and mortgage-backed securities, cannot be achieved using separately-managed accounts by Vermont firms for a fund of the Trust Investment Account's relatively small size. For comparative purposes, most of the 35 investment managers in the $3.6 billion Vermont Pension Investment Committee (VPIC) portfolio manage allocations greater than the Account's entire $65.6 million balance.

Further, we believe that the dependence upon on manager performance relative to benchmarks, or alpha, is counterproductive, especially for relatively established asset classes. We believe that

Higher Education Endowment Trust Fund Report
September 20, 2013
Page 6

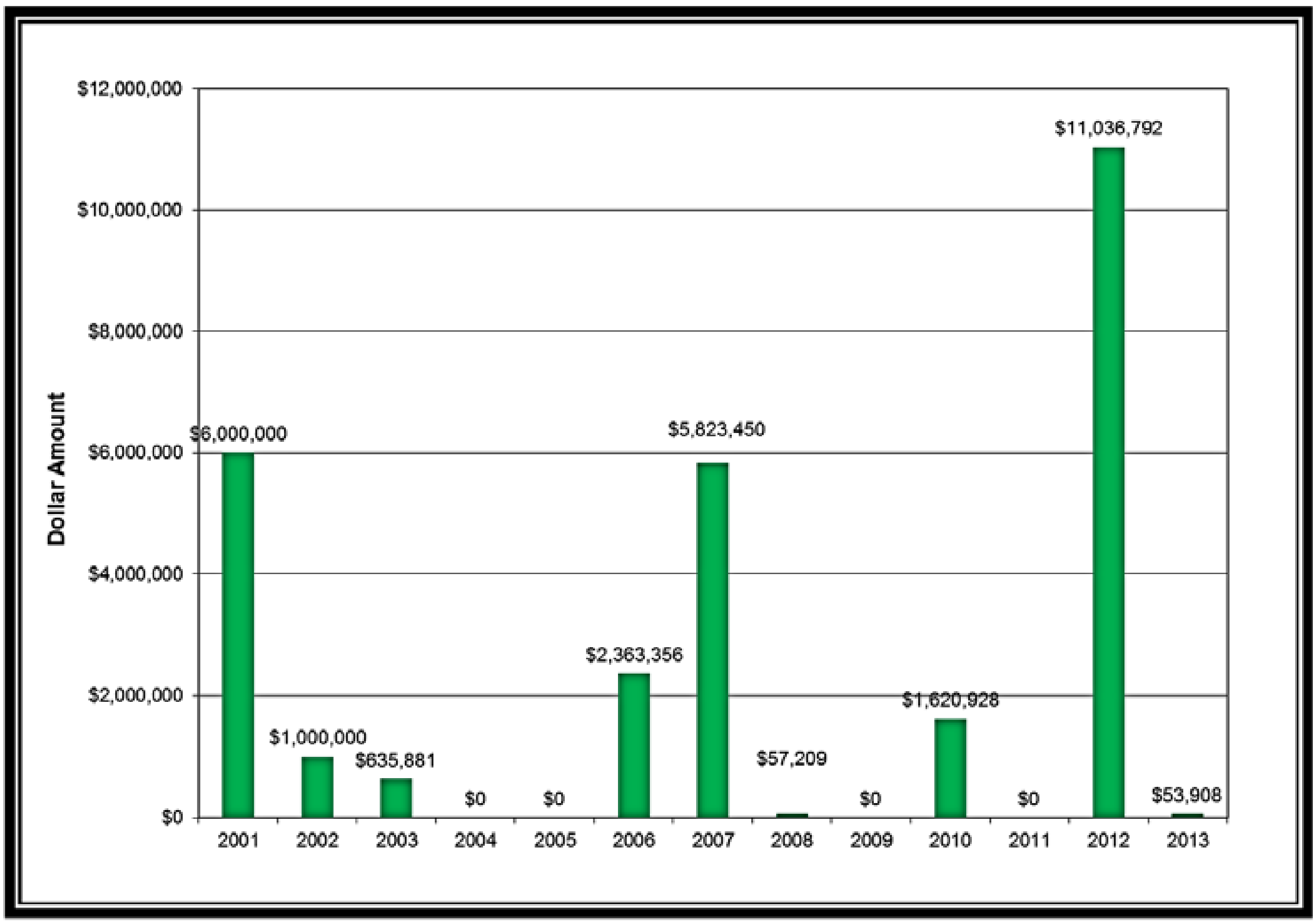
administrative effort is better spent analyzing optimal portfolio allocations using total return, standard deviation, and correlation assumptions available from professional investment advisors, and then constructing a portfolio with the lowest expected risk relative to the Account's return objectives.

Going forward, we anticipate shifting from separate accounts toward low-fee, highly liquid indexing vehicles, such as mutual funds and exchange-traded funds. This will allow us the opportunity to diversify the Account by evaluating additional asset classes. These portfolio changes are expected to be implemented as soon as practicable.

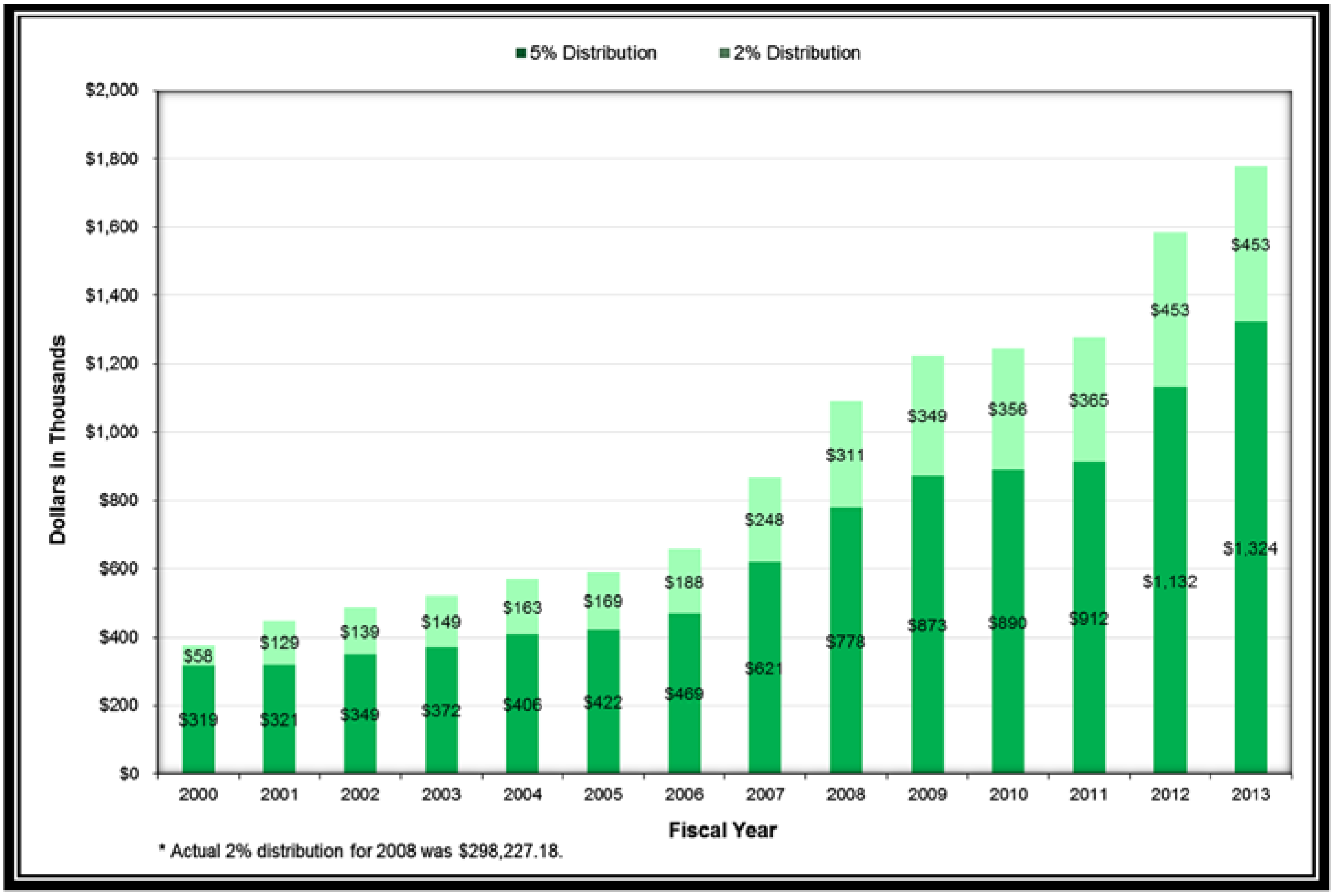
Please feel free to contact me if you have any questions or concerns regarding this report.

cc: James Reardon, Commissioner of Finance & Management
Donna Russo-Savage, Legislative Council

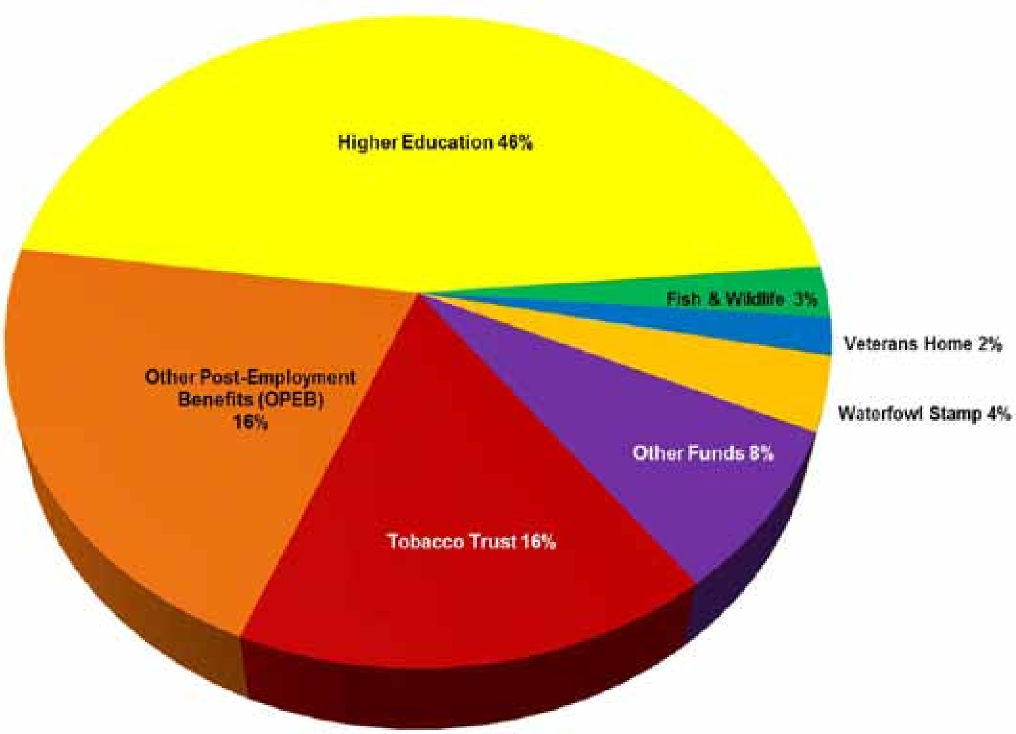
HIGHER EDUCATION TRUST FUND: *Fund Contributions—Fiscal Years*



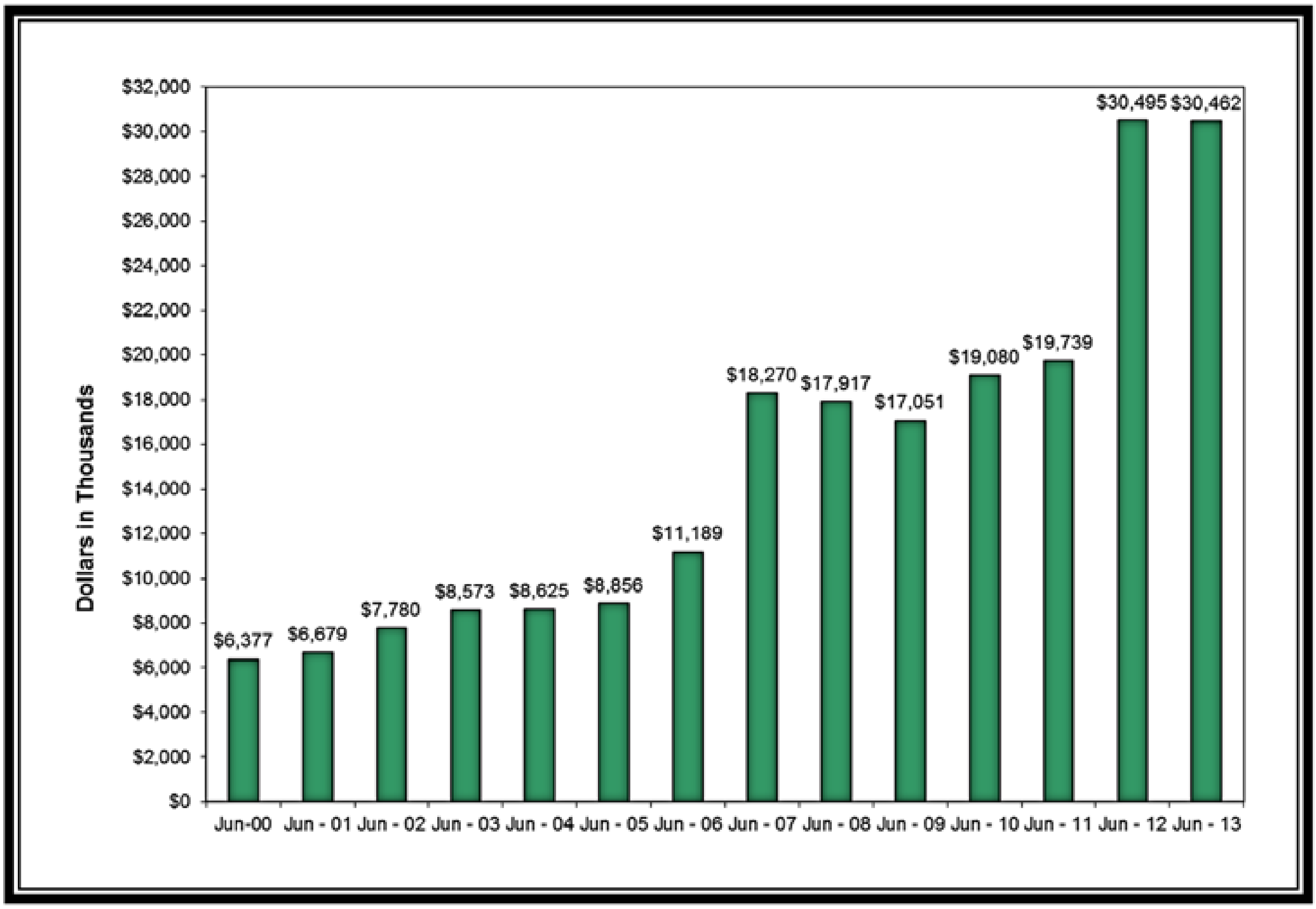
HIGHER EDUCATION TRUST FUND: *Authorized Distributions by Year and Type*



HIGHER EDUCATION TRUST FUND: *Trust Investment Account Fund Composition as of June 30, 2013*



HIGHER EDUCATION TRUST FUND: *Asset Growth—6/30/00 to 6/30/13, includes distributions*



APPENDIX B—TRUST INVESTMENT ACCOUNT: *Total Return Analysis—Year Ended June 30, 2013*

APPENDIX B
TRUST INVESTMENT ACCOUNT - TOTAL RETURN ANALYSIS
Period Ending June 30, 2013

MANAGER	Quarter Ended 9/30/2012	Quarter Ended 12/31/2012	Calendar Year 2012	Quarter Ended 3/31/2013	Quarter Ended 6/30/2013	Fiscal Year 2013	Portfolio Value 6/30/2013	Portfolio Allocation 6/30/2013
DOMESTIC EQUITY								
Hanson & Doremus Investment Management	6.9%	0.9%	**16.4%**	9.3%	1.6%	**19.9%**	$11,051,191	17%
Prentiss Smith & Co.	3.4%	0.6%	**8.3%**	10.2%	4.2%	**19.5%**	$11,059,635	17%
S&P 500	*6.4%*	*-0.4%*	***16.0%***	*10.6%*	*2.9%*	***20.6%***	*$22,110,826*	*34%*
DOMESTIC FIXED INCOME								
Sentinel Asset Management, Inc.	1.6%	0.3%	**3.9%**	0.0%	-2.6%	**-0.9%**	$40,283,644	61%
RBC Global Asset Management (Access Capital) [2]	1.8%	0.0%	**4.2%**	0.4%	-2.1%	**0.1%**	$3,214,616	5%
Barclays US MBS Index	*1.1%*	*-0.2%*	***2.6%***	*0.0%*	*-2.0%*	***-1.1%***	*$43,498,260*	*66%*
TOTAL FUND RETURN	2.7%	0.4%	**6.4%**	3.0%	-0.8%	**5.3%**		
Total Fund Policy Return	2.7%	-0.3%	**6.6%**	3.1%	-0.5%	**5.0%**		
TOTAL FUND MARKET VALUE ($ million)	**$62.9**	**$63.8**	**$63.8**	**$66.2**	**$65.6**	**$65.6**	$65,609,086	**100%**

Notes:
1. Access Capital added to Trust Investment Account on October 12, 2007.
2. Performance calculations in-line with GIPS standards as of June 30, 2005

APPENDIX C—TRUST INVESTMENT ACCOUNT: *Account Performance*

APPENDIX C
TRUST INVESTMENT ACCOUNT PERFORMANCE

MANAGER	Fiscal Year 2013	Calendar Year 2012	Last 3 Fiscal Years	Last 5 Fiscal Years	Last 7 Fiscal Years	Last 10 Fiscal Years
DOMESTIC EQUITY						
Hanson & Doremus Investment Management	19.9%	16.4%	16.3%	4.5%	4.7%	10.1%
Prentiss Smith & Co.	19.5%	8.3%	14.8%	9.0%	8.4%	9.7%
S&P 500	*20.6%*	*16.0%*	*18.5%*	*7.0%*	*5.7%*	*7.3%*
DOMESTIC FIXED INCOME						
Sentinel Asset Management, Inc.	-0.9%	3.9%	2.7%	5.0%	5.7%	5.1%
RBC Global Asset Management [2]	0.1%	4.2%	3.0%	5.3%	5.6%	4.8%
Barclays US MBS Index	-1.1%	2.6%	2.5%	4.8%	5.5%	4.7%
TOTAL FUND RETURN	5.3%	6.4%	6.5%	6.1%	6.5%	6.4%
Total Fund Policy Return	5.0%	6.6%	7.3%	5.9%	5.9%	5.7%
TOTAL FUND MARKET VALUE ($ millions)	**$65.6**	**$63.8**				

Notes:
1. Returns for periods longer than one year are annualized.
2. Formerly Access Capital Management, inception date of September 17, 2007.
3. Total Fund Last 10 Fiscal Years Return uses quarterly reporting, as opposed to monthly, prior to June 2005.

OTHER POST-EMPLOYMENT BENEFITS FUNDING ANALYSIS—VSERS & VSTRS

VSERS -- Other Post-Employment Benefits Funding Analysis

	Pre-Funding Basis	Partial Funding
Assumed Discount Rate	8.10%	4.25%
Actuarial Value of Assets	$ 15,662,783	$ 15,662,783
Actuarial Accrued Liability		
- Active Participants	$ 278,902,737	$ 539,313,408
- Retired Participants	$ 290,585,970	$ 408,550,368
- TOTAL	$ 569,488,707	$ 947,863,776
Unfunded Actuarial Liability	$ 553,825,924	$ 932,200,993
Funded Ratio	2.8%	1.7%
Annual Covered Payroll	$ 436,949,107	$ 436,949,107
Unfunded Actuarial Liability (as % of covered payroll)	126.7%	213.3%
Normal Cost for FY 2014	$ 15,790,037	$ 36,167,283
Amortization of Unfunded Actuarial Liability for FY 2014 (30 yr)	$ 27,276,825	$ 27,951,862
Annual Required Contribution (ARC) for FY 2014 *	$ 43,066,862	$ 64,119,145
Expected Benefit Payments	$ 34,810,647	$ 34,810,647
Increase in Annual Cost to Fund Plan	$ 8,256,215	$ 29,308,498

* *Payment is assumed to be made at the beginning of the fiscal year.*

VSTRS -- Other Post-Employment Benefits Funding Analysis

	Pre-Funding Basis	Pay-As-You-Go Basis
Assumed Investment Return	7.9%	4.0%
Actuarial Value of Assets	$ -	$ -
Actuarial Accrued Liability		
- Active Participants	$ 138,629,980	$ 302,532,383
- Retired Participants	$ 266,600,870	$ 410,133,725
- TOTAL	$ 405,230,850	$ 712,666,108
Unfunded Actuarial Liability	$ 405,230,850	$ 712,666,108
Funded Ratio	0.0%	0.0%
Annual Covered Payroll	$ 563,533,549	$ 563,533,549
Unfunded Actuarial Liability (as % of covered payroll)	71.9%	126.5%
Normal Cost for FY 2014	$ 7,590,447	$ 18,631,512
Amortization of Unfunded Actuarial Liability for FY 2014 (30 yr)	$ 19,504,680	$ 20,606,998
Annual Required Contribution (ARC) for FY 2014 *	$ 27,095,127	$ 39,238,510
Expected Benefit Payments	$ 26,923,743	$ 26,923,743
Increase in Annual Cost to Fund Plan	$ 171,384	N/A

* *Payment is assumed to be made at the beginning of the fiscal year.*

REPORT ON SEC. 8a. OF ACT NO. 87 OF 2013: *Credit Facility for Residential Energy Efficiency Loans*

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STATE OF VERMONT
OFFICE OF THE STATE TREASURER

TO: House Committee on Commerce and Economic Development
Senate Committee on Economic Development, Housing and General Affairs
Senate Committee on Finance

FROM: Beth Pearce, State Treasurer Beth

DATE: December 16, 2013

RE: Report on Sec. 8a. of Act No. 87 of 2013
Credit Facility for Residential Energy Efficiency Loans

This memorandum provides the State Treasurer's report detailing the steps taken to establish a credit facility of up to $6.5 million to implement the financing of energy efficiency improvements to residential dwellings in Vermont, and to minimize the associated administrative costs.

As of December 16, 2013, the Treasurer's Office has completed loan agreements with NeighborWorks® of Western Vermont for up to $2 million, and with the Vermont Housing Finance Agency (VHFA) for $2.8 million, and is working with Efficiency Vermont to potentially negotiate a loan agreement in the amount of $1.7 million for residential energy efficiency loans for a pilot thermal efficiency program for middle income (up to 120% of median income) single-family households, beginning in 2014. If this latter agreement is successfully completed, this will close out the full $6.5 million authorized under Act No. 87; if it is not, both NeighborWorks® and VHFA have indicated a desire and a willingness to find additional uses for some or all of the remaining financing authorization.

NeighborWorks®

NeighborWorks® has a successful track record of helping 627 Rutland County homeowners make their homes more energy efficient. On average, these homeowners are saving approximately $1,000 per year in energy costs and reducing their carbon emissions by over 5,300 pounds per year. NeighborWorks® has provided energy efficiency loans to 146 of these homeowners, for a total volume of $1.7 million. No loans have been charged off and the delinquency rate as of December 2012 is zero. Of the 146 loans originated, 25% have been to households earning less than 80% of Area Median Income.

In order to continue financing these efforts, and to assist NeighborWorks® in expanding its efforts to the rest of Vermont, the Treasurer's Office and NeighborWorks® completed a loan agreement on October 4, 2013. NeighborWorks® received the first tranche of financing in the amount of $250,000 via a promissory note on October 22. The funds were loaned at a rate of 2.00 percent, to be repaid quarterly on the 15th of January, April, July and October, commencing January 15, 2014. Principal prepayments may occur on any interest payment date, and all principal is due to be repaid by October

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15, 2023, corresponding to a loan term of approximately ten years. Based upon NeighborWorks'® experience with similar programs, the loan repayments are expected to have an average life of five years, and as such the 2.00 percent loan rate corresponds to the 5-year U.S. Treasury Note yield plus 0.60 percent.

Per the terms of the loan agreement, NeighborWorks® must lend to homeowners at a rate not greater than 3.00 percent above the corresponding rate on borrowings from the Treasurer's Office. Assuming a repayment schedule with an average life of five years, NeighborWorks® would be expected to collect less than $1,650 in administrative fees over the life of a $10,000, ten-year loan. We believe these administrative fees are reasonable, especially in the context of a program that originates and is required to service numerous individual loans of relatively small dollar amounts.

VHFA

The Treasurer's Office and VHFA completed a loan agreement on December 6, and VHFA requested a single tranche of financing in the amount of $2,800,000 via a promissory note which will be funded on January 15, 2014. The funds will be loaned at a rate of 2.76 percent, to be repaid semiannually on the 15th of February and August each year, commencing August 15, 2014. Principal repayments will occur on a set amortization schedule with the final payment due February 15, 2024, corresponding to a loan term of approximately ten years. The average life of the VHFA loan amortization is approximately seven years, and as such the 2.76 percent loan rate corresponds to the 7-year U.S. Treasury Note yield plus 0.60 percent.

This $2.8 million loan was integral to VHFA's 2014 ABC Multifamily Bond transaction in the amount of $20,162,820, which involved financing for 12 projects, representing 329 units of housing. The $2.8 million will be used to finance energy efficiency improvements for projects representing 111 units of housing at Wright House in Shelburne and Bardwell House in Rutland. In addition, the State is providing moral obligation to support bonds which will, among other things, fund rehabilitation that also includes energy efficiency improvements at Rail City in St. Albans and Richmond Terrace in Richmond.

VHFA's weighted average loan yield to borrowers was 6.49 percent for the 2014 ABC Bonds, and its aggregate borrowing cost was 4.78 percent, for a spread of 1.71 percent. This spread pays for VHFA's servicing costs over the life of the loans, is within the legal guidelines for loans of this type, and is in line with similar such previous financings completed by VHFA.

I am extremely pleased with the results of our efforts under Act No. 87 thus far, and look forward to continuing to work with the General Assembly, our partners at NeighborWorks®, VHFA, and Efficiency Vermont, and with other prospective borrowers to continue to promote and finance residential energy efficiency improvements in the State of Vermont.

Please contact me at beth.pearce@state.vt.us or 828-1452, or my Deputy, Steve Wisloski, at stephen.wisloski@state.vt.us or 828-5197 with any questions regarding this report.

cc: Ludy Biddle, NeighborWorks® of Western Vermont
Sarah Carpenter, Vermont Housing Finance Agency
Peter Adamczyk, Vermont Energy Investment Corporation

The State Treasurer's Office serves as the State's banker and chief investment officer. The office handles money that belongs to all of the citizens of Vermont. The Treasurer's office is committed to managing these funds efficiently and responsibly, and to maintaining Vermont's hard-earned reputation as a fiscally sound and disciplined state.

Published by the Office of the State Treasurer
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