

**STATE OF NEW HAMPSHIRE**  
**INFORMATION STATEMENT SUPPLEMENT**

**DATED APRIL 15, 2003**

*The following information is provided by the State to supplement the information contained in the State's most recent Information Statement dated January 29, 2003 (the "Information Statement"). The Information Statement is available on the New Hampshire Treasury Department website as the document entitled "State of New Hampshire Information Statement – 01/29/2003" at <http://www.state.nh.us/treasury/Divisions/DM/DMdocs.htm>. The headings set forth below correspond to the same headings in the Information Statement. This Supplement (the "Supplement") only sets forth additional information concerning the matters described below as of the date of this Supplement and is subject to change without notice.*

**STATE FINANCES**

**Fiscal Year 2003 Budget**

The current biennium budget projects an aggregate deficit at June 30, 2003 of \$72.4 million. Governor Benson issued Executive Order 2003-01 in January, 2003 to continue a freeze on Executive Branch hiring, equipment purchases, and out-of-state travel originally imposed by Executive Order 2002-02. In addition, Executive Order 2003-01 froze consultant hiring and IT hardware purchases. The current balances in the Revenue Stabilization Account and Health Care Fund, which aggregate \$86.1 million, are expected to be applied to meet the projected deficit for Fiscal Year 2003. Remaining balances will be carried forward to the next biennium, which begins on July 1, 2003.

*Revenues.* The following table compares on a cash basis, for the nine months ended March 31, 2003, General Fund and Education Fund unrestricted revenues for the Fiscal Years 2002 and 2003 and a comparison to the revenue estimates for Fiscal Year 2003. The revenue estimates reflected in the plan are based on those revenues defined in Chapter 130, Laws of 2001, the State budget law for Fiscal Year 2003. Due to the combined filing of the business profits tax and business enterprise tax, it is not possible to measure accurately the individual effects of each of these taxes. They should be evaluated in their entirety. All information in this table is preliminary and unaudited.

**GENERAL FUND AND EDUCATION FUND UNRESTRICTED REVENUES  
FOR THE NINE MONTHS ENDED MARCH 31, 2003  
(Cash Basis-In Millions)**

Revenue Category	FY02 Actual	FY03 Actual	FY03 Plan	FY03 vs Plan		FY03 vs FY02	
				Variance	% Change	Variance	% Change
Business Profits Tax	\$103.1	\$112.8	\$171.3	\$(58.5)	(34.1)%	\$9.7	9.4%
Business Enterprise Tax	<u>155.9</u>	<u>143.3</u>	<u>113.0</u>	<u>30.3</u>	<u>26.8</u>	<u>(12.6)</u>	<u>(8.1)</u>
Subtotal	259.0	256.1	284.3	(28.2)	(9.9)	(2.9)	(1.1)
Meals & Rooms Tax	131.6	136.3	149.0	(12.7)	(8.5)	4.7	3.6
Tobacco Tax	63.8	68.3	63.4	4.9	7.7	4.5	7.1
Liquor Sales and Distribution	72.9	76.9	73.7	3.2	4.3	4.0	5.5
Interest & Dividends Tax	35.1	27.9	35.2	(7.3)	(20.7)	(7.2)	(20.5)
Insurance Tax	59.2	64.9	48.9	16.0	32.7	5.7	9.6
Communications Tax	46.0	47.4	53.4	(6.0)	(11.2)	1.4	3.0
Real Estate Transfer Tax	72.6	91.4	73.4	18.0	24.5	18.8	25.9
Estate and Legacy Tax	47.7	39.0	41.2	(2.2)	(5.3)	(8.7)	(18.2)
Transfers from Sweepstakes	47.3	44.1	44.0	0.1	0.2	(3.2)	(6.8)
Tobacco Settlement	10.3	11.2	11.0	0.2	1.8	0.9	8.7
Utility Property Tax	9.8	9.8	10.2	(0.4)	(3.9)	-	-
Property Tax Not Retained Locally	26.2	32.7	32.7	-	-	6.5	24.8
Property Tax Retained Locally	454.1	453.0	453.0	-	-	(1.1)	(0.2)
Other	<u>91.7</u>	<u>93.1</u>	<u>91.9</u>	<u>1.2</u>	<u>1.3</u>	<u>1.4</u>	<u>2.6</u>
Subtotal	1,427.3	1,452.1	1,465.3	(13.2)	(0.9)	24.8	1.7
Net Medicaid Enhancement Revenues	<u>85.4</u>	<u>87.8</u>	<u>84.9</u>	<u>2.9</u>	<u>3.4</u>	<u>2.4</u>	<u>2.8</u>
Subtotal	1,512.7	1,539.9	1,550.2	(10.3)	(0.6)	27.2	1.8
Other Medicaid Enhancement Revenues to Fund Net Appropriations	<u>12.9</u>	<u>10.1</u>	<u>10.1</u>	<u>-</u>	<u>-</u>	<u>(2.8)</u>	<u>(21.7)</u>
Total	<u>\$1,525.6</u>	<u>\$1,550.0</u>	<u>\$1,560.3</u>	<u>\$(10.3)</u>	<u>(0.6)%</u>	<u>\$24.4</u>	<u>1.6%</u>

Revenues for the first nine months of Fiscal Year 2003 are \$10.3 million or 0.6% below the plan derived from the current state budget, Chapter 130, Laws of 2001. Shortfalls to date are occurring primarily in Business Taxes at \$28.2 million, Meals and Rooms Taxes at \$12.7 million, Interest and Dividends Taxes at \$7.3 million and Estate and Legacy Taxes at \$2.2 million. These shortfalls are somewhat offset by increases over plan in the Insurance Taxes collections of \$16.0 million, Real Estate Transfer Taxes of \$18.0 million (which amount includes over \$6 million received in connection with the recent sale of the Seabrook nuclear power station), and Tobacco Taxes of \$4.9 million.

*Medicaid General and Rehabilitative Disproportionate Share Hospital Program.* No further communication has been received from CMS on this matter as of April 11, 2003.

*Medicaid Proportionate Share Program.* The State recently agreed with the federal government on a revised billing methodology for the Medicaid Proportionate Share Program with respect to Fiscal Years 2000, 2001 and 2002. For the quarter ended March 31, 2003, the State has claimed the revised costs for such fiscal year and also received refunds from the counties. The gain from these prior year transactions is expected to total

approximately \$16.0 million to the State and will be reported in the State's April Monthly Revenue Report after the expenses have been reported to the federal government. This agreement on billing methodology resolves a number of outstanding issues that were discussed in the Information Statement, including the disallowed claim described under the last paragraph of the section of the Information Statement entitled "STATE FINANCES – Health Care Fund." The State has not yet determined to which fund or funds this amount will be credited, including whether any amount will be credited to the Health Care Fund.

During the week of April 7, 2003, the State received a \$14 million estate and legacy tax payment relating to a single estate. This payment, which will be reflected in the State's April Monthly Revenue Report, when combined with all payments through March 31, 2003 for the estate and legacy taxes, would cause this unrestricted revenue source to exceed plan by approximately \$11.8 million.

### **Fiscal Years 2004-2005**

On February 13, 2003, Governor Benson introduced his proposed budget for the 2004-2005 biennium.

The Governor's proposed budget projects an increase in General Fund and Education Fund unrestricted revenue in Fiscal Year 2004 of approximately \$25.6 million or 1.3%, and a decrease in net appropriations of approximately \$12.4 million or 0.6%, in each case as compared to Fiscal Year 2003. In Fiscal Year 2005, the Governor's proposed budget projects an increase in unrestricted revenue of approximately \$70.2 million or 3.4%, and an increase in net appropriations of approximately \$65.4 million or 3.1%, in each case as compared to Fiscal Year 2004. The Governor's proposed budget provides for an unrestricted revenue estimate for the General and Education Funds of approximately \$2.04 billion in Fiscal Year 2004 and approximately \$2.11 billion in Fiscal Year 2005. The proposed budget includes net appropriations from the General and Education Funds of approximately \$2.12 billion in Fiscal Year 2004 and \$2.19 billion in Fiscal Year 2005. Net appropriations include transfers from the General Fund to the Education Fund of \$70.3 million in Fiscal Year 2004 and \$71.0 million in Fiscal Year 2005, as compared to a projected \$83.4 million in Fiscal Year 2003. The proposed budget is balanced through the use of projected available funds in the Revenue Stabilization Account and the Health Care Fund of \$9.6 million and \$4.1 million in Fiscal Year 2004 and Fiscal Year 2005, respectively. The Governor's proposed budget is balanced in accordance with State law.

Appropriations from the General Fund, after adjustments and lapses and including transfers from the General Fund to the Education Fund, are proposed to be approximately \$1.22 billion in Fiscal Year 2004 (which amount is approximately \$6.0 million less than projected fiscal 2003 net appropriations from the General Fund) and approximately \$1.26 billion in Fiscal Year 2005. Net appropriations from the Education Fund are proposed to be approximately \$898.0 million for Fiscal Year 2004 (which is approximately \$6.5 million less than projected fiscal 2003 net appropriations from the Education Fund) and \$928.7 million for Fiscal Year 2005.

The revenue projections for the Governor's 2004-2005 biennium budget are based on no tax increases and no new taxes. The proposed budget includes reducing the Statewide Property Tax rate by 14% to under five dollars per \$1,000 of total equalized value by the end of the biennium and to three dollars per \$1,000 by 2008. The Governor's budget proposes to control spending growth to less than the rate of inflation and to reorganize government to eliminate inefficiencies.

On April 10, 2003, the House Finance Committee voted out two proposed budgets for the biennium commencing July 1, 2003. The first proposed budget projects revenues and expenditures, in aggregate, at similar levels to the budget proposed by the Governor in February.

The alternative budget, also approved by the Finance Committee, proposes to spend approximately \$142 million more from general tax revenues than Governor Benson proposed. In a companion bill to the budget, the Finance Committee approved a 39-cent cigarette tax hike to provide for additional revenue to fund this higher level of spending. The Finance Committee is giving the House the option of rejecting the tax increase and the higher spending levels it would allow for by also proposing the first budget without this tax increase and less spending. In either case the budgets approved by the Finance Committee both use either all of or substantially all of the Revenue Stabilization Account and the Health Care Fund to finance projected deficits in Fiscal Years 2004 and 2005. In either case the budgets proposed by the House Finance Committee are both balanced in accordance with State law.

The Finance Committee also approved on April 10, 2003 an \$82 million capital budget for the next biennium, which includes \$15 million for technology. The Governor had proposed \$63 million in capital spending for the 2004-2005 biennium.

In addition, on April 10, 2003, the full House also approved two education plans. Both would distribute less basic school aid as compared to the Governor's proposed budget. One plan targets an additional \$25 million to poorer cities and towns. Basic aid would increase with inflation and not be frozen as the Governor had proposed. It would reduce the state education property tax rate for Fiscal Year 2004 to \$4.92 per \$1,000 of total equalized value and to \$4.72 per \$1,000 the year after. A second plan backed by a coalition of property-wealthy towns would repeal the state education property tax in Fiscal Year 2006 and in that fiscal year distribute about \$443 million in school aid to cities and towns based on need.

The full House is expected to vote on the budget for the next biennium on April 17, 2003. The Senate will then begin consideration of the budget.

## **STATE INDEBTEDNESS**

### **Temporary Loans**

To the extent monies in the General Fund, Highway Fund or Fish and Game Fund are at any time insufficient for the payment of obligations payable from such funds, the State Treasurer, under the direction of the Governor and Council, is authorized to issue notes to provide funds to pay such obligations. Outstanding revenue anticipation notes issued for the General Fund may not exceed \$200 million; for the Highway Fund, \$15 million; and for the Fish and Game Fund, \$0.5 million. On March 31, 2003, the State issued \$75 million of revenue anticipation notes. The notes mature on May 1, 2003. Prior to this issuance, the State had not issued revenue anticipation notes since Fiscal Year 1991.

## **LITIGATION**

On February 24, 2003, the plaintiffs in the matter challenging the constitutionality of the interest and dividends tax law filed a petition for certiorari with the United States Supreme Court. The petition is now pending before that court.

## **THE STATE OF NEW HAMPSHIRE**