

**NEW ISSUE – Book Entry Only**

**Ratings: Fitch: AA+**  
**Moody's: Aa2**  
**Standard & Poor's: AA+**  
**(See "RATINGS")**

*The opinion of Bond Counsel will state the following, under existing law: Interest on the Bonds (including any accrued original issue discount properly allocable to the owners of the Bonds) is excluded from gross income of the owners of the Bonds for federal income tax purposes, assuming continued compliance by the State with the Internal Revenue Code of 1986. Interest on the Bonds is not an item of tax preference for purposes of computing the federal alternative minimum tax imposed on individuals and corporations; interest on the Bonds is taken into account, however, in determining adjusted current earnings for the purpose of computing the alternative minimum tax imposed on corporations. Interest on the Bonds is exempt from the New Hampshire personal income tax on interest and dividends. (See "TAX EXEMPTION" and Appendix A herein.)*

**\$59,465,000**  
**STATE OF NEW HAMPSHIRE**  
**GENERAL OBLIGATION CAPITAL IMPROVEMENT AND REFUNDING BONDS**  
**2002 SERIES A**

Dated: August 1, 2002

Due: as shown below

The Bonds will be issued as fully registered bonds, registered in the name of Cede & Co., as nominee for The Depository Trust Company ("DTC"). Purchases of beneficial interests in the Bonds will be made in book-entry form (without certificates) in the denomination of \$5,000 or any integral multiple thereof. (See "THE BONDS--Book-Entry Only System" herein.)

Interest on the Bonds will be payable semiannually on February 1 and August 1 of each year, commencing February 1, 2003, until maturity or redemption prior to maturity. The Bonds are subject to redemption prior to maturity as provided herein.

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<u>Due</u> <u>August 1</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Price or</u> <u>Yield</u>	<u>Due</u> <u>August 1</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Price or</u> <u>Yield</u>
2003	\$6,225,000	3%	NRO	2013	\$5,905,000	4%	3.76%
2004	6,960,000	4	1.52%	2014	1,025,000	4	3.88
2005	6,845,000	4.50	1.97	2015	520,000	4	100
2006	4,420,000	5	2.34	2016	520,000	4	4.10
2007	4,275,000	5	2.64	2017	400,000	4.10	4.20
2008	2,680,000	3	2.97	2018	400,000	4.20	4.30
2009	1,595,000	3.25	3.19	2019	400,000	4.30	4.40
2010	3,205,000	3.5	3.40	2020	400,000	4.40	4.50
2011	6,440,000	5	3.52	2021	400,000	4.50	4.60
2012	6,450,000	5	3.62	2022	400,000	4.60	4.70

(Accrued interest to be added)

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The Bonds were sold after competitive bidding on August 14, 2002 to a syndicate of underwriters managed by Lehman Brothers Inc. (See "COMPETITIVE SALE OF BONDS" herein.)

*The Bonds are offered subject to the final approving opinion of Palmer & Dodge LLP, Boston, Massachusetts, Bond Counsel, and to certain other conditions referred to in the Notice of Sale. Public Resources Advisory Group has acted as Financial Advisor to the State with respect to the Bonds. Delivery of the Bonds to DTC is expected on or about August 29, 2002.*

August 14, 2002

No dealer, broker, salesperson or other person has been authorized by the State of New Hampshire to give any information or to make any representations with respect to the State or the Bonds, other than those contained in this Official Statement, and, if given or made, such other information or representations must not be relied upon as having been authorized by the State of New Hampshire.

This Official Statement is not to be construed as a contract or agreement between the State of New Hampshire and the purchasers or owners of any of the Bonds. Any statements made in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended merely as opinion and not as representations of fact. The information and expressions of opinion contained herein are subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in any of the information set forth herein since the date hereof.

This Official Statement is provided only in connection with the sale of the Bonds by the State of New Hampshire pursuant to the Notice of Sale dated August 6, 2002 and may not be reproduced or used in whole or in part for any other purpose without the express written consent of the Commissioner of the Treasury. Reference is made to the Notice of Sale for a description of the terms and conditions of the sale of the Bonds to the original purchasers thereof.

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**PART II. STATE OF NEW HAMPSHIRE INFORMATION STATEMENT DATED AUGUST 14, 2002**

STATEMENT PURSUANT TO NEW HAMPSHIRE REVISED STATUTES ANNOTATED 421-B:20:

IN MAKING AN INVESTMENT DECISION INVESTORS MUST RELY ON THEIR OWN EXAMINATION OF THE ISSUER AND THE TERMS OF THE OFFERING, INCLUDING THE MERITS AND RISKS INVOLVED. THESE SECURITIES HAVE NOT BEEN RECOMMENDED BY ANY FEDERAL OR STATE SECURITIES COMMISSION OR REGULATORY AUTHORITY. FURTHERMORE, THE FOREGOING AUTHORITIES HAVE NOT CONFIRMED THE ACCURACY OR DETERMINED THE ADEQUACY OF THIS DOCUMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

**STATE OF NEW HAMPSHIRE**

**GOVERNOR**

JEANNE SHAHEEN

**EXECUTIVE COUNCIL**

RAYMOND S. BURTON  
RUTH L. GRIFFIN  
PETER J. SPAULDING  
DAVID K. WHEELER  
RAYMOND J. WIECZOREK

**COMMISSIONER OF THE TREASURY**

MICHAEL A. ABLOWICH

**SECRETARY OF STATE**

WILLIAM M. GARDNER

**ATTORNEY GENERAL**

PHILIP T. MCLAUGHLIN

**COMMISSIONER OF ADMINISTRATIVE SERVICES**

DONALD S. HILL

**BUDGET DIRECTOR**

LINDA M. HODGDON

**COMPTROLLER**

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**FINANCIAL ADVISOR**

Public Resources Advisory Group  
40 Rector Street  
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**OFFICIAL STATEMENT**  
**OF**  
**THE STATE OF NEW HAMPSHIRE**

**\$59,465,000**

**GENERAL OBLIGATION CAPITAL IMPROVEMENT AND REFUNDING BONDS**  
**2002 Series A**

**PART I: INFORMATION CONCERNING THE BONDS**

This Official Statement, including the cover page, is provided for the purpose of presenting certain information relating to the State of New Hampshire (the "State") in connection with the sale of \$59,465,000 aggregate principal amount of its General Obligation Capital Improvement and Refunding Bonds, 2002 Series A, dated August 1, 2002 (the "Bonds").

This Official Statement consists of two parts: Part I (including the cover and Appendices A, B, C, and D) and Part II, the State's Information Statement dated August 14, 2002 (the "Information Statement"). The Information Statement will be provided to the nationally recognized municipal securities information repositories ("NRMSIRs") currently recognized by the Securities and Exchange Commission for purposes of Rule 15c2-12.

**THE BONDS**

**Description of the Bonds**

The Bonds will be dated August 1, 2002 and will bear interest payable semiannually on February 1 and August 1 of each year, commencing February 1, 2003, until maturity or redemption prior to maturity. The record date with respect to each payment of interest shall be the fifteenth day of the month preceding such interest payment date. The Bonds will mature in the years and in the principal amounts shown on the cover page of this Official Statement. The Bonds are subject to redemption prior to maturity as described below.

The Bonds are being issued only as fully registered Bonds and, when issued, will be registered in the name of Cede & Co., as Bondowner and nominee for The Depository Trust Company ("DTC"), New York, New York. DTC will act as securities depository for the Bonds. Purchases of beneficial interests in the Bonds will be made in book-entry form, in the denomination of \$5,000 or any integral multiple thereof. Purchasers will not receive certificates representing their interest in Bonds purchased. So long as DTC or its nominee, Cede & Co., is the Bondowner, payments of principal and interest will be made directly to such Bondowner. Disbursement of such payments to the DTC Participants is the responsibility of DTC and disbursements of such payments to the Beneficial Owners is the responsibility of the DTC Participants and the Indirect Participants, as more fully described herein. (See "Book-Entry Only System" herein.)

**Redemption Provisions**

*Optional Redemption*

The Bonds maturing on and prior to August 1, 2012 are not subject to redemption prior to maturity. The Bonds maturing after August 1, 2012 are subject to redemption at the option of the State on and after August 1, 2012 as a whole or in part at any time, with maturities to be designated by the State (and by lot within any maturity), at par, plus accrued interest to the redemption date.

If less than all of the Bonds are called for redemption, the Bonds to be redeemed shall be selected in such manner as may be determined by the State Treasurer to be in the best interests of the State.

### *Notice of Redemption*

So long as DTC is the registered owner of the Bonds, notice of any redemption of Bonds prior to their maturities, specifying the Bonds (or the portions thereof) to be redeemed shall be mailed to DTC not more than 60 days nor less than 30 days prior to the redemption date. Any failure on the part of DTC to notify the DTC Participants of the redemption or failure on the part of the DTC Participants or of a nominee of a Beneficial Owner (having received notice from a DTC Participant or otherwise) to notify the Beneficial Owner shall not affect the validity of the redemption. Following proper notice of the redemption of any Bonds, if sufficient moneys are deposited with State Street Bank and Trust Company as Paying Agent (the "Paying Agent") for redemption, interest thereon ceases to accrue as of the redemption date.

### **Security for the Bonds**

In the opinion of Bond Counsel, the Bonds when duly issued will constitute valid general obligations of the State and the full faith and credit of the State will be pledged for the punctual payment of the principal of and interest on the Bonds.

Each Bond when duly issued and paid for will constitute a contract between the State and the owner of the Bond. While the doctrine of sovereign immunity (the sovereign right of a state not to be sued without its consent) applies to the State, the Legislature has conferred jurisdiction on the Superior Court to enter judgment against the State founded upon any express or implied contract. The Supreme Court of New Hampshire has stated that that statutory provision constitutes a waiver of the State's right of sovereign immunity in such a case. Although a bond of the State constitutes a contract with the owner of the bond, the State Supreme Court has not considered the issue of sovereign immunity in a case expressly involving the enforceability of a bond. Under State law, the Attorney General of the State is directed to present any claim founded upon a judgment against the State to the department or agency which entered into the contract for payment from available appropriations or, if such appropriations are insufficient, to present the claim to the Legislature. Payment of a claim against the State for which available appropriated funds are insufficient would require appropriation by the Legislature. Enforcement of a claim for payment of principal of or interest on the Bonds may also be subject to the provisions of federal or State statutes, if any, hereafter enacted extending the time for payment or imposing other constraints upon enforcement, insofar as those provisions may be constitutionally applied.

The State Constitution provides that the public charges of government may be raised by taxation upon polls, estates and other classes of property including franchises and property when passing by will or inheritance, and authorizes the Legislature to impose and levy proportional and reasonable assessments, rates and taxes upon all the inhabitants of, and residents within, the State and upon all property within the State.

### **Authorization and Purpose**

The Bonds are being issued pursuant to a vote of the Governor and Council under Chapter 6-A of the New Hampshire Revised Statutes Annotated ("RSA") and various other laws. Proceeds from the sale of the Bonds are expected to be used (i) to provide for the current and advance refunding of the general obligation bonds described in Appendix D (the "Refunded Bonds"), (ii) to finance all or a portion of the costs of certain capital projects, and (iii) to pay issuance costs.

### **Plan of Refunding**

Upon delivery of the Bonds, the State will enter into a Refunding Trust Agreement with State Street Bank and Trust Company, as Trustee (the "Trustee"), to provide for the refunding of the Refunded Bonds. Upon receipt of the proceeds of the Bonds, the Trustee will deposit in the Refunding Trust Fund established under the Refunding Trust Agreement the amount which (except for any outstanding cash balances) will be invested in direct obligations of the United States of America (State and Local Government Series) or in noncallable obligations directly and unconditionally guaranteed by the United States of America (collectively, "Government Obligations") maturing in amounts and bearing interest at rates sufficient without reinvestment to pay when due, interest on, and upon redemption, the outstanding principal of and redemption premium on the Refunded Bonds. The Refunding Trust Fund, including the interest earnings on the Government Obligations, is pledged solely for the benefit of the owners

of the Refunded Bonds and is not available to pay the Bonds offered hereby. A complete list of the Refunded Bonds and their redemption dates and prices is set forth in Appendix D.

### Sources and Uses of Funds

The proceeds from the sale of the Bonds (exclusive of the accrued interest on the Bonds) are expected to be applied as follows:

#### Sources

Par Amount of the Bonds.....	\$59,465,000.00
Plus Net Original Issue Premium.....	<u>3,393,969.55</u>
Total Sources of Funds.....	\$62,858,969.55

#### Uses

Deposit to Refunding Trust Fund.....	\$52,299,877.74
Deposit to Capital Projects Account.....	10,298,001.31
Underwriters' Discount.....	101,090.50
Costs of Issuance.....	<u>160,000.00</u>
Total Uses of Funds.....	\$62,858,969.55

### Book-Entry Only System

The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One-fully registered Bond certificate will be issued for each maturity of the Bonds, in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 85 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Government Securities Clearing Corporation, MBS Clearing Corporation, and Emerging Markets Clearing Corporation, (NSCC, GSCC, MBSCC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com).

Purchases of securities under the DTC system must be made by or through Direct Participants, which will receive a credit for the securities on DTC's records. The ownership interest of each actual purchaser of each security ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the securities are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their

ownership interests in the Bonds, except in the event that use of the book-entry system for the securities is discontinued.

To facilitate subsequent transfers, all securities deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the securities; DTC's records reflect only the identity of the Direct Participants to whose accounts such securities are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices shall be sent to DTC. If less than all of the Bonds within a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent to vote with respect to Securities unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the State as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Securities are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the State or the Agent, on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC (nor its nominee), the State or the Agent, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the State or the Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Bonds at any time by giving reasonable notice to the State or the Agent. Under such circumstances, in the event that a successor depository is not obtained, Bond certificates are required to be printed and delivered.

The State may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Bond certificates will be printed and delivered.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the State believes to be reliable, but the State takes no responsibility for the accuracy thereof.

#### **TAX EXEMPTION**

The opinion of Palmer & Dodge LLP, Bond Counsel, will state that under existing law, the interest on the Bonds (including any accrued original issue discount properly allocable to the owners of the Bonds) is excluded from gross income of the owners of the Bonds for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; interest on the Bonds is taken into account, however, in determining adjusted current earnings for the purpose of computing the alternative minimum tax imposed on corporations (as defined for federal income tax purposes).

The Internal Revenue Code of 1986 (the "Code") establishes certain requirements that must be continuously satisfied subsequent to the issuance of the Bonds in order for interest on the Bonds to remain excluded from gross income for federal income tax purposes. These requirements include restrictions on the use, expenditure and investment of bond proceeds and also include the payment of rebates, or penalties in lieu of rebates to the United States of America. Failure to comply with these requirements may cause inclusion of interest on the Bonds in gross income for federal income tax purposes retroactive to the date of issuance of the Bonds. The State will covenant to take all lawful action necessary to comply with all requirements of the Code that must be satisfied subsequent to the issuance of the Bonds in order that interest on the Bonds be or continue to be excluded from gross income for federal income tax purposes.

It should also be noted that the Code denies a deduction for interest on indebtedness incurred or continued to purchase or carry the Bonds or, in the case of a financial institution, for that portion of the holder's interest expense allocated to interest on the Bonds. Interest on the Bonds earned by insurance companies or allocable to certain dividends received by such companies may increase taxable income of those companies as calculated under Subchapter L of the Code. In addition, interest on the Bonds earned by certain corporations could be subject to the foreign branch profits tax imposed by the Code, and may be included in passive investment income subject to federal income taxation under provisions of the Code applicable to certain S corporations. The Code also requires recipients of certain social security and certain railroad retirement benefits to take into account receipts or accruals of interest on the Bonds in determining the portion of such benefits that are included in gross income, and receipt of investment income, including interest on the Bonds, may disqualify the recipient thereof from obtaining the earned income credit under Section 32(i) of the Code.

The opinion of Bond Counsel will also state that, under existing law, interest on the Bonds is exempt from the New Hampshire personal income tax on interest and dividends. Bond Counsel has not opined as to other New Hampshire tax consequences arising with respect to the Bonds.

No assurance can be given that future legislation will not have adverse tax consequences for owners of the Bonds.

### **VERIFICATION OF MATHEMATICAL COMPUTATIONS**

The arithmetical accuracy of certain computations included in the schedules provided by Public Resources Advisory Group on behalf of the State relating to (a) computation of anticipated receipts of principal and interest on the Government Obligations and the anticipated payments of principal and interest to redeem the Refunded Bonds, and (b) computation of the yields on the Bonds and the Government Obligations was examined by Causey Demgen & Moore, Inc. Such computations were based solely upon assumptions and information supplied by Public Resources Advisory Group, on behalf of the State. Causey Demgen & Moore, Inc. has restricted its procedures to examining the arithmetical accuracy of certain computations and has not made any study or evaluation of the assumptions and information upon which the computations are based and, accordingly, has not expressed an opinion on the data used, the reasonableness of the assumptions, or the achievability of future events.

### **LEGAL MATTERS**

Legal matters incident to the authorization and sale of the Bonds are subject to the approval of Palmer & Dodge LLP, Boston, Massachusetts, Bond Counsel. A form of the approving opinion of Palmer & Dodge LLP is set forth in Appendix A. The opinion will be dated the date of the issuance of the Bonds and will speak only as of that date.

### **FINANCIAL ADVISOR**

Public Resources Advisory Group has acted as financial advisor to the State with respect to the issuance of the Bonds.

## **RATINGS**

Fitch, Moody's Investors Service, Inc. and Standard & Poor's have assigned the Bonds the ratings of AA+, Aa2, and AA+, respectively. An explanation of the significance of each such ratings may be obtained from the rating agency furnishing the same. There is no assurance that those ratings will be maintained for any given period of time or that they may not be lowered or withdrawn entirely by the rating agencies, or any of them, if in their or its judgment circumstances so warrant. Any such downward change in or withdrawal of any of the ratings may have an adverse effect on the market price of the Bonds.

## **COMPETITIVE SALE OF BONDS**

After competitive bidding on August 14, 2002 the Bonds were awarded to a syndicate of underwriters managed by Lehman Brothers Inc. (the "Underwriters"). The Underwriters have supplied the information as to the public offering yields or prices of the Bonds set forth on the cover hereof. The Underwriters have informed the State that, if all of the Bonds are resold to the public at those yields or prices, it anticipates the total Underwriters' compensation to be \$101,090.50. The Underwriters may change the public offering yields or prices from time to time.

## **CONTINUING DISCLOSURE**

In order to assist the Underwriters in complying with Rule 15c2-12(b)(5) promulgated by the Securities and Exchange Commission (the "Rule"), the State will covenant for the benefit of owners of the Bonds to provide certain financial information and operating data relating to the State (the "Annual Report"), by not later than 270 days after the end of each fiscal year and to provide notices of the occurrence of certain enumerated events, if material. The covenants will be contained in a Continuing Disclosure Certificate, the proposed form of which is provided in Appendix B. The Certificate will be executed by the signers of the Bonds, and incorporated by reference in the Bonds. The State has never failed to comply in all material respects with any previous undertakings to provide annual reports or notices of material events in accordance with the Rule.

STATE OF NEW HAMPSHIRE

By: /s/ Michael A. Ablowich  
*Commissioner of the Treasury*

August 14, 2002

PROPOSED FORM OF OPINION OF BOND COUNSEL



(Date of Delivery)

The Honorable Michael A. Ablowich  
Commissioner of the Treasury  
State House Annex  
Concord, New Hampshire 03301

**(State of New Hampshire Bonds)**

We have acted as Bond Counsel to the State of New Hampshire in connection with the issuance by the State of \$59,465,000 aggregate principal amount of General Obligation Capital Improvement and Refunding Bonds, 2002 Series A, dated August 1, 2002 (the "Bonds").

We have examined the law and such certified proceedings and other papers as we deemed necessary to render this opinion. On the basis of this examination, we are of the opinion, under existing law, as follows:

1. The Bonds are valid general obligations of the State of New Hampshire, and the full faith and credit of the State are pledged for the punctual payment of the principal of and interest on the Bonds.
2. The interest on the Bonds is exempt from the New Hampshire personal income tax on interest and dividends. We express no opinion as to other New Hampshire tax consequences arising with respect to the Bonds.
3. The interest on the Bonds (including any accrued original issue discount properly allocable to the owners of the Bonds) is excluded from gross income of the owners of the Bonds for federal income tax purposes and is not an item of tax preference for purposes of computing the alternative minimum tax imposed on individuals and corporations under the Internal Revenue Code of 1986 (the "Code"); it should be noted, however, that interest on the Bonds is taken into account in determining adjusted current earnings for the purpose of computing the alternative minimum tax imposed on corporations (as defined for federal income tax purposes). The opinions set forth in the preceding sentence are subject to the condition that the State comply with all requirements of the Code that must be satisfied subsequent to the issuance of the Bonds in order that interest thereon be, or continue to be, excluded from gross income for federal income tax purposes. The State has covenanted to comply with these requirements. Failure to comply with certain of these requirements may cause the inclusion of interest on the Bonds in gross income for federal income tax purposes to be retroactive to the date of issuance of the Bonds. We express no opinion regarding any other tax consequences arising with respect to the Bonds.

The rights of the owners of the Bonds and the enforceability of the Bonds are subject to the provisions of federal or State statutes, if any, hereafter enacted extending the time for payment or imposing other constraints upon enforcement to the extent constitutionally applicable, and their enforcement may also be subject to the exercise of judicial discretion in appropriate cases.

Yours faithfully,

**PROPOSED FORM OF  
CONTINUING DISCLOSURE CERTIFICATE**

This Continuing Disclosure Certificate (the “Disclosure Certificate”) is executed and delivered by the State of New Hampshire (the “Issuer”) in connection with the issuance of its \$59,465,000 General Obligation Capital Improvement and Refunding Bonds, 2002 Series A, dated August 1, 2002 (the “Bonds”). The State covenants and agrees as follows:

SECTION 1. Purpose of the Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the State for the benefit of the Owners of the Bonds and in order to assist the Participating Underwriters in complying with the Rule.

SECTION 2. Definitions. For purposes of this Disclosure Certificate the following capitalized terms shall have the following meanings:

“Annual Report” shall mean any Annual Report provided by the State pursuant to, and as described in, Sections 3 and 4 of this Disclosure Certificate.

“Listed Events” shall mean any of the events listed in Section 5(a) of this Disclosure Certificate.

“National Repository” shall mean any nationally recognized municipal securities information repository for purposes of the Rule. The current National Repositories are listed on Exhibit A attached hereto.

“Owners of the Bonds” shall mean the registered owners, including beneficial owners, of the Bonds.

“Participating Underwriter” shall mean any of the original underwriters of the Bonds required to comply with the Rule in connection with offering of the Bonds.

“Repository” shall mean each National Repository and each State Depository.

“Rule” shall mean Rule 15c2-12 adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

“State Depository” shall mean any public or private depository or entity designated by the State of New Hampshire as a state information depository for the purpose of the Rule. (As of the date of this Disclosure Certificate there is no State Depository).

SECTION 3. Provision of Annual Reports.

(a) The State shall, not later than 270 days after the end of each fiscal year, provide to each Repository an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Certificate. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may cross-reference other information as provided in Section 4 of this Disclosure Certificate; provided that the audited financial statements of the State may be submitted when available separately from the balance of the Annual Report.

(b) If the State is unable to provide to the Repositories an Annual Report by the date required in subsection (a), the State shall send a notice to the Municipal Securities Rulemaking Board and the State Depository, if any, in substantially the form attached as Exhibit B.

SECTION 4. Content of Annual Reports. The State’s Annual Report shall contain or incorporate by reference the following:

- (a) quantitative information for the preceding fiscal year of the type presented in the State's Information Statement dated August 14, 2002 regarding (i) the revenues and expenditures of the State relating to its General Fund and Education Fund, (ii) capital expenditures, (iii) fund balances, (iv) revenue information, (v) indebtedness of the State, and (vi) pension obligations of the State, and
- (b) the most recently available audited financial statements of the State, prepared in accordance with generally accepted accounting principles.

If audited financial statements for the preceding fiscal year are not available when the Annual Report is submitted, the Annual Report will include unaudited financial statements for the preceding fiscal year.

Any or all of the items listed above may be incorporated by reference from other documents, including official statements for debt issues of the State or related public entities, which have been submitted to each of the Repositories or the Securities and Exchange Commission. If the document incorporated by reference is a final official statement, it must be available from the Municipal Securities Rulemaking Board. The State shall clearly identify each such other document so incorporated by reference.

#### SECTION 5. Reporting of Material Events.

(a) The State shall give notice, in accordance with subsection 5(b) below, of the occurrence of any of the following events with respect to the Bonds, if material:

1. Principal and interest payment delinquencies.
2. Non-payment related defaults.
3. Unscheduled draws on debt service reserves reflecting financial difficulties.
4. Unscheduled draws on credit enhancements reflecting financial difficulties.
5. Substitution of credit or liquidity providers, or their failure to perform.
6. Adverse tax opinions or events affecting the tax-exempt status of the Bonds.
7. Modifications to rights of the Owners of the Bonds.
8. Bond calls.
9. Defeasance of the Bonds or any portion thereof.
10. Release, substitution or sale of property securing repayment of the Bonds.
11. Rating changes.

As of the date of this Disclosure Certificate events of the types listed in paragraphs 2, 3, 4, 5 and 10 above are not applicable to the Bonds.

(b) Whenever the State obtains knowledge of the occurrence of a Listed Event, the State shall as soon as possible determine if such an event would be material under applicable federal securities laws and if so, the State shall promptly file a notice of such occurrence with the Municipal Securities Rulemaking Board and the State Depository, if any.

SECTION 6. Termination of Reporting Obligation. The State's obligations under this Disclosure Certificate shall terminate upon the legal defeasance in accordance with the terms of the Bonds, prior redemption or payment in full of all of the Bonds.

SECTION 7. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the State may amend this Disclosure Certificate and any provision of this Disclosure Certificate may be waived if such amendment or waiver is permitted by the Rule, as evidenced by an opinion of counsel expert in federal securities law (which may also include bond counsel to the State), to the effect that such amendment or waiver would not cause the Disclosure Certificate to violate the Rule. The first Annual Report filed after enactment of any amendment to or waiver of this Disclosure Certificate shall explain, in narrative form, the reasons for the amendment or waiver and the impact of the change in the type of information being provided in the Annual Report.

If the amendment provides for a change in the accounting principles to be followed in preparing financial statements, the Annual Report for the year in which the change is made shall present a comparison between the financial statements or information prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles. The comparison shall include a qualitative discussion of the differences in the accounting principles and the impact of the change in the accounting principles on the presentation of the financial information in order to provide information to investors to enable them to evaluate the ability of the State to meet its obligations. To the extent reasonably feasible, the comparison shall also be quantitative. A notice of the change in the accounting principles shall be sent to each Repository.

SECTION 8. Default. In the event of a failure of the State to comply with any provision of this Disclosure Certificate any Owner of the Bonds may seek a court order for specific performance by the State of its obligations under this Disclosure Certificate. A default under this Disclosure Certificate shall not constitute a default with respect to the Bonds, and the sole remedy under this Disclosure Certificate in the event of any failure of the State to comply with this Disclosure Certificate shall be an action for specific performance of the State's obligations hereunder and not for money damages in any amount.

SECTION 9. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the Owners of the Bonds from time to time, and shall create no rights in any other person or entity.

Date: August , 2002

STATE OF NEW HAMPSHIRE

By: \_\_\_\_\_  
Commissioner of the Treasury

\_\_\_\_\_  
Governor

[EXHIBIT A: List of National Repositories – to be attached]

[EXHIBIT B: Form of Notice of Failure to File Annual Report – to be attached]

## NOTICE OF SALE

\$62,420,000

**STATE OF NEW HAMPSHIRE  
GENERAL OBLIGATION CAPITAL IMPROVEMENT AND REFUNDING BONDS  
2002 SERIES A**

Notice is hereby given that electronic bids will be received until 11:00 A.M. (local Concord, New Hampshire time) on Wednesday, August 14, 2002 by Michael A. Ablowich, Commissioner of the Treasury of the State of New Hampshire, for the purchase of \$62,420,000\* State of New Hampshire General Obligation Capital Improvement and Refunding Bonds, 2002 Series A (the "Bonds").

**Description of the Bonds**

The Bonds will be issued only as fully registered bonds in book-entry form. The Bonds will be dated August 1, 2002 and will be issued in denominations of \$5,000 or any integral multiple thereof. Interest on the Bonds will be calculated on a 30/360 day basis and will be payable semi-annually on February 1 and August 1, commencing February 1, 2003.

Principal on the Bonds will be paid (subject to prior redemption) on August 1 in the following years and amounts:

<u>Year</u>	<u>Principal Amount</u> <sup>(1)(2)</sup>	<u>Year</u>	<u>Principal Amount</u> <sup>(1)(2)</sup>
2003	\$7,195,000	2013	\$5,910,000
2004	7,505,000	2014	1,025,000
2005	7,235,000	2015	520,000
2006	4,705,000	2016	520,000
2007	4,485,000	2017	400,000
2008	2,850,000	2018	400,000
2009	1,735,000	2019	400,000
2010	3,325,000	2020	400,000
2011	6,535,000	2021	400,000
2012	6,475,000	2022	400,000

(1) Amounts are subject to change as described herein.

(2) May represent mandatory sinking fund redemption amount or portion of stated maturity if Term Bonds (as defined herein) are specified.

**Authorization and Security**

The Bonds will be general obligations of the State of New Hampshire and the full faith and credit of the State will be pledged for the punctual payment of the principal and interest on the Bonds. The Bonds are being issued pursuant to a vote of the Governor and Council under Chapter 6-A of the New Hampshire Revised Statutes Annotated and various other laws.

\* Preliminary, subject to change.

## **Optional Redemption**

Bonds maturing on and before August 1, 2012 are not subject to redemption prior to maturity. Bonds maturing after August 1, 2012 are subject to redemption at the option of the State on and after August 1, 2012 as a whole or in part at any time, with maturities or mandatory redemption installments to be designated by the State, at par plus accrued interest to the redemption date.

Whenever Bonds are to be redeemed, the State Treasurer shall cause notice of the call for redemption to be sent by registered or certified mail not less than 30 nor more than 60 days before the redemption date, to the registered owner of any Bond to be redeemed. If less than all of the Bonds are called for redemption, the Bonds to be redeemed shall be selected in such manner as may be determined by the State Treasurer to be in the best interests of the State. If less than all of the Bonds of a single maturity are called for redemption, the Bonds to be redeemed shall be selected by lot. During the period that DTC or its nominee is registered owner of the Bonds, the State Treasurer shall not be responsible for mailing notices of redemption to DTC Participants or Beneficial Owners.

## **Mandatory Redemption**

If the successful bidder designates principal amounts of the Bonds to be combined into one or more term bonds each such term bond shall be subject to mandatory redemption commencing on August 1 of the first year which has been combined to form such term bond and continuing on August 1 in each year thereafter until the stated maturity date of that term bond. The amount redeemed or paid at maturity in any year shall be equal to the principal amount for such year set forth in the foregoing maturity schedule. Bonds to be redeemed in any year by mandatory redemption shall be redeemed at par and selected by lot from among the Bonds of the same maturity. The State Treasurer may credit against any mandatory redemption requirement term bonds of the maturity then subject to redemption which have been purchased and canceled by the State or have been redeemed and not theretofore applied as a credit against any mandatory redemption requirement.

## **Book-Entry Only**

Initially, one bond certificate for each maturity will be issued to The Depository Trust Company, New York, New York ("DTC") or its nominee, which will be designated as the securities depository for the Bonds. So long as DTC is acting as securities depository for the Bonds, a book-entry system will be employed, evidencing ownership of the Bonds in principal amounts of \$5,000 and multiples thereof, with transfers of ownership effected on the records of DTC and its participants pursuant to rules and procedures established by DTC and its participants. Principal of, redemption premium, if any, and interest on the Bonds will be payable to DTC or its nominee as registered owner of the Bonds. Principal of, redemption premium, if any, and interest on the Bonds will be payable in lawful money of the United States of America by State Street Bank and Trust Company, as Paying Agent. Transfers of principal, redemption premium, if any, and interest payments to beneficial owners (the "Beneficial Owners") will be the responsibility of such participants and other nominees of the Beneficial Owners. The State will not be responsible or liable for maintaining, supervising or reviewing the records maintained by DTC, its participants or persons acting through such participants.

In the event that (a) DTC determines not to continue to act as securities depository for the Bonds, (b) the State determines that DTC is incapable of discharging its duties or that continuation with DTC as securities depository is not in the best interests of the State or (c) the State determines that continuation of the book-entry system of evidence and transfer of ownership of the Bonds is not in the best interests of the State or the Beneficial Owners, the State will discontinue the book-entry system with DTC. If the State fails to identify another qualified securities depository to replace DTC, the State will cause the execution and delivery of replacement bonds in the form of fully registered certificates.

## **Electronic Bidding Procedures**

Proposals to purchase bonds (all or none) must be submitted electronically via *PARITY*. Bids will be communicated electronically to the State at 11:00 a.m., local Concord, New Hampshire time, on Wednesday, August 14, 2002. Prior to that time, a prospective bidder may (1) submit the proposed terms of its bid via *PARITY*, (2) modify the proposed terms of its bid, in which event the proposed terms as last modified will (unless the bid is

withdrawn as described herein) constitute its bid for the Bonds or (3) withdraw its proposed bid. Once the bids are communicated electronically via *PARITY* to the State, each bid will constitute an irrevocable offer to purchase the Bonds on the terms therein provided. For purposes of the electronic bidding process, the time as maintained on *PARITY* shall constitute the official time. The State will not accept bids by any means other than electronically via *PARITY*.

### **Disclaimer**

Each prospective bidder shall be solely responsible to submit its bid via *PARITY* as described above. Each prospective bidder shall be solely responsible to make necessary arrangements to access *PARITY* for the purpose of submitting its bid in a timely manner and in compliance with the requirements of the Notice of Sale. Neither the State nor *PARITY* shall have any duty or obligation to provide or assure access to *PARITY* to any prospective bidder, and neither the State nor *PARITY* shall be responsible for proper operation of, or have any liability for any delays or interruptions of, or any damages caused by, *PARITY*. The State is using *PARITY* as a communication mechanism, and not as the State's agent, to conduct the electronic bidding for the Bonds. The State is not bound by any advice and determination of *PARITY* to the effect that any particular bid complies with the terms of this Notice of Sale and in particular the "Bid Specifications" hereinafter set forth. All costs and expenses incurred by prospective bidders in connection with their submission of bids via *PARITY* are the sole responsibility of the bidders; and the State is not responsible, directly or indirectly, for any of such costs or expenses. If a prospective bidder encounters any difficulty in submitting, modifying, or withdrawing a bid for the Bonds, the bidder should telephone *PARITY* at Dalcomp (212) 806-8304 and notify the State's Financial Advisor, Public Resources Advisory Group, by facsimile at (212) 566-7816. To the extent any instructions or directions set forth in *PARITY* conflict with this Notice of Sale, the terms of this Notice of Sale shall control. For further information about *PARITY*, potential bidders may contact *PARITY* at Dalcomp (212) 806-8304.

### **Bid Specifications**

Bidders should state the rate or rates of interest that the Bonds are to bear, in multiples of 1/8 or 1/20 of one percent. Any number of rates may be named, except that bonds maturing on the same date must bear interest at the same rate. Each bidder must specify in its bid the amount and maturities of bonds of each rate. No interest rate may exceed 5.25%. No bond of any maturity may be reoffered at a price less than 95% of the principal amount of such bond. Bids must be for not less than 99% or not more than 106% of the par value of the aggregate principal amounts of the Bonds plus accrued interest from the dated date (August 1, 2002) to the date of delivery of the Bonds. No bid for other than **all** of the Bonds will be accepted.

### **Serial Bonds and Term Bonds**

The successful bidder may provide in its bid for all of the Bonds to be issued as serial bonds or may designate consecutive annual principal amounts of the Bonds to be combined into term bonds. Each such term bond shall be subject to mandatory redemption as described above under "Mandatory Redemption."

### **Adjustments to Principal Amounts**

The State reserves the right to revise the maturity schedule and the aggregate principal amount of the Bonds as set forth in this official Notice of Sale (the "Preliminary Amounts") before the receipt of electronic bids for the purchase of the Bonds. ANY SUCH REVISIONS made prior to the receipt of electronic bids (the "Revised Amounts") WILL BE PUBLISHED ON TM3 NOT LATER THAN 1:00 P.M. (EASTERN DAYLIGHT TIME) ON THE LAST BUSINESS DAY PRIOR TO THE DATE OF THE SALE. In the event that no such revisions are made, the Preliminary Amounts will constitute the Revised Amounts. Bidders shall submit bids based on the Revised Amounts and the Revised Amounts will be used to compare bids and select a winning bidder.

As promptly as reasonably possible after the bids are received, the State will notify the bidder to whom the Bonds will be awarded, if and when such award is made, and such bidder, upon such notice, shall advise the State of the initial public offering prices of each maturity of the Bonds (the "Initial Reoffering Prices") as described below under "Undertakings of the Successful Bidder." The Initial Reoffering Prices will be used to calculate the final maturity schedule and the final aggregate principal amount of the Bonds (the "Final Amounts"). In determining the

Final Amounts, the State will not reduce or increase the revised aggregate principal amount by more than 10% from the amount bid upon. **THE SUCCESSFUL BIDDER MAY NOT WITHDRAW ITS BID OR CHANGE THE INTEREST RATES BID OR THE INITIAL REOFFERING PRICES AS A RESULT OF ANY CHANGES MADE TO THE REVISED AMOUNTS WITHIN THIS LIMIT.** The dollar amount bid for principal by the successful bidder will be adjusted proportionally to reflect any reduction or increase in the aggregate principal amount of the Bonds to be issued. The Final Amounts will be communicated to the successful bidder as soon as possible, but not later than 3:00 P.M. the day following the award of the Bonds.

### **Basis of Award**

The Bonds will be awarded to the bidder offering to purchase all of the Bonds at the lowest interest cost to the State. The lowest interest cost shall be determined in accordance with the true interest cost (TIC) method by doubling the semi-annual interest rate (compounded semi-annually) necessary to discount the debt service payments from the payment dates to the date of the Bonds (August 1, 2002) and to the price bid, excluding interest accrued to the date of delivery. If there is more than one such proposal making said offer at the same lowest true interest cost, the Bonds will be sold to the bidder whose proposal is selected by the Treasurer by lot from among all such proposals at the same lowest true interest cost. It is requested that each bid be accompanied by a statement of the true interest cost computed at the interest rate or rates stated in such bid in accordance with the above method of calculation (computed to six decimal places) but such statement will not be considered as a part of the bid.

Bids will be accepted or rejected promptly after receipt and not later than 3:00 p.m. (E.D.T.) on the date of the sale. The award of the Bonds is subject to confirmation by the Governor and Council, a meeting of which is scheduled for August 14, 2002. Evidence of such confirmation will be furnished to the successful bidder.

The State reserves the right to reject any or all proposals and to reject any proposals not complying with the Notice of Sale. The State also reserves the right, so far as permitted by law, to waive any irregularity or informality with respect to any proposal.

### **CUSIP Numbers**

It is anticipated that CUSIP identification numbers will be printed on the Bonds. All expenses in relation to the printing of CUSIP numbers on the Bonds shall be paid for by the State; provided, however, that the CUSIP Service Bureau charge for the assignment of the numbers shall be the responsibility of and shall be paid for by the successful bidder.

### **Expenses**

The State will pay: (i) the cost of the preparation of the Bonds; (ii) the fees and expenses of Bond Counsel, and the Financial Advisor; (iii) the fees of the rating agencies relating to the Bonds, and (iv) the cost of preparation and printing of the Official Statement.

### **Undertakings of the Successful Bidder**

The successful bidder shall make a bona fide public offering of the Bonds and shall, within 30 minutes of being notified of the award of the Bonds, advise the State in writing (via facsimile transmission) of the initial public offering prices of the Bonds (the "Initial Reoffering Prices"). The successful bidder must, by facsimile transmission or delivery received by the State within 24 hours after notification of the award, furnish the following information to Bond Counsel to complete the Official Statement in final form, as described below:

- A. Selling compensation (aggregate total anticipated compensation to the underwriters expressed in dollars, based on the expectation that all Bonds are sold at the prices or yields at which the successful bidder advised the Commissioner of the Treasury that the Bonds were initially offered to the public).
- B. The identity of the underwriters if the successful bidder is part of a group or syndicate.

- C. Any other material information the Commissioner of the Treasury determines is necessary to complete the Official Statement in final form.

Prior to delivery of the Bonds, the successful bidder shall furnish to the State a certificate acceptable to Bond Counsel to the effect that as of the date of acceptance of its bid, the successful bidder had sold or reasonably expected to sell a substantial amount of each maturity of the Bonds to the public (excluding bond houses, brokers or similar persons or other intermediaries) at the Initial Reoffering Prices.

### **Delivery of the Bonds**

The Bonds will be delivered on or about August 29, 2002 (unless a notice of change in the delivery date is announced on TM3 not later than 1:00 p.m. (E.D.T.) on the last business day prior to any announced date for receipt of bids) in New York City at DTC against payment of the purchase price therefor in Federal Funds.

### **Documents to be Delivered at Closing**

It shall be a condition to the obligation of the successful bidder to accept delivery of and pay for the Bonds that contemporaneously with or before accepting the Bonds and paying therefore, the successful bidder shall be furnished, without cost, with (a) the approving opinion of the firm of Palmer and Dodge LLP, Boston, Massachusetts, Bond Counsel to the State, as to the validity and tax status of the Bonds, substantially in the form provided in Appendix B to the Official Statement, referred to below; (b) a certificate of the Commissioner of the Treasury and the Commissioner of the Department of Administrative Services to the effect that, to the best of their respective knowledge and belief, the Official Statement referred to below, both as of its date and as of the date of delivery of the Bonds, does not contain any untrue statement of a material fact and does not omit to state a material fact necessary to make the statements made therein, in light of the circumstances under which they were made, not misleading; (c) a certificate of the Attorney General of the State in form satisfactory to Bond Counsel, dated as of the date of delivery of the Bonds and receipt of payment therefor, to the effect that there is no litigation pending or, to his knowledge, threatened seeking to restrain or enjoin the issuance or delivery of the Bonds, in any way affecting the validity of the Bonds or in any way contesting the power of the Commissioner of the Treasury to sell the Bonds as contemplated in this Notice of Sale; and (d) a Continuing Disclosure Certificate substantially in the form described in the Preliminary Official Statement.

### **Official Statement**

The Preliminary Official Statement dated August 6, 2002 and the information contained therein have been deemed final by the State as of its date within the meaning of Rule 15c2-12 of the Securities and Exchange Commission ("Rule 15c2-12") with permitted omissions, but is subject to change without notice and to completion or amendment in the Official Statement in final form (the "Final Official Statement").

The State, at its expense, will make available to the successful bidder up to 500 copies of the Final Official Statement, for delivery to each potential investor requesting a copy of the Final Official Statement and to each person to whom the bidder and members of its bidding group initially sell the Bonds, within seven business days of the award of the Bonds, provided that the successful bidder cooperate in providing the information required to complete the Final Official Statement.

The successful bidder shall comply with the requirements of Rule 15c2-12 and the rules of the Municipal Securities Rulemaking Board, including an obligation, if any, to update the Final Official Statement.

### **Continuing Disclosure**

In order to assist bidders in complying with Rule 15c2-12(b)(5) promulgated by the Securities and Exchange Commission, the State will undertake to provide annual reports and notices of certain material events. A description of this undertaking is set forth in the Preliminary Official Statement.

**Right to Change the Notice of Sale and to Postpone Offering**

The State reserves the right to make changes to the Notice of Sale and also reserves the right to postpone, from time to time, the date and time established for the receipt of bids. ANY SUCH POSTPONEMENT WILL BE ANNOUNCED VIA TM3 NOT LATER THAN 1:00 P.M. (E.D.T.) ON THE LAST BUSINESS DAY PRIOR TO ANY ANNOUNCED DATE FOR RECEIPT OF BIDS. If any date and time fixed for the receipt of bids and the sale of the Bonds is postponed, an alternative sale date and time will be announced via TM3 at least 48 hours prior to such alternative sale date. On any such alternative sale date and time, any bidder may submit an electronic bid for the purchase of the Bonds in conformity in all respects with the provisions of this Notice of Sale, except for the date and time of sale and except for any changes announced over TM3 at the time the sale date and time are announced.

**Additional Information**

For further information relating to the Bonds, reference is made to the Preliminary Official Statement dated August 6, 2002, prepared for and authorized by the Commissioner of the Treasury. The Preliminary Official Statement may be obtained by accessing the following website: [www.i-dealprospectus.com](http://www.i-dealprospectus.com). For further information, please contact the undersigned at the Office of the State Treasurer, State House Annex, Concord, New Hampshire 03301 (telephone 603-271-2621; telecopy 603-271-3922) or from Public Resources Advisory Group, 40 Rector Street, Suite 1600, New York, New York 10006, Attention: Rodolfo Riverol (telephone 212-566-7800; telecopy 212-566-7816).

THE STATE OF NEW HAMPSHIRE

By Michael A. Ablowich  
*Commissioner of the Treasury*

Date: August 6, 2002

## TABLE OF BONDS TO BE REFUNDED

<u>Issue</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Call Date</u>	<u>Redemption Price</u>
General Obligation	\$6,215,000 <sup>(1)</sup>	5.500%	09/01/03	10/01/02	102%
Capital Improvement	6,155,000 <sup>(2)</sup>	5.700%	09/01/04	10/01/02	102%
and Refunding Bonds	6,085,000 <sup>(3)</sup>	5.500%	09/01/05	10/01/02	102%
1992 Series	3,695,000 <sup>(4)</sup>	5.625%	09/01/06	10/01/02	102%
Dated: September 1, 1992	3,570,000 <sup>(5)</sup>	6.000%	09/01/07	10/01/02	102%
	2,005,000 <sup>(6)</sup>	5.500%	09/01/12	10/01/02	100%
General Obligation	\$1,600,000	5.0%	09/01/10	09/01/03	102%
Capital Improvement Bonds	1,600,000	5.0%	09/01/11	09/01/03	102%
Dated: December 1, 1993	1,600,000	5.0%	09/01/12	09/01/03	102%
	1,600,000	5.0%	09/01/13	09/01/03	102%
General Obligation	\$9,750,000	5.20%	10/01/13	10/01/05	101%
Capital Improvement					
Bonds 1995 Series B					
Dated: December 1, 1995					
General Obligation	\$910,000 <sup>(7)</sup>	5.000%	09/01/09	09/01/06	101%
Capital Improvement	915,000 <sup>(8)</sup>	5.000%	09/01/10	09/01/06	101%
and Refunding Bonds	920,000 <sup>(9)</sup>	5.000%	09/01/11	09/01/06	101%
Dated: December 1, 1996	930,000 <sup>(10)</sup>	5.000%	09/01/12	09/01/06	101%
	625,000 <sup>(11)</sup>	5.1250%	09/01/13	09/01/06	101%
	620,000 <sup>(12)</sup>	5.1250%	09/01/14	09/01/06	101%
	120,000 <sup>(13)</sup>	5.250%	09/01/15	09/01/06	101%
	120,000 <sup>(14)</sup>	5.250%	09/01/16	09/01/06	101%

(1) Partial refunding of original principal maturity of \$7,745,000, the balance of which has been previously refunded.

(2) Partial refunding of original principal maturity of \$7,675,000, the balance of which has been previously refunded.

(3) Partial refunding of original principal maturity of \$7,605,000, the balance of which has been previously refunded.

(4) Partial refunding of original principal maturity of \$5,210,000, the balance of which has been previously refunded.

(5) Partial refunding of original principal maturity of \$5,170,000, the balance of which has been previously refunded.

(6) Partial refunding of original \$5,125,000 sinking fund installment due 9/1/2008 of term bond due 9/1/2012 in the original principal amount of \$11,525,000, the balance of which has been previously refunded.

(7) Partial refunding of \$2,940,000 principal maturity.

(8) Partial refunding of \$2,960,000 principal maturity.

(9) Partial refunding of \$2,985,000 principal maturity.

(10) Partial refunding of \$3,010,000 principal maturity.

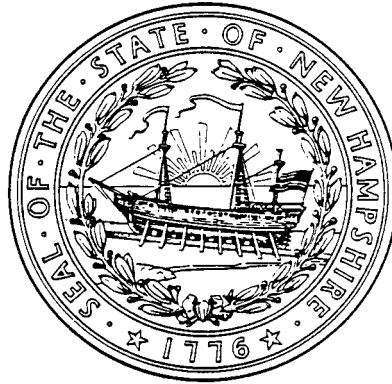
(11) Partial refunding of \$2,030,000 principal maturity.

(12) Partial refunding of \$2,010,000 principal maturity.

(13) Partial refunding of \$400,000 principal maturity.

(14) Partial refunding of \$400,000 principal maturity.

# The State of New Hampshire



## INFORMATION STATEMENT

This Information Statement, including Exhibit A, which is included herein by reference, contains certain financial and economic information concerning the State of New Hampshire (the "State") that has been furnished by the State and the other sources indicated herein. The information is authorized by the State to be distributed to prospective purchasers in connection with bonds or notes offered for sale by the State or debt securities offered by its authorities, agencies or political subdivisions guaranteed by the State, or for the payment of which the State may otherwise be directly or contingently liable, and to the nationally recognized municipal securities information repositories currently recognized by the Securities and Exchange Commission for purposes of its Rule 15c2-12. The Information Statement may not be reproduced or used in whole or in part for any other purpose without the express written consent of Michael A. Ablowich, Commissioner of the Treasury, State House Annex, Concord, New Hampshire.

Any statements in this Information Statement involving matters of opinion, whether or not expressly so stated, are intended merely as opinion and not as representations of fact. The information and expressions of opinions herein are subject to change without notice and neither the delivery of this Information Statement nor any sale made pursuant to any official statement or offering memorandum to which it is appended, in which it is included by reference or with which it is distributed shall, under any circumstances, create any implication that there has been no change in the affairs of the State, or its agencies, authorities and political subdivisions, since the date hereof.

## STATE OF NEW HAMPSHIRE

Michael A. Ablowich  
Commissioner of the Treasury

August 14, 2002

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## STATE GOVERNMENT

### Executive Branch

The executive officers of the State consist of the Governor, the State Treasurer, the Secretary of State and the five-member Executive Council (the "Council"). The Governor, who holds office for a two-year term, is responsible for the faithful execution of all laws enacted by the Legislature and the management of the executive departments of the State. The State Treasurer and the Secretary of State are elected by joint ballot of the House and Senate for two-year terms. The Council is elected by the people biennially, one Councilor for each of the five Councilor districts in the State. The Council's chief function is to provide advice and consent to the Governor in the executive function of government. The Governor and Council can negate each other in nominations of and appointments to executive positions in the judicial and executive branches.

The executive branch is organized into a number of departments, each headed by a Commissioner. Major departments of the executive branch include: Health and Human Services, Transportation, Education (including departments for primary and secondary education, post-secondary education and the university system), Resources and Economic Development, Treasury, Corrections, Environmental Services and Administrative Services. The agencies and authorities which have borrowing authority are discussed in more detail in the section entitled "STATE INDEBTEDNESS-Agencies, Authorities and Bonded Indebtedness." In addition, a State liquor commission manages the sale and distribution of beer and alcohol statewide. A sweepstakes commission operates various games, the net proceeds of which are restricted for appropriation to primary and secondary education. A number of other boards and commissions regulate licensing and standards in areas such as public accounting, real estate, sports and medicine.

### Legislative Branch

The legislative power of the State is vested in the General Court (the "Legislature") consisting of the 400-member House of Representatives and the 24-member Senate, both meeting annually. Members of the House are elected biennially from districts apportioned among cities and towns of the State on the basis of population. Senate members are elected biennially from single-member Senate districts.

Money bills originate in the House, but the Senate may propose or concur in amendments. Every bill which passes both houses of the Legislature is presented to the Governor for approval or veto. If a bill is vetoed by the Governor, that veto may be overridden by a vote of two-thirds of the members of each house of the Legislature. If the Governor fails to act within five days (except Sundays) on a bill presented for approval, the bill automatically becomes law unless the Legislature is not then in session.

### Judicial Branch

The judicial branch of the government consists of a Supreme Court, Superior Court, Judicial Council, 10 probate courts (one in each county), 41 district courts and 4 municipal courts. With the exception of the Judicial Council, all justices and judges are appointed by the Governor and Council and serve until seventy years of age.

## STATE DEMOGRAPHIC AND ECONOMIC DATA

### General

New Hampshire is located in the New England census region and is bordered by the states of Maine, Massachusetts and Vermont and the Province of Quebec, Canada. The State is 9,304 square miles in area and has 18 miles of general coastline on the Atlantic Ocean and 131 miles of tidal shoreline.

### Population

New Hampshire experienced a significant increase in population between 1970 and 2001, primarily as a result of net migration from neighboring states. The State's population was 1,259,181 in July 2001 according to the U.S. Census Bureau. The table below shows New Hampshire's resident population and the change in its population relative to New England and the nation.

#### Population Trends (In Thousands)

<u>Year</u>	<u>New Hampshire</u>	<u>Change During Period</u>	<u>New England</u>	<u>Change During Period</u>	<u>United States</u>	<u>Change During Period</u>
1970.....	742	21.8%	11,878	12.8%	203,799	13.3%
1980.....	921	24.1	12,348	4.0	226,546	11.2
1990.....	1,109	20.4	13,207	7.0	248,710	9.8
1991.....	1,108	(0.1)	13,201	(0.1)	252,137	1.4
1992.....	1,115	0.6	13,196	0.0	255,078	1.2
1993.....	1,125	0.9	13,230	0.3	257,908	1.1
1994.....	1,137	1.1	13,270	0.3	260,341	0.9
1995.....	1,148	1.0	13,312	0.3	262,755	0.9
1996.....	1,160	1.0	13,328	0.1	265,228	0.9
1997.....	1,173	1.1	13,378	0.4	267,783	1.0
1998.....	1,185	1.0	13,428	0.4	270,248	0.9
1999.....	1,201	1.4	13,495	0.5	272,691	0.9
2000.....	1,235	2.8	13,922	3.2	281,421	3.2
2001.....	1,259	1.9	14,022	0.7	284,797	1.2
 <u>Percent Change:</u>						
1970–2001.....	--	69.7	--	18.1	--	39.7
1980–2001.....	--	36.7	--	13.6	--	25.7
1990–2001.....	--	13.5	--	6.2	--	14.5

Source: U.S. Census Bureau.

### Personal Income

The State's per capita personal income increased 63.4% between 1990 and 2001 (as contrasted with an increase of 57.8% in the per capita personal income for the United States and a 61.8% increase for the New England region). Since 1994, New Hampshire's per capita personal income has grown faster than the nation and the State's rank improved from 10<sup>th</sup> in 1990 to 6<sup>th</sup> in 2001 with the State's per capita personal income 112% of the national average in that year. The State's per capita personal income in 2001 was \$33,928. The State's total personal income for 2001 was \$42.7 billion. The following table sets forth information on personal income for New Hampshire, New England and the United States since 1980.

**Comparisons of New Hampshire Personal Income  
to New England and United States, 1970-2001**

	New Hampshire Total Personal Income (In Millions)	Per Capita Personal Income			Percent Change			New Hampshire Per Capita Personal Income Ranking <sup>(1)</sup>
		New Hamp- shire	New England	United States	New Hamp- shire	New England	United States	
1980 .....	\$ 9,166	\$ 9,917	\$10,705	\$10,062	--	--	--	25
1985 .....	15,839	15,891	16,474	14,448	60.2%	53.9%	43.6%	8
1990 .....	23,089	20,767	22,783	19,188	30.7	38.3	32.8	10
1991 .....	23,765	21,462	23,158	19,687	3.3	1.6	2.6	10
1992 .....	24,881	22,438	24,253	20,631	4.1	4.7	4.8	9
1993 .....	25,484	22,719	24,896	21,220	1.7	2.7	2.9	10
1994 .....	27,337	24,119	25,934	22,056	6.2	4.2	3.9	9
1995 .....	29,014	25,008	27,426	23,562	5.0	5.8	4.5	7
1996 .....	30,633	26,042	28,820	24,651	4.4	5.1	4.8	8
1997 .....	32,546	27,746	30,676	25,924	5.1	5.4	4.7	7
1998 .....	34,943	29,488	32,373	27,203	5.2	6.5	4.7	7
1999 .....	38,379	31,114	34,173	28,542	5.5	5.8	4.9	8
2000 .....	41,126	33,169	35,784	29,469	6.6	4.7	3.2	6
2001 .....	42,721	33,928	36,870	30,271	2.3	3.0	2.7	6

Source: U.S. Department of Commerce, Bureau of Economic Analysis.

<sup>(1)</sup> Does not include the District of Columbia.

**Civilian Labor Force, Employment and Unemployment**

Employment in New Hampshire grew faster than in the region and in the nation from 1980 to 2001. The following table sets forth the level of employment in New Hampshire, the other New England states and the United States.

**Employment in New Hampshire, New England States and the United States**

	Employment (In Thousands)			Average Annual Growth	
	1980	1990	2001	1980-1990	1980-2001
New Hampshire .....	447	508	689	1.29%	2.30%
Connecticut.....	1,507	1,624	1,661	0.75	0.51
Maine.....	468	535	657	1.35	1.80
Massachusetts .....	2,706	2,985	33,163	0.99	0.82
Rhode Island.....	437	451	480	0.32	0.50
Vermont.....	235	258	323	0.94	1.69
New England .....	5,800	6,361	6,947	0.93	0.95
United States.....	99,303	118,793	131,922	1.81	1.51

Source: U.S. Department of Labor, Bureau of Labor Statistics, Local Area Unemployment Statistics Division.

Throughout the 1980s, New Hampshire's unemployment rate was lower than the rate for New England and the United States, and was often the lowest in the nation. For the period 1990-1992, however, unemployment increased faster in New Hampshire than in the United States as a whole and, as a result, New Hampshire's unemployment rate was greater than that of the United States during that period. Since 1993, New Hampshire's unemployment rate has again been lower than or equal to the regional and national rates. The table below sets forth information on the civilian labor force, employment and unemployment statistics since 1980.

Year	Labor Force Trends New Hampshire Labor Force (In Thousands) <sup>1</sup>			Unemployment Rate		
	Civilian	Employed	Unemployed	New	New	United
	Labor Force			Hampshire	England	States
1980 .....	469	447	22	4.7%	6.0%	7.2%
1985 .....	538	517	21	3.9	4.4	7.2
1990 .....	630	595	36	5.6	5.7	5.5
1991 .....	634	589	46	7.2	8.0	6.7
1992 .....	633	586	47	7.5	8.0	7.4
1993 .....	620	579	41	6.6	6.8	6.8
1994 .....	628	599	29	4.6	5.9	6.1
1995 .....	633	607	26	4.0	5.4	5.6
1996 .....	624	598	26	4.2	4.8	5.4
1997 .....	645	625	20	3.1	4.4	4.9
1998 .....	652	633	19	2.9	3.5	4.5
1999 .....	668	649	18	2.7	3.3	4.2
2000 .....	685	666	19	2.8	2.8	4.0
2001 .....	689	664	24	3.5	3.7	5.8
June 2002.....	721	688	33	4.5	4.3	6.0

Source: U.S. Department of Labor, Bureau of Labor Statistics, Local Area Unemployment Statistics Division.

<sup>1</sup>Not seasonally adjusted.

### Composition of Employment

The service sector was the largest employment sector in New Hampshire in 2000, accounting for 32.4% of nonagricultural employment, as compared to 25.2% in 1990. This sector surpassed retail and wholesale trade as the primary economic activity of New Hampshire in 1991. This upward trend in service sector employment parallels the shift in the national economy, where services was the largest employment sector, also accounting for 32.4% of employment in 2000, up from 25.6% in 1990.

The second largest employment sector in New Hampshire during 2000 was wholesale and retail trade, accounting for 24.0% of total employment as compared to 21.3% nationally. In 1990, wholesale and retail trade accounted for 25.5% of total employment in New Hampshire.

Manufacturing remains an important economic activity in New Hampshire although the percentage has dropped in recent years. Manufacturing accounted for 14.3% of nonagricultural employment in 2000, down from 20.8% in 1990. For the United States as a whole, manufacturing accounted for 11.6% of nonagricultural employment in 2000, versus 17.3% in 1990. The following table sets out the composition of nonagricultural employment in the State and the United States.

**Composition of Nonagricultural Employment in  
New Hampshire and the United States**

	New Hampshire			United States		
	1980	1990	2000	1980	1990	2000
Manufacturing .....	30.3%	20.8%	14.3%	22.4%	17.3%	11.6%
Durable Goods .....	19.3	14.5	10.3	13.5	10.1	7.0
Primary Metal Products.....	1.0	0.8	0.7	1.3	0.7	0.4
Fabricated Metal Products.....	2.0	1.3	1.1	1.8	1.3	1.0
Machinery (Except Electrical) .....	6.1	4.5	2.2	2.8	1.9	1.3
Electrical .....	5.1	2.8	2.8	2.3	1.5	1.1
Other Durables.....	5.1	5.1	3.5	5.4	4.7	3.2
Nondurable Goods .....	11.0	5.5	4.0	9.0	7.2	4.6
Textile Mill Products.....	1.2	0.6	0.3	0.9	0.6	0.3
Leather and Leather Products.....	2.5	0.5	0.2	0.3	0.1	0.0
Other Nondurables.....	7.3	5.2	3.4	7.8	6.5	4.2
Nonmanufacturing.....	69.7	79.2	85.7	77.5	82.7	88.4
Construction & Mining.....	5.1	4.5	6.3	5.9	5.3	6.3
Wholesale and Retail Trade.....	22.2	25.5	24.0	22.5	23.7	21.3
Service Industries.....	18.8	25.2	32.4	19.8	25.6	32.4
Government.....	14.9	14.4	10.9	18.0	16.6	13.8
Finance, Insurance & Real Estate.....	5.1	6.2	7.5	5.7	6.2	8.2
Transportation & Public Utilities.....	3.6	3.4	3.4	5.7	5.3	5.0

Source: U.S. Department of Labor, Bureau of Labor Statistics.

**Largest Employers**

The following table lists the twenty largest private employers in the State and their approximate number of employees as of December, 2001.

**Largest Employers  
(Excluding Federal, State and Local Governments)**

<u>Company</u>	<u>Employees</u>	<u>Primary New Hampshire Site</u>	<u>Principal Product</u>
1. Wal-Mart Stores, Inc.....	7,500	Multiple	Retail Department Stores
2. DeMoulas/Market Basket .....	5,800	Multiple	Supermarkets
3. BAE Systems .....	4,400	Nashua	Communications
4. Compaq Computer Corp.....	4,359	Nashua	Computer
5. Shaw's Supermarket .....	4,071	Multiple	Supermarkets
6. Hannaford Brothers-Shop 'N Save .....	3,900	Multiple	Supermarkets
7. Dartmouth College.....	3,600	Hanover	Private College
8. Fidelity Investments.....	3,445	Merrimack	Financial Services
9. Liberty Mutual .....	3,173	Multiple	Financial Services
10. Concord Hospital .....	2,367	Concord	Hospital
11. Elliot Hospital.....	2,145	Manchester	Acute Care Hospital
12. Verizon Communications .....	2,100	Multiple	Telecommunications
13. Genesis Eldercare .....	2,000	Multiple	Long-term Health Care Provider
13. Teradyne Inc. Connection Systems Div.	2,000	Nashua	Semi-conductor
15. Sears at Fox Run Mall .....	1,880	Newington	Home and Automotive Products
16. Osram Sylvania Inc.....	1,800	Hillsboro	Light Sources
17. Freudenberg-NOK .....	1,638	Bristol	Custom-molded products
18. New Hampshire International Speedway	1,500	Loudon	Motorsports Facility
18. St. Joseph Hospital and Affiliated Co..	1,500	Nashua	Hospital
20. Catholic Medical Center .....	1,400	Manchester	Healthcare Providers
20. Timken Aerospace .....	1,400	Keene	Super Precision Bearings

Source: *New Hampshire Business Review*, December, 2001.

Pease Air Force Base in the Portsmouth area closed on April 1, 1991. In 1989, the facility had a military population of approximately 3,600 and approximately 1,180 civilian employees. Under State legislation, the Pease Development Authority was established to prepare a comprehensive plan and to implement all aspects of the plan including taking title to the property, marketing, and developing the property. Several significant entities, with a total of more than 1,000 employees, have begun operations or are under agreement to begin operations at the Pease International Tradeport. The Portsmouth Naval Shipyard, located on the border of New Hampshire and Maine, currently provides direct employment for approximately 3,300 workers, somewhat fewer than half of whom are New Hampshire residents.

### State and Local Taxation

The State finances its operations through a combination of specialized taxes, user charges and revenues received from the State liquor sales and distribution system. The most important taxes are the business profits tax and a meals and rooms tax. The State does not levy any personal earned income tax or general sales tax. The State believes its tax structure has played an important role in the State's economic growth. According to the U.S. Bureau of the Census, in 2001, individual income and general sales taxes represented 4% of the State's total government taxes. New Hampshire's per capita state taxes of \$1,410 in 2001 were among the four lowest in the nation.

New Hampshire has generally been the highest among all states in local property tax collections per \$1,000 of personal income, because local property taxes were traditionally the principal source of funding for primary and secondary education. See "SCHOOL FUNDING" below for a description of the State's current statutory system of financing operation of elementary and secondary public schools, which resulted from litigation successfully challenging the State's prior one.

### Housing

According to the 2000 federal census, housing units in the State numbered 547,024, of which 86.8% were occupied. In 1990, housing units in the State numbered 503,904, of which 81.6% were occupied. In 1980, there were 386,381 housing units, of which 83.7% were occupied. The median purchase price of owner-occupied housing units was \$125,400 according to the 1990 census, a rise of 170% over the 1980 median value of \$48,000. The median purchase price in 2001 was \$174,000, an increase of 38.8% over 1990. The table below sets forth housing prices and rents in recent years.

#### Housing Statistics Median Purchase Price and Gross Rent

	Owner-Occupied Non-Condominium Housing Unit		Renter-Occupied Housing Unit	
	Median Purchase Price	Percent Change	Median Gross Rent <sup>(1)</sup>	Percent Change
1990	\$125,400	(3.5)%	\$583	(1.9)%
1991	114,000	(9.1)	554	(5.0)
1992	108,000	(5.3)	560	1.1
1993	110,000	1.9	564	0.7
1994	111,000	0.1	573	1.6
1995	114,360	3.0	563	(1.7)
1996	117,500	(3.9)	596	5.9
1997	117,000	4.6	606	1.7
1998	127,000	7.4	636	5.0
1999	136,500	7.5	665	4.6
2000	152,500	11.7	697	4.8
2001	174,000	14.1	738	5.9

Source: New Hampshire Housing Finance Authority.

<sup>(1)</sup> Includes utilities.

## Building Activity

The pattern of building activity in New Hampshire in recent years, as evidenced by the issuance of residential building permits, has paralleled that of the New England region. There was significant growth in the 1980 to 1986 period, at a level much higher than that of the nation as a whole, followed by a substantial decrease in activity in 1987 through 1991. This decrease was also at a level greater than that of the United States. The major growth in New Hampshire housing units from 1980 to 1986 was in single-family homes, which increased 233.7% over the period, versus 190.5% in New England and 51.7% in the United States.

From 1986 to 1991, however, building activity slowed each year in New Hampshire, the region and nationwide. In 1992, building activity increased for the first time since 1986 in New Hampshire, New England and the nation. The growth continued through 2000. In 2001, building permits totaled 6,624, with a value of \$950 million. This represents a decrease of 0.8% in number of permits, and an increase of 1.4% in dollar value, over 2000. Set out in the following table are the number and value of building permits issued for housing units in New Hampshire, New England and the United States.

### Building Permits Issued By Number of Units and Value (Value in millions)

	<u>1980</u>	<u>1990</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>
New Hampshire								
Single Family	3,678	3,439	4,007	4,598	5,310	5,696	6,097	5,910
Multi-Family	<u>1,600</u>	<u>687</u>	<u>1,023</u>	<u>806</u>	<u>461</u>	<u>630</u>	<u>583</u>	<u>714</u>
Total.....	5,278	4,126	5,030	5,404	5,771	6,326	6,680	6,624
Value.....	\$198	\$361	\$516	\$572	\$658	\$782	\$937	\$950
New England								
Single Family	26,115	28,189	35,575	35,838	40,772	40,666	38,670	37,240
Multi-Family	<u>14,964</u>	<u>7,980</u>	<u>5,145</u>	<u>5,272</u>	<u>7,236</u>	<u>6,966</u>	<u>6,665</u>	<u>7,354</u>
Total.....	41,079	36,169	40,720	41,110	48,008	47,632	45,335	44,594
Value.....	\$1,545	\$3,079	\$4,549	\$4,738	\$5,731	\$6,178	\$6,441	\$6,559
United States								
Single Family	710,390	793,924	1,073,324	1,062,396	1,187,602	1,246,665	1,198,067	1,235,550
Multi-Family	<u>480,210</u>	<u>316,842</u>	<u>360,346</u>	<u>378,740</u>	<u>424,658</u>	<u>416,868</u>	<u>394,200</u>	<u>401,126</u>
Total.....	1,190,600	1,110,766	1,433,670	1,441,136	1,612,260	1,663,533	1,592,267	1,636,676
Value.....	\$ 47,156	\$ 86,522	\$ 134,126	\$ 141,004	\$ 165,265	\$ 181,246	\$ 185,743	\$ 196,243

Source: U.S. Census Bureau.

## Transportation

New Hampshire has more than 4,000 miles of State and federal highways. In 1986, the State Legislature enacted a highway plan to serve as a guideline for highway development in the State. A major component of the 1986 highway plan legislation as amended in 1991 provides for continued development of the State's Turnpike System.

There are twenty-four public commercial airports in the State, three of which have scheduled air service, eight private commercial airports and nine private non-commercial airports. Manchester Airport, the State's largest commercial airport, undertook a major terminal expansion and renovation project in 1992. Bonds guaranteed by the

State were issued in June 1992 (and subsequently refunded and paid on January 1, 2002 with the proceeds of non-guaranteed airport revenue bonds of the City); the new terminal opened on January 1, 1994. Since that time, the airport has grown from 427,657 enplanements in fiscal year 1994 to 1,627,348 enplanements in fiscal year 2001. Manchester Airport is currently undertaking a number of additional significant expansion, improvement and renovation projects, which have been financed by the City of Manchester through the issuance of airport revenue bonds in October, 1998, April, 2000, and June, 2002. The projects are expected to enhance the airport's capacity for increased passenger and freight traffic. The 1998, 2000, and 2002 bonds are not guaranteed by the State.

Rail freight service is provided by twelve railroads. The Portsmouth Harbor is an important commercial shipping center that can accommodate deep-draft vessels. The State Port Authority Marine Terminal is located on Noble's Island in Portsmouth Harbor.

## **Utilities**

Approximately 70% of the electric power in the State is supplied by Public Service Company of New Hampshire ("PSNH") and the remainder by four investor-owned utilities, the New Hampshire Electric Cooperative, Inc. ("NHEC") and five municipal electric systems. PSNH and NHEC suffered adverse financial circumstances primarily as a result of each entity's ownership interest in the Seabrook nuclear power station, located at Seabrook, New Hampshire (the "Seabrook Plant"). PSNH and NHEC owned approximately 35.6% and 2.17%, respectively, of the Seabrook Plant, which commenced operation in the summer of 1990. In January, 1988, PSNH filed for protection from its creditors under Chapter 11 of the Federal Bankruptcy Code. Pursuant to a plan of reorganization confirmed by the Bankruptcy Court, PSNH emerged from bankruptcy on May 23, 1991 and was acquired by Northeast Utilities. On May 6, 1991, NHEC, which provides electric service to approximately 7% of the State's population, filed for protection from its creditors under Chapter 11 of the Federal Bankruptcy Code. Pursuant to a plan of reorganization confirmed by the Bankruptcy Court, NHEC emerged from bankruptcy on December 1, 1993.

Legislation was enacted in May, 1996 to provide for the restructuring of the New Hampshire electric utility industry in order to establish a competitive market for retail access to electric power and thereby reduce the State's high average electric rates. The legislation directed the Public Utilities Commission ("PUC") to produce a statewide restructuring plan no later than February 28, 1997, with provision made for determination of interim stranded cost recovery charges. On such date, the PUC issued its statewide restructuring plan and interim stranded cost recovery order. In March, 1997, PSNH filed suit in Federal District Court against the PUC Commissioners seeking to enjoin the application of the order to PSNH. The Federal District Court issued a temporary restraining order and subsequently a preliminary injunction staying the February 28th order. On June 14, 1999, the Governor, the Attorney General and staff of the PUC announced that a Memorandum of Understanding (MOU) had been signed with PSNH. A definitive agreement was filed with the PUC on August 2, 1999 and finally approved by the PUC in September, 2000. In January 2001, the Supreme Court of New Hampshire affirmed the settlement order. In April, 2001, one party that unsuccessfully appealed the original settlement order to the Supreme Court of New Hampshire filed a petition for certiorari with the United States Supreme Court asking the Supreme Court to review the validity of the stranded cost recovery charge under the United States Constitution. In June, 2001, the United States Supreme Court denied the petition for certiorari.

The effectiveness of the agreement with PSNH was contingent upon, among other matters, the securitization of up to \$725 million of stranded costs of PSNH. On April 25, 2001, PSNH issued \$525 million of rate reduction bonds. Effective May 1, 2001, PSNH customers received a rate reduction of approximately 10%, which was in addition to an interim 5% rate decrease that began in October, 2000. Although the State Treasurer had oversight responsibility of the terms and conditions of such bonds, the bonds do not constitute a debt or obligation of any kind of the State or any political subdivision thereof.

PSNH has begun the process of divesting its generation assets pursuant to PUC administered competitive bid processes. During the interim period while the assets are being sold, PSNH will provide its customers with Transition Service. In April 2002, the expected sale of an 88% stake in the Seabrook Plant to Florida Power Light was announced. The transaction is expected to be completed by the end of calendar year 2002. PSNH expects the sale to result in an additional 6% to 7% rate reduction to customers by calendar year 2005.

## Education

New Hampshire provides a mix of public and private educational opportunities. The education function of the State is carried out through the State Board of Education, the Department of Education and the University System of New Hampshire. The State Board and the Department of Education provide curriculum guidance and administrative support to 177 public school districts ranging in grades from kindergarten through grade twelve. In addition to public education, there are numerous private preparatory schools in the State, including Phillips Exeter Academy in Exeter and St. Paul's School in Concord. See also "SCHOOL FUNDING" and "LITIGATION."

At the university level, the State offers undergraduate and graduate programs in liberal arts and various sciences through the University System of New Hampshire, which includes the University of New Hampshire, Keene State College and Plymouth State College. The University System also operates the College for Lifelong Learning, which offers continuing education to the non-traditional student. In addition to the state-supported university system, eighteen private higher educational institutions are located in New Hampshire, including Dartmouth College in Hanover. The State also supports a network of technical colleges comprised of the New Hampshire Technical Institute in Concord and six other colleges located throughout the State. The Institute and colleges offer a two-year associates degree and a variety of certificates in approximately 100 different industrial, business and health programs. Since 1983, over 50% of New Hampshire high school graduates have continued their education beyond the high school level.

As the following table indicates, the educational level of New Hampshire residents over the age of 25 is higher than that of the nation as a whole.

<u>Level of Education</u>	<b>Level of Education</b>			
	1990		2000	
	<u>New Hampshire</u>	<u>United States</u>	<u>New Hampshire</u>	<u>United States</u>
9-11 years .....	93.3%	89.6%	N/A	84.5%
12 years.....	82.2	75.2	88.1%	78.5
1-3 years post-secondary .....	50.5	45.2	N/A	47.5
4 or more years post-secondary .....	24.4	20.3	30.1	21.9

Source: 2000 U.S. Census of Population, Census Bureau.

## STATE FINANCES

### General

Responsibility for financial management of the State is vested in several State officials. The Treasurer is responsible for investment, debt and cash management. The Commissioner of the Department of Administrative Services is responsible for managing statewide administrative and financial functions including general budget oversight, maintaining the State's accounting system and issuing the State's Comprehensive Annual Financial Report ("CAFR").

The Department of Administrative Services prepares the State's CAFR in accordance with generally accepted accounting principles ("GAAP"). New Hampshire was one of the first states to present audited statements on a GAAP basis. The financial statements were independently audited each year from 1979 to 1996 by Ernst & Young LLP (or its predecessors), certified public accountants. The State contracted with KPMG LLP to provide audit services for fiscal years 1997 through 2001. The audited financial statements of the State for fiscal year 2001, together with the report thereon of KPMG LLP, are included by reference as Exhibit A hereto, copies of which have been filed with each Nationally Recognized Municipal Securities Information Repository currently recognized by the Securities and Exchange Commission. The audited financial statements for fiscal year 2002 are not yet available as of the date of this Information Statement, but will be provided to each Nationally Recognized Municipal Securities Information Repository currently recognized under SEC Rule 15c2-12 upon release to the public, which is expected by early calendar 2003. All fiscal year 2002 information referenced or set forth in this Information Statement is unaudited and preliminary and subject to change.

The CAFR currently includes comparisons to budgetary basis accounting for informational purposes. Accounting on a GAAP basis differs from accounting on a budgetary basis by recognizing revenues and related assets when earned rather than when cash is received and by recording expenditures and related liabilities when incurred rather than when cash is paid. For example, GAAP accounting calls for full recognition of accounts payable, accrued payroll and pension costs incurred at the close of a fiscal year even though those items are appropriated and paid in the following fiscal year under budgetary accounting. Reconciliation of the budgetary basis with GAAP appears in Note 2 of the audited financial statements in Exhibit A hereto.

The State budget (the overall financial plan for the two years of the biennium) is enacted by a series of bills that establish appropriations and estimated revenues for each subunit (department, division, bureau, section and commission) within State Government. Appropriations are also established by supplemental and special legislation during annual legislative sessions.

The State controls expenditures against appropriations through an integrated financial system. Under this system accumulated total expenditures and encumbrances are compared with the amount of remaining available appropriations, prior to creating an expenditure (a charge against an appropriation which generates a payment) or an encumbrance (a charge against an appropriation pending payment). When the appropriated amount is fully expended or encumbered, no further obligations are incurred or paid until additional appropriations are made available.

By State law, unexpended and unencumbered balances of appropriations lapse to undesignated fund balance in the applicable fund at fiscal year-end, with certain exceptions. Generally, revenues in excess of official estimates, unless appropriated by supplemental appropriation legislation, also lapse to undesignated fund balance in the applicable fund. Such amounts, whether unexpended or unencumbered appropriations or unappropriated revenue, are known as lapses. Lapses constitute a credit to undesignated fund balance at the end of each fiscal period and may become available for subsequent appropriation by the Legislature.

*GASB Statement 34.* Beginning with fiscal 2002, the State's GAAP financial statements will change prospectively due to the implementation of GASB Statement 34. The changes effectively add an additional layer of reporting to the current fund perspective reports, which will continue. The changes will present a government-wide perspective, including debt, fixed assets and accrual activity on a comprehensive balance sheet. The State's CAFR will be reorganized, with additional elements, such as a management's discussion and analysis. The following are other material, pertinent changes between the existing governmental fund balance sheet and the future government-wide statement of net assets:

<b>Assets and Liabilities</b>	<b>Current Reporting</b>	<b>GASB Statement 34 Reporting</b>	<b>Change Required</b>	<b>Effect on State's Governmental Fund Balance</b>
Capital assets, including infrastructure.	Reported in a separate account group without infrastructure.	Reported on the face of the financial statements.	To be reported, net of accumulated depreciation/amortization.	Fund balance to be adjusted for the carrying value of net assets.
Deferred bond issuance charges.	Not reported.	Reported on the face of the financial statements.	Unamortized balance of deferred bond issuance charges to be reported.	Fund balance to be adjusted for the unamortized balance of deferred bond issuance costs.
Unmatured long-term debt, net of premiums, discounts, etc.	Reported in a separate account group.	Reported on the face of the financial statements.	Unmatured long term debt to be reported, net of premiums, discounts, etc.	Fund balance to be adjusted for the unamatured debt.
Accrued interest receivable and payable.	Not reported.	Reported on the face of the financial statements.	Asset/liability to be reported for receivable/payable.	Fund balance to be adjusted for current accruals.
Claims and judgments, compensated absences, escalating operating leases and net pension obligations.	Reported in a separate account group.	Reported on the face of the financial statements.	Accrued liabilities outstanding to be reported.	Fund balance to be adjusted for accrued liabilities.

The State has not yet calculated the effect on its existing fund balances of these and other prospective changes. In addition to fund balance changes, there will also be changes to the income statements. Under GASB Statement 34, capital outlays, debt payments, gains and losses from sales of assets, depreciation and amortization are all expected to affect income from the government-wide perspective.

### **Fund Types**

The budgets and operations of State departments and their subunits are accounted for in a number of funds fitting into three types: Governmental, Proprietary and Fiduciary.

### **Governmental Funds**

*General Fund.* The General Fund is the principal fund and includes all State activities and functions not allocated by law to other funds. By law, all revenues received by any department or agency of the State (other than revenues allocated by statute directly to specific agencies or other funds) are paid at least weekly into the State Treasury. All such revenues are credited to the General Fund, and expenditures for all State activities and functions not allocated by law to other funds are charged to the General Fund. Revenues that are dedicated to fund specific activities

including federal grants are recorded as restricted revenue and are subtracted from total appropriations to arrive at appropriations net of estimated revenues as shown on the fund balance schedules.

*Special Fund.* The State allocates to the Special Fund expenditures for and revenues of programs which, by statute, operate primarily from specific program revenues or from federal grants-in-aid, including the State social services programs, education assistance programs, and the administrative expenses of the Department of Employment Security. This fund was eliminated as of fiscal year 2002 and the balance was transferred to the General Fund.

*Highway Fund.* Under the State Constitution, all revenues in excess of the necessary cost of collection and administration accruing to the State from motor vehicle registration fees, operator's licenses, gasoline taxes or any other special charges or taxes with respect to the operation of motor vehicles or the sale or consumption of motor vehicle fuels are appropriated and used exclusively for the construction, reconstruction, and maintenance of public highways within the State, including the supervision of traffic thereon, and for the payment of principal and interest on bonds issued for highway purposes. All such revenues, together with federal grants-in-aid received by the State for highway purposes, are credited to the Highway Fund. While the principal of and interest on State highway bonds are paid from the Highway Fund, the assets of the Fund are not pledged to such bonds.

*Fish and Game Fund.* The operations of the State Fish and Game Department, including the operation of fish hatcheries, inland and marine fisheries and wildlife areas and related law enforcement functions, land acquisition, and wildlife management and research, and the payment of principal and interest on bonds issued for fish and game purposes, are financed through the Fish and Game Fund. Principal revenues to this Fund include fees from fish and game licenses, the marine gas tax, a portion of off-highway vehicle registration fees, penalties and recoveries and federal grants-in-aid related to fish and game management, all of which are appropriated annually by the Legislature for the use of the Fish and Game Department.

*Capital Projects Fund.* The State credits to the Capital Projects Fund appropriations for certain capital improvements, primarily those that are funded by the issuance of State debt (other than debt for highway or turnpike purposes), or by the application of certain federal matching grants.

*Education Fund.* The Education Fund was established by Chapter 17 of the Laws of 1999 ("Chapter 17"). See "SCHOOL FUNDING." Adequate education grants to school districts are appropriated from this fund. Additionally, a number of revenues are dedicated to this fund including the State's rental car tax and sweepstakes revenues. Chapter 17 also dedicates portions of the State's business, cigarette, and real estate transfer taxes and tobacco settlement funds. While the uniform education property tax on utility property is deposited directly to the Education Fund, only that portion of the uniform education property tax on all other types of properties collected by municipalities above local State adequacy levels is deposited to the Education Fund.

### **Proprietary (Enterprise) Funds**

*Liquor Commission.* By statute, all liquor sold in New Hampshire must be sold through a sales and distribution system operated by the State Liquor Commission. The Commission is comprised of three members appointed by the Governor with the consent of the Council. The Commission is directed by statute to set liquor prices at levels sufficient to pay all costs of liquor purchased and operating expenses of the Commission and the State stores and to impose additional charges for overhead and a profit for the State.

*Sweepstakes Commission.* The State conducts daily and weekly lotteries and instant games through tickets sold by or on behalf of the State Sweepstakes Commission in State liquor stores, at horse and dog race tracks and at authorized retail outlets in the State. Monthly net profit from Sweepstakes games and lotteries are transferred to the Education Fund for distribution to school districts in the form of adequate education grants.

*Turnpike System.* The State constructs, maintains and operates transportation toll roads and bridges. The State has covenanted in the General Bond Resolution authorizing the issuance of Turnpike System revenue bonds that it will establish and collect tolls and charges for the use of the Turnpike System adequate at all times, with other available funds, to provide for the proper operation and maintenance of the System and for the timely payment of principal of and interest on Turnpike System revenue bonds and all other required payments in connection with the System. Under RSA 237-A any funds established in connection with the issuance of Turnpike System revenue bonds thereunder are kept separate from other funds of the State.

## **Fiduciary Funds**

Transactions related to assets held by the State in a trustee or agency capacity are accounted for in Fiduciary Funds. The State's Unemployment Compensation Trust Fund is included in this category. In accordance with GASB 31, beginning with the fiscal year 1998 annual report, the State reported the external portion of the New Hampshire public deposit investment pool as a trust fund.

## **Account Groups**

*General Fixed Assets.* The fixed assets used in the operations accounted for in the governmental funds are recorded in the General Fixed Assets account group. General fixed assets include all fixed assets that are not accounted for in enterprise and fiduciary types of funds.

*General Long-Term Debt.* Long-term debt to be repaid from governmental type funds is recorded in the General Long-Term Debt account group.

## **Budget and Appropriation Process**

The Legislature meets annually but adopts a State budget on a biennial basis. Prior to the beginning of each biennium, all departments of the State are required by law to transmit to the Commissioner of the Department of Administrative Services (the "Commissioner") requests for capital expenditures and estimates of operating expenditures, including personnel, equipment and program expenditures, for each fiscal year of the ensuing biennium.

Capital budget requests are summarized by the Commissioner and submitted to the Governor. After holding public hearings and evaluating additional information, the Governor prepares a capital budget for submission to the Legislature.

Operating budget requests and revenue estimates for each fiscal year of the ensuing biennium submitted by State agencies are also summarized and submitted to the Governor. Following public hearings, analysis of the tentative operating budget and consultation with the various department heads, the Governor prepares the final operating budget proposal, setting forth the financial program for the following two fiscal years.

By February 15th of each odd numbered year, the Governor must submit both a capital budget and an operating budget to the Legislature for its consideration. The Governor's budget message sets forth, among other things, a program for meeting the expenditure needs of the State for the next biennium. Although there is no constitutional requirement that the Governor propose or the Legislature adopt a balanced budget, there is currently a statutory requirement that the Governor propose and the Legislature adopt a balanced budget. In addition, if there is a budget deficit from a prior biennial budget, the Governor's budget proposal must address how this deficit will be eliminated in the current budget proposal. The Legislature has a similar statutory responsibility to approve a plan for addressing any past year's budget deficit in the budget it adopts for the ensuing biennial budget. If there is a budget deficit, the Governor is required by statute to make recommendations to the Legislature as to the manner in which the deficit shall be met.

After final budget bills are approved by the Legislature, they are presented to the Governor to be signed into law or vetoed. The State Constitution does not provide for a line item veto of appropriation bills by the Governor. If the Governor vetoes a budget bill, it is returned to the Legislature for an override vote or further legislative action. Once the budget bills become law, they represent the authorized appropriation spending for each State department during each of the next two fiscal years.

## **Financial Controls**

All bills and obligations of the State are paid from the State Treasury. Under the State Constitution all payments except debt obligations made from the State Treasury must be authorized by a warrant signed by the Governor with advice and consent of the Council. Debt obligations of the State are exempt from the warrant requirement and are paid by the State Treasurer under statutory authority to pay principal and interest on all loans which may at any time come due.

Financial control procedures in the State are maintained by both the executive and legislative branches. In the executive branch, the Commissioner of the Department of Administrative Services is directed by statute to conduct a continuous study of the State's financial operations, needs and resources and to install and operate a system of governmental accounting. At the start of fiscal year 1986, the State's automated accounting operations were converted to an integrated financial system, allowing on-line data entry and inquiry.

The Comptroller, within the Department of Administrative Services, is directed by statute to maintain the State's accounting system in accordance with generally accepted accounting principles and report monthly to each State agency its total dollars expended, total encumbrances outstanding and appropriation balances then available for each agency through the previous month of the fiscal year. When it appears that a State department or agency is incurring operating expenditures at levels that will deplete its available appropriation prior to the close of the fiscal year, the Comptroller is required to report this fact to the Governor who shall investigate and may, if necessary, order the department head to reduce expenditures in proportion to the balance available and time remaining in the fiscal year.

Legislative financial controls involve the Office of the Legislative Budget Assistant (the "Office"), acting under the supervision of the Fiscal Committee, and the Joint Legislative Capital Budget Overview Committee. The Office is responsible for the overall post-audit and review of the budgetary process on behalf of the Legislature. This responsibility involves conducting selected departmental audits and program result audits including, but not limited to, examinations as to whether the results contemplated by the authorizing body are being achieved by the department and whether such results could be obtained more effectively through other means. The Joint Legislative Capital Budget Overview Committee reviews the status of capital budget projects, and each State agency with capital budget projects is required to submit to the committee a status report on projects every sixty days.

### **Revenue Stabilization Account**

Legislation was enacted in 1986 to establish a Revenue Stabilization Account (or "rainy day fund") within the General Fund as of July 1, 1987. Pursuant to RSA 9:13-e, in the event of a General Fund undesignated deficit at the close of a fiscal biennium and a shortfall in revenue (as compared with the official budget), the Comptroller shall notify the Fiscal Committee and the Governor of such deficit and request to transfer from the Revenue Stabilization Account, to the extent available, an amount equal to the lesser of the deficit or the revenue shortfall. No monies in the Revenue Stabilization Account (except for interest earnings, which are deposited as unrestricted General Fund revenue) can be used for any purpose other than deficit reduction or elimination except by specific appropriation approved by two-thirds of each house of the Legislature and by the Governor.

Chapter 158:41 of the Laws of 2001 amended RSA 9:13-e regarding funding the Revenue Stabilization Account. At the close of each fiscal biennium, any surplus, as determined by the official audit, shall be transferred by the comptroller to the Revenue Stabilization Account, provided, however, that in any single fiscal year the total of such transfers shall not exceed one half of the total potential maximum balance allowable for the Revenue Stabilization Account. The maximum amount in the account is equal to 10% of General Fund unrestricted revenue for the most recently completed fiscal year. At June 30, 2002, the balance in the Revenue Stabilization Account was \$55.2 million or approximately 4.6% of unaudited unrestricted revenues for fiscal year 2002.

### **Health Care Fund**

Chapter 122 of the Laws of 1994 established the State Health Care Transition Fund. The fund has since been renamed the Health Care Fund ("HCF"). The purpose of the fund is to provide financial resources for future changes in the State's health care system in order to increase the access to quality health care for the citizens of New Hampshire. The HCF was initially funded with \$99 million of the \$129 million one-time receipt by the State that resulted from the amendment to the State's Medicaid Plan relative to the New Hampshire Hospital disproportionate share revenues. Only the interest earnings on the principal assets held in the fund shall be expended for the purposes of the HCF and such interest shall be continually appropriated.

In fiscal years 1995 and 1997, legislation allowed for the use of the HCF to offset General Fund deficits that resulted from Health and Human Services revenue initiatives that fell short of expectations. Chapter 235 and Chapter 351 of the Laws of 1997 also provide for the transfer from the General Fund to the HCF of net Medicaid enhancement revenues in excess of amounts budgeted in fiscal year 1995 or any subsequent fiscal year. The amount transferred to the HCF shall not exceed the cumulative amount transferred from the fund. At the end of any fiscal biennium, any balance in excess of \$100 million shall be transferred to the Revenue Stabilization Account.

Chapter 351 also budgeted \$14.8 million of Health Care Funds for fiscal years 1998 and 1999 for computer system initiatives at the Department of Health and Human Services. Chapter 351 included language stating these funds were to be repaid with General Funds over five years beginning in fiscal year 2000; however, the chapter lacked specific appropriation authority and therefore the payment has not been made.

Chapter 208 of the Laws of 2002 appropriated \$14.8 million to the Department of Health and Human Services for fiscal year 2002 for purposes of making additional provider payments, and community health and community mental health center payments. This appropriation is funded from excess federal revenue claimed and received in fiscal year 2002 with respect to fiscal year 2000. On June 26, 2002, the Centers for Medicare and Medicaid Services (“CMS”) disallowed the claim. In the event the allowability of the use of the excess revenue is unresolved as of December 1, 2002, the State law allows for the appropriation to be a charge against the HCF for fiscal year 2002. The State is now pursuing an appeal with CMS. It is possible that the appeal will not be resolved by December 1, 2002 and that the \$14.8 million will be a charge against the HCF. If that occurs and there is a later favorable resolution to the appeal, those funds would flow back into the HCF as reimbursement.

### **State Revenues**

The State derives most of its revenues from a combination of specialized taxes, user charges and the operation of a statewide liquor sales and distribution system. The State of New Hampshire is the only state that imposes neither a personal income tax on earned income nor a statewide general sales or use tax.

Unrestricted revenues may be appropriated by the Legislature for any State purpose, including the payment of debt service on outstanding bonds of the State, without constitutional limitations (or program limitations, as in the case of federal grants).

The following are the principal sources of unrestricted revenues credited to the General Fund or, where noted, the Education Fund:

*Meals and Rooms Tax.* A tax is imposed equal to 8% of hotel, motel and other public accommodation charges and 8% of charges for meals served in restaurants, cafes and other eating establishments. Effective July 1, 1999, this tax was extended to cover rental cars, the receipts from which have been earmarked for the Education Fund.

Beginning in fiscal year 1995 a portion of the revenue derived from the meals and rooms tax is distributed to the cities, towns and certain unincorporated subdivisions of the State, eventually increasing to 40% of such revenue annually. For fiscal years 1998 and thereafter, the amount to be distributed is the sum of the prior year’s distribution plus an amount equal to 75% of any increase in the income received from the tax for the preceding fiscal year, not to exceed \$5,000,000. The fiscal year 2002 distribution to cities and towns was equal to 20.5% of the meals and rooms tax collections for fiscal year 2001.

*Business Profits Tax.* The business profits tax rate has been increased to 8.5% for tax years ending on or after July 1, 2001. Previously, the rate had been 8% for tax years ending on or after July 1, 1999 and 7% prior to that time. The increases (1.5%) have been dedicated to the Education Fund. The tax is imposed on the taxable business profits of business organizations deriving gross business profits from activities in the State, or both in and outside of the State. Business profits subject to the tax but derived from activities conducted outside the State are adjusted by the State’s apportionment formula to allocate to the State a fair and equitable proportion of such business profits.

*Business Enterprise Tax.* Effective July 1, 1993, the State established a business enterprise tax. The rate is currently .75% for tax years ending on or before July 1, 2001 and previously had been .50% for tax years ending on or before July 1, 1999 and .25% prior to that time. The increases (.50%) have been dedicated to the Education Fund. The tax is assessed on wages paid to employees, interest paid on debt and dividends paid to shareholders. Businesses with less than \$150,000 (\$100,000 prior to July 1, 2001) in gross receipts and an enterprise value base of less than \$75,000 (\$50,000 prior to July 1, 2001) are exempt from the business enterprise tax. Effective for returns of taxable periods ending on and after January 1, 1997, every business enterprise shall make quarterly estimated tax payments due on the fifteenth day of the fourth, sixth, ninth and twelfth months of its taxable year.

*Board and Care Revenue.* These revenues are payments primarily from health insurers and the federal government (through the Medicaid program) to reimburse the State for costs of health and mental care services and board provided at State institutions, including the New Hampshire Hospital for the mentally ill.

*Liquor Sales and Distribution.* The State Liquor Commission is comprised of three members appointed by the Governor with the consent of the Council. The Commission makes all liquor purchases directly from the manufacturers and importers and operates State liquor stores in cities and towns that accept the provisions of the local option law. The Commission is authorized to lease and equip stores, warehouses and other merchandising facilities for liquor sales, to supervise the construction of State-owned liquor stores at various locations in the State, and to sell liquor at retail and to restaurants, hotels and other organizations. Revenues from the State Liquor Commission are credited to the Enterprise Fund for accounting purposes and the cash flow from operations is unrestricted and deposited into the State's pooled bank accounts.

Chapter 328 of the Laws of 2000 requires fifty percent of any current year's gross profits from liquor sales that exceed fiscal year 2001 actual gross profits be deposited into the alcohol abuse prevention and treatment fund established by RSA 176-A:1. This amount is limited to no more than 5 percent of the current year gross profits derived from the sale of liquor and other revenues. This law became effective July 1, 2001 and is estimated to cost the General Fund \$3.9 million (unaudited) in fiscal year 2002.

*Tobacco Tax.* Effective July 6, 1999, the cigarette tax rate increased by 15 cents to a rate of 52 cents per package of 20 cigarettes. The increase has been dedicated for the Education Fund. The rate had previously been increased by 12 cents on July 1, 1997. Smokeless tobacco is also subject to the tax at a rate proportionate to the cigarette tax.

*Medicaid Enhancement Revenues.* Effective July 1, 1993, the State lowered the Medicaid enhancement tax rate from 8% to 6%. The tax is assessed against the gross patient services revenue of hospitals operating in the State. "Gross patient services revenue" is defined as the amounts that a hospital records at the hospital's established rates for patient services, regardless of whether full payment of such amounts is expected or paid. The revenue collected pursuant to the tax is placed in the Uncompensated Care Fund. In addition, effective July 1, 1993, the State repealed the supplemental Medicaid enhancement tax on each hospital's Medicaid patient discharges, which had been in effect since November 12, 1991.

Also, under the State's federally approved Medicaid Plan, disproportionate share revenues are received by the State's institutions on a quarterly basis. The Commissioner of Health and Human Services continuously reviews and revises the State Medicaid plan to maximize the receipt of additional federal matching funds.

*Insurance Tax.* The State imposes a tax on licensed insurance companies equal to 2% of net premiums written in the State (5% of taxable underwriting profit in the case of ocean marine insurance companies). Under a retaliatory statute, the State also collects a tax on insurance companies in excess of 2% in approximately 28 states. There is also a tax of 4% of gross premiums written in the State by insurance companies not licensed to do business in New Hampshire. Effective July 1, 1995, certain nonprofit health insurers and dental insurers became subject to the insurance tax. Chapter 2 of the Laws of 2002 changed the due dates for quarterly and final payments to the fifteenth of the month from the first of the month. This change has no fiscal impact.

*Interest and Dividends Tax.* A tax of 5% is imposed on income in excess of \$2,400 received from interest and dividends on stocks, bonds and other types of investments. Chapter 188 of the Laws of 1995 made several changes to the interest and dividends tax which became effective June 12, 1995. The minimum amount of interest and dividend income requiring a taxpayer to file a return was raised from \$1,200 to \$2,400 for individuals and from \$2,400 to \$4,800 for joint filers. The minimum exemption was also increased from \$1,200 to \$2,400 for individuals, partnerships, limited liability companies, associations, and certain trusts and fiduciaries. Interest and dividend income derived from New Hampshire and Vermont banks is no longer exempt from the tax. Chapter 163 of the Laws of 1998 allows for a deduction from taxable interest and dividend income any amount equal to any cash distributions made to a qualified investment capital corporation.

There is litigation challenging the constitutionality of the tax structure, particularly the exemptions formerly granted for interest earnings from New Hampshire and Vermont financial institutions. (See "LITIGATION".)

*Estate and Legacy Tax.* The State imposes a tax equal to 18% of the actual market value of all real and personal property in the State passing by will, intestate succession or in contemplation of death. The rate was increased from 15% effective July 2, 1991. Property passing to a spouse, lineal ascendants and descendants and government and charitable organizations is exempt from the tax. The State additionally imposes a tax equal to 2% of the value of the New Hampshire personal property belonging to persons not domiciled in the State upon transfer to the decedent's executor. The Legislature recently repealed the legacy tax for estates established at the result of deaths occurring after December 31, 2002.

*Communications Tax.* For the 2002-03 biennium, the communications tax is a 7% aggregate tax applicable to the gross charges collected for most retail communication services. The tax was initially a 3% tax. For the 1992-93 biennium an additional 3 percentage point surcharge was added to the tax. For the biennium ended June 30, 1995, the aggregate tax rate was lowered to 5.5%, which rate remained in effect through the 2000-01 biennium.

*Real Estate Transfer Tax.* The real estate transfer tax was increased by \$2.50 to a rate of \$7.50 per \$1,000 of the selling price or consideration is assessed by the State upon each party involved in the transfer of real property with the exception of transfers made upon death. The increase has been dedicated to the Education Fund.

*Court Fines and Fees.* The Unified Court System was established during the 1984-1985 biennium. All fines and fees collected by the various components of the court system are credited to the General Fund.

*Uniform Education Property Tax.* Chapter 17 established a education property tax at an initial uniform rate of \$6.60 for each \$1,000 of the total equalized value of property. The rate was recently reduced to \$5.80 per \$1,000 of total equalized value. The annual education property tax is assessed throughout the State at this uniform rate. Municipalities for which the education property tax exceeds the amount necessary to fund an adequate education must remit the excess tax to State for deposit to the Education Fund.

*Statewide Utility Property Tax.* Chapter 17 also established a statewide tax on utility property. A tax is imposed upon the value of utility property at the rate of \$6.60 on each \$1,000 of such value. During State fiscal year 2000, utilities were required to make both payments for the 1999 tax year as well as estimated payments on tax year 2000 liabilities. The proceeds from this tax have been dedicated to the Education Fund.

*Utility Tax.* The utility tax is currently a franchise tax on electric utilities, other than municipal utilities, equal to 1% of gross receipts. Prior to fiscal year 1995, the franchise tax was also imposed on gas utilities. Businesses are allowed a credit against their business enterprise tax liability for franchise taxes paid. The franchise tax has been repealed contingent on the implementation of a statewide electric deregulation plan by the Public Utilities Commission, which plan is currently being challenged and is the subject of litigation. If effective, the repealed franchise tax would be replaced with a tax on electricity consumption. See "STATE DEMOGRAPHIC AND ECONOMIC DATA – Utilities." The utility tax also previously included a tax on nuclear station property, which tax was repealed by Chapter 17.

*Beer Tax.* The State Liquor Commission charges permit and license fees for the sale of beer through manufacturers, wholesalers and retailers plus a tax on beer sold by such manufacturers and wholesalers for resale and by manufacturers at retail at the rate of 30 cents per gallon. If a mandatory beverage container deposit requirement is enacted, the current statute requires the beer tax to be reduced to 18 cents per gallon.

*Securities Revenue.* Broker dealers and investment advisors are required to pay various registration, license or annual fees to conduct business in the State. Additionally, fees are charged for registrations of securities and mutual funds to be offered in the State.

*Racing Revenue.* The operation of greyhound, harness and thoroughbred racing in the State is conducted under the supervision of the New Hampshire Pari-Mutuel Commission. The State now imposes a tax ranging from 1% to 1.25% of the contributions plus one-quarter of the breakage of all harness and thoroughbred racing pari-mutuel pools. For greyhound racing pari-mutuel pools, the tax ranges from 1.25% to 1.5% of contributions plus one-quarter of the breakage.

*Other.* This revenue category includes over 200 individual types of fees, fines, assessments, taxes and income. These revenues are reported in the following nine broad subcategories: reimbursement of indirect costs;

interest on surplus funds; corporate filing fees; interstate vehicle registration fees; corporate record fees; agricultural fees; non-highway motor vehicle fees and fines; and miscellaneous.

The State also derives substantial revenues from federal grant programs and certain independent divisions or activities of State government which operate in whole or in part from revenues collected from users. In some cases these revenues are restricted by statute for use by specific agencies. The following are the principal sources of restricted revenues derived by the State:

*Sweepstakes Receipts.* The State conducts daily and weekly lotteries and instant games throughout the State through tickets sold by or on behalf of the Sweepstakes Commission in State liquor stores, at horse and dog tracks and at authorized retail outlets in the State. In addition to the sweepstakes, the State together with the states of Maine and Vermont operates a tri-state lotto. Beginning November 1995, the State became a participant in the multistate Powerball lottery. Revenues are initially recorded in the Sweepstakes Enterprise Fund and are netted with expenses and transferred monthly to the Education Fund.

*Turnpike System Tolls.* The State collects tolls and charges for the use of the Turnpike System. Toll revenues are credited to the Turnpike System Enterprise Fund with the restriction that these revenues be used to pay expenses of operation and maintenance of the Turnpike System and debt service on bonds or notes issued for Turnpike System purposes.

*Fuel Tax.* The State imposes a tax upon the sale of each gallon of motor fuel sold in the State at the rate of 18 cents per gallon for motor vehicle and marine fuels and 4 cents per gallon for aviation fuel. The proceeds of the motor vehicle gasoline tax are credited to the Highway Fund and, while not pledged, are required to be used first for the payment of principal of and interest on bonds or notes of the State issued for highway purposes. Three cents of the motor vehicle fuel tax is allocated to a separate account in the Highway Fund, the Highway and Bridge Betterment Account.

*Federal Receipts.* The State receives funds from the federal government which represent reimbursement to the State for expenditures for various health, welfare, transportation and educational programs and distribution of various restricted or categorical grants-in-aid. Federal grants-in-aid and reimbursements are normally conditioned to some degree on matching resources by the State. The largest categories of federal grants and reimbursements are made for the purposes of providing medical assistance payments for the indigent and medically needy, temporary assistance for needy families, and transportation and highway construction programs.

In addition to the taxes and activities described above, there are various taxes the revenues from which are available only to political subdivisions of the State. Such taxes are either collected by the political subdivisions directly or are collected by the State and distributed to the political subdivisions. Such taxes include a real and personal property tax, a resident tax, and a forest conservation tax based on the stumpage value of timber lands.

## **Expenditures**

Expenditures are charges against appropriations for the expenses related to specific programs of individual departments and related subunits of the State government. Expenditures are accounted for by specific classes of expenses, such as personnel, supplies and equipment, within those programs. Statewide expenditures are grouped into the six categories described below.

General Government includes the legislative branch, office of the Governor and executive staff departments.

Administration of Justice and Public Protection includes the judicial branch, correctional and state police activities and those expenses relating to regulatory boards established to protect persons and property.

Resource Protection and Development includes the operation of State parks, the promotion of economic development, environmental protection and the management of wildlife resources.

Transportation includes design, construction and maintenance of highways and bridges, the operation of the Turnpike System and the Public Works Department and management of other transportation activities.

Health & Social Services includes programs for individuals who are physically, mentally and/or economically unable to provide essential needs for themselves. Programs include those for institutional and community-based care and mental health, programs for troubled youth, programs for the elderly and programs to support economically disadvantaged and chemically dependent individuals.

Education includes management and administration of statewide primary and secondary education and support of public post-secondary educational institutions, both academic and technical. See also "SCHOOL FUNDING."

## **Results of Operations**

(The following discussion regarding both unrestricted revenues and net appropriations are exclusive of the net appropriation for the State's Uncompensated Care Pool.)

*Fiscal Year 1998.* During fiscal year 1998, the State experienced strong revenue growth in all major tax categories. Unrestricted revenue (net of medicaid enhancement revenues) exceeded plan by \$52.5 million or 6.2% and exceeded fiscal year 1997 by \$96.6 million or 12.1%. The primary contributors to this growth over fiscal year 1997 were: business taxes (\$28.3 million); tobacco tax (\$35.7 million); real estate transfer tax (\$10.9 million); meals and rooms tax (\$9.7 million) and the interest and dividends tax (\$9.1 million). A part of this growth in revenues can be attributed to a 12 cent increase in the cigarette tax rate to 37 cents per package. This increase is estimated to have contributed approximately \$24.7 million of the overall increase in cigarette tax revenues. A tax amnesty program initiated by the State Department of Revenue Administration also contributed approximately \$14.0 million to the overall growth in tax revenues. The remainder of the growth in revenues came from a vibrant economy that has paralleled the continued nationwide economic expansion.

The most significant change in net General Fund appropriations for fiscal year 1998 over expenditures in fiscal year 1997 was an increase in State aid to cities and towns for education. General Fund appropriations for foundation aid were established at \$10.0 million for fiscal year 1998, compared to no appropriation the prior year. The kindergarten aid budget increased from \$4.1 million in fiscal year 1997 to \$7.9 million in fiscal year 1998. The catastrophic aid budget increased from \$8.6 million in fiscal year 1997 to \$12.0 million in fiscal year 1998. The building aid budget increased from \$13.9 million in fiscal year 1997 to \$19.0 million in fiscal year 1998. In addition to increases for local education, distributions to cities and towns generated from the meals and rooms tax increased from \$9.2 million in fiscal year 1997 to \$12.4 million in 1998.

The fiscal year 1998 budget included salary increases for state employees which cost approximately \$7.9 million in fiscal year 1998. The fiscal year 1998 budget also included a 120 day hiring delay for positions funded from the General Fund that became vacant during the biennium. The savings from the delay were approximately \$1.5 million in fiscal year 1998.

The State's strong revenue growth and stringent budgetary controls resulted in a fiscal year 1998 ending undesignated surplus fund balance of \$41.4 million. The Revenue Stabilization Account (rainy day fund) maintained its \$20 million balance, while the Health Care Fund balance was reduced to \$38.2 million. The balance in the Health Care Fund was reduced as a result of appropriations to pay for computer systems upgrades for the Department of Health and Human Services. In addition, the Health Care Fund balance was increased by \$3.6 million as a result of excess Medicaid funds received over the budgeted Medicaid revenue.

*Fiscal Year 1999.* Unrestricted revenues (net of medicaid enhancement revenue) for fiscal year 1999 grew 6.3%, as compared to fiscal year 1998 revenues. The strong growth in business taxes can be primarily attributed to significant merger and acquisition activity that led to increased taxable business gains and resulting higher taxable profits under the State's business profits tax. The insurance, communications, real estate transfer and estate and legacy taxes all grew significantly over the prior year, reflecting increased business activity in the State and the increased value of financial assets nationwide.

Net General Fund appropriations increased 6.8% over fiscal year 1998. The greatest increases in appropriations were in the Medicaid program and health insurance costs for retired State employees. The fiscal year 1999 budget included a 5% salary scale increase for State employees, which increased salary appropriations by \$4.2 million over fiscal year 1998. The budget also continued, from fiscal year 1998, a 120-day hiring delay for positions funded from the General Fund that became vacant during the year. The savings from the delay were \$1.0 million in

fiscal year 1999. Net General Fund appropriations for fiscal year 1999 for local school districts remained essentially unchanged over the prior year. Distributions to cities and towns generated from the meals and rooms tax increased to \$17.4 million, which was \$5.0 million above the fiscal year 1998 distribution.

The low unemployment rate and high turnover rates in salaried State positions increased the recruiting periods and contributed to a higher salary lapse than anticipated. Recent savings on the competitively bid state employee health insurance contract also contributed to increased lapses. Additionally, the Department of Health and Human Services was able to maximize federal revenue for programs at reimbursement rates greater than anticipated.

Finally, sweepstakes revenues in fiscal year 1999 totaled \$64.6 million, which was \$8.6 million over the estimate. This amount was transferred to General Fund surplus and subsequently reserved for local education betterment pursuant to Chapter 17.

The combination of strong revenue performance, spending controls and the healthy economy led to a fiscal year 1999 surplus balance of \$88.7 million and a cumulative General Fund balance of \$130.1 million at June 30, 1999. This surplus has been transferred to the Health Care Fund and the Education Fund. Pursuant to Chapter 351 of the Laws of 1997, \$5.3 million of Medicaid revenues collected in excess of estimates were transferred to the Health Care Fund to bring the balance in the Health Care Fund to \$43.5 million. Chapter 17, as subsequently amended, transferred the remainder of the General Fund surplus, \$124.8 million, to the Education Fund.

*Fiscal Year 2000.* In fiscal year 2000, in response to the education funding lawsuit (see "SCHOOL FUNDING"), the State dramatically increased funding for education and made significant changes to its tax structure. The following is a list of the tax changes and revenue sources that have been dedicated to funding education:

- Establishment of a new state property tax and utility property tax at \$6.60 per \$1,000 of value of taxable property;
- Increase in the business profits tax from 7% to 8% and increase in the business enterprise tax from .25% to .50%;
- Increase in the real estate transfer tax from \$5.00 per thousand to \$7.50 per thousand;
- Extension of the 8% meals and rooms tax to rental cars;
- Increase in the cigarette tax from \$.37 per pack to \$.52 per pack;
- Allocation of a portion of tobacco settlement funds (\$53.8 million); and
- Allocation of sweepstakes net profits.

Since many of these revenue sources dedicated for education are increases in the State's traditional taxes, the General and Education Funds are presented together. Unrestricted revenue for the General and Education Funds for fiscal year 2000 has increased to approximately \$1,775.5 million. General and Education Fund revenue totaled \$1,046.3 million and \$729.2 million, respectively. Revenue allocated to the General Fund showed minimal increase since the anticipated revenue growth and changes in tax rates were earmarked to the Education Fund. In addition, the effects of changing the tax rates for the business taxes, utility property tax, and cigarette tax result in one-time gains of approximately \$38.4 million that will not reoccur in future years.

Due to the combined filing of the business profits tax and the business enterprise tax, it is not possible to measure accurately the individual effects of each tax increase. On a combined basis, business taxes increased to \$317.3 million, which was a 23.1% over fiscal year 1999 and 1.3% below plan. The collections generated by the business tax rate increases were estimated at \$76.5 million and have been transferred to the Education Fund in equal quarterly amounts pursuant to Chapter 303 of the Laws of 1999. The meals and rooms tax performance remained strong and increased to \$156.1 million, of which \$6.3 million was generated from the extension of the meals and room tax to rental cars. Also, in fiscal year 2000 the State received \$54.2 million from the national tobacco settlement, of which \$53.8 million was applied to education purposes and \$0.4 million was deposited into the General Fund. This amount included an initial tobacco settlement payment of \$16.4 million.

Revenue generated from the newly created uniform education property tax totaled \$442.1 million. Only \$24.2 million, which is the portion of the tax collected by municipalities above the local State adequacy level, was remitted to the State; approximately \$418 million was retained locally. A total of \$825.8 million of education adequacy grants were expended in fiscal year 2000.

In addition to the new revenue sources to fund education, \$124.8 million of General Fund accumulated surplus at June 30, 1999 was reserved for the Education Fund. Also, previous General Fund appropriations for education aid to schools in the amount of \$39.6 million were continued as an appropriation and was transferred to the Education Fund. The Education Fund undesignated fund balance at June 30, 2000 totaled \$66.3 million.

Significant increases in General Fund spending over fiscal year 1999 include: 3% pay raise effective October 1, 1999 (\$5.5 million); start up and operating costs for the new corrections facility in Berlin (\$6.6 million); an increase in normal contributions to the retirement system and retirees health insurance (\$3.5 million); and an increase in revenue sharing to cities and towns (\$5.0 million). While Medicaid enhancement revenues exceeded plan by \$10.3 million, pursuant to Chapter 225 of the Laws of 1999, the Department of Health and Human Services was allowed to appropriate these funds to cover budgetary shortfalls in other programs.

The June 30, 2000 General Fund surplus balance increased to \$4.0 million. Due to the tight labor markets and high turnover among state employees, year-end lapses of salary appropriations were greater than anticipated and totaled \$12.3 million. Also, the Department of Health and Human Services was again able to maximize federal revenue that support program appropriations in amounts greater than anticipated. The Revenue Stabilization account remained at \$20 million and the Health Care Fund increased by \$1.5 million to \$45.0 million.

*Fiscal Year 2001.* Fiscal Year 2001 General and Education Fund unrestricted revenue increased approximately 2.9% over fiscal year 2000 unrestricted revenue. This growth occurred despite one-time gains in fiscal year 2000 of approximately \$38.4 million that did not reoccur in fiscal year 2001. Business taxes increased \$37.0 million or 11.7%. Some of this growth can be attributed to the tax rate increases that occurred in fiscal year 2000. The meals and rooms tax increased approximately 5.0% over fiscal year 2000. Other strong revenue tax performers included the interest and dividends tax (17.1%) and the insurance tax (12.1%). The first \$3.0 million of revenue from the tobacco settlement was earmarked for tobacco prevention programs and the balance, \$38.7 million, was deposited into the Education Fund. Tobacco consumption continued to decline resulting in a 9.1% decrease in revenue generated by the tobacco tax.

Due to long-term concerns associated with education funding, management actions were taken at the start of the fiscal year to reduce the overall rate of spending. Executive Order 2000-8 reduced departmental appropriations, subject to certain exemptions, by 3.0%. This action saved approximately \$17.9 million. In addition Executive Order 2000-5 implemented a hiring freeze, subject to waiver. This action saved approximately \$3.3 million. Additional expenditures were incurred associated with recruiting and retention of nursing staff and correctional officers. Health insurance expenditures showed dramatic increase with contractual increases of 18.2% in October and an additional 11.8% increase in February. Overall General Fund expenditures increased only 2.2% over fiscal year 2000 expenditures.

The General Fund current year balance totaled \$80.2 million. The cumulative year-end General Fund balance was first utilized by transferring \$48.1 million to the Education Fund to eliminate the deficit in that fund. The balance of \$35.2 million was then transferred to the Revenue Stabilization Account bringing the balance in that account to \$55.2 million. The Health Care Fund closed fiscal year 2001 with a balance of \$45.8 million.

*Fiscal Year 2002 (preliminary and unaudited).* The State is in the initial stages of closing out fiscal year 2002. On a preliminary basis, General Fund and Education Trust Fund revenues for fiscal year 2002 are estimated to be approximately \$1,966.9 million, which is \$44 million less than originally expected when the budget was passed in June of 2001. Although revenues fell short of the plan, the State had increased certain tax rates during the 2001 fiscal year, effective July 1, 2001. These include the business profits tax rate increase of .5% to 8.5%, the business enterprise tax rate increase of .25% to .75%, and the communications tax rate increase of 1.5% to 7%. In addition, \$13.7 million of tax revenue was received from an amnesty provision that provided for forgiveness of the interest and penalties for taxes unpaid prior to February 15, 2002, and from the closure of a real estate transfer tax loophole.

As a result of this revenue shortfall, the deficit for fiscal year 2002 is currently estimated to be approximately \$40 million. This estimate does not take into account certain customary GAAP adjustments which will not be available until September. The State is presently assessing this situation, awaiting more concrete data as the closing process progresses, and weighing possible options. RSA 9:13 provides for using the Revenue Stabilization Account in the event of a General Fund operating budget deficit. Any Transfer from this account will occur at the close of the fiscal biennium (June 30, 2003). The current balance of this account is \$55.2 million. In

addition to the Revenue Stabilization Account, the State currently has \$45.8 million in the Health Care Fund which the Legislature could also appropriate to address the fiscal situation.

The combined General and Education Trust Fund shortfall is primarily attributable to Business Tax collections falling below plan by an estimated \$60.1 million. Shortfalls in revenue categories other than the Business Tax collections were more than offset by increases in other revenues. Other revenue categories with significant shortfalls include the Interest and Dividends Tax which is below plan by an estimated \$5.7 million, the Rooms and Meals Taxes which are below plan by an estimated \$4.4 million, and the Communications Tax which is below plan by an estimated \$3.9 million. The Real Estate Transfer Tax made a modest recovery from estimates several months ago, ending the year on plan. Revenues that exceeded projections and offset some of the shortfalls from plan for the year include the Insurance Tax at an estimated \$14.1 million above plan, Liquor at an estimated \$3.9 million above plan, Tobacco Settlement at an estimated \$1.7 million above plan, and Sweepstakes at an estimated \$1.5 million above plan.

On October 1, 2001, the Governor directed State agencies to develop contingency plans reflecting a 1% decrease in spending in fiscal year 2002 and a 2% decrease in fiscal year 2003. The downturn in the national economy and experiences in other states, made worse by the September 11<sup>th</sup> terrorist attack, were strong indications of a shortfall in revenues soon to affect the State. The 2% reduction for fiscal year 2003 was increased to 3% in May 2002.

The Governor took further steps to maintain a balanced budget, including: (1) directing the Department of Resources and Economic Development to accelerate its tourism promotion efforts, with a particular focus on attracting those who are within driving distance of New Hampshire, (2) asking State regulatory agencies to review their procedures and redirect resources to attempt to speed the review process, (3) directing the Bureau of Public Works to accelerate the start of construction projects included in the State's capital budget in order to begin work on the capital budget projects in the first year of the biennium, (4) directing the Department of Health and Human Services to carefully monitor trends in public assistance and medicaid caseload increases so necessary budget adjustments could be made, and (5) reinvigorating the consensus revenue estimating panel by issuing Executive Order 2001-4, which expanded the membership of the panel with an effort toward obtaining more realistic revenue estimates.

On January 15, 2002, the Governor issued Executive Order 2002-1 which reduced State spending by \$6.5 million in fiscal year 2002. Of this amount, \$5.8 million was a direct reduction of General Fund appropriations and \$700,000 was the estimated increase in interest revenue from delaying payments to the University System. On March 13, 2002, the Governor issued Executive Order 2002-2 which established a freeze on Executive Branch hiring, equipment and out-of-state travel to reduce State General Fund expenditures for the balance of fiscal year 2002. This action generated an estimated savings of \$3.4 million. On June 12, 2002, the Legislature's Fiscal Committee approved the Governor's Executive Order 2002-5. This order directed a further reduction in Executive Branch expenditures of just over \$15.2 million for fiscal year 2003. Of this amount, \$13.5 million was a direct reduction of General Fund appropriations and \$1.7 million was the estimated increase in interest revenue from delaying payments to the University System. This action, in combination with earlier executive orders, caused aggregate Executive Branch spending reductions for the biennium to be approximately \$25.1 million, of which \$9.9 million is allocable to fiscal year 2002 and the balance, \$15.2 million, to fiscal year 2003.

The following tables present a comparison of General Fund and Education Fund unrestricted revenues and General Fund and Education Fund net appropriations for fiscal years 1998 through 2002. The information for fiscal years 1998 through 2001 is derived from the State's audited financial statements. The fiscal year 2002 information is unaudited and subject to change.

**GENERAL FUND AND EDUCATION FUND UNRESTRICTED REVENUES  
FISCAL YEARS 1998-2002  
(GAAP Basis-In Millions)**

Revenue Category	FY98	FY99	FY 2000			FY 2001			(Unaudited) FY 2002		
			General	Education	Total	General	Education	Total	General	Education	Total
Business Profits Tax	\$167.5	\$164.8	\$146.4	\$22.4	\$168.8	\$179.6	\$15.8	\$195.4	\$132.9	\$32.6	\$165.5
Business Enterprise Tax	<u>71.0</u>	<u>93.0</u>	<u>94.4</u>	<u>54.1</u>	<u>148.5</u>	<u>122.2</u>	<u>36.7</u>	<u>158.9</u>	<u>117.1</u>	<u>101.2</u>	<u>218.3</u>
Subtotal	238.5	257.8	240.8	76.5	317.3	301.8	52.5	354.3	250.0	133.8	383.8
Meals & Rooms Tax	128.7	137.2	149.8	6.3	156.1	157.2	6.8	164.0	165.0	6.6	171.6
Tobacco Tax	76.1	73.8	68.4	26.6	95.0	61.0	25.4	86.4	60.3	24.0	84.3
Liquor Sales and Distribution	75.4	77.4	86.0	-	86.0	89.3	-	89.3	96.9	-	96.9
Interest & Dividends Tax	61.8	63.3	65.5	-	65.5	76.7	-	76.7	71.3	-	71.3
Insurance Tax	54.7	62.9	59.3	-	59.3	66.5	-	66.5	76.1	-	76.1
Communications Tax	40.1	46.2	47.8	-	47.8	49.0	-	49.0	63.8	-	63.8
Real Estate Transfer Tax	44.2	52.9	56.8	28.2	85.0	59.5	29.7	89.2	66.4	33.1	99.5
Estate and Legacy Tax	43.3	54.7	56.4	-	56.4	59.3	-	59.3	56.0	-	56.0
Sweepstakes Transfers	-	-	-	61.5	61.5	-	59.4	59.4	-	65.5	65.5
Tobacco Settlement	-	-	0.4	53.8	54.2	-	38.7	38.7	5.7	40.0	45.7
Utility Property Tax	-	-	-	31.2	31.2	-	15.6	15.6	-	18.2	18.2
Property Tax Not Retained Locally	-	-	-	24.2	24.2	-	24.2	24.2	-	29.0	29.0
Property Tax Retained Locally	-	-	-	418.0	418.0	-	418.0	418.0	-	454.1	454.1
Other	<u>133.5</u>	<u>126.8</u>	<u>128.0</u>	<u>2.9</u>	<u>130.9</u>	<u>137.4</u>	<u>0.2</u>	<u>137.6</u>	<u>128.0</u>	<u>-</u>	<u>128.0</u>
Subtotal	896.3	953.0	959.2	729.2	1,688.4	1,057.7	670.5	1,728.2	1,039.5	804.3	1,843.8
Net Medicaid Enhancement Revenues	<u>67.5</u>	<u>70.4</u>	<u>74.2</u>	<u>-</u>	<u>74.2</u>	<u>85.2</u>	<u>-</u>	<u>85.2</u>	<u>106.8</u>	<u>-</u>	<u>106.8</u>
Subtotal	963.8	1,023.4	1,033.4	729.2	1,762.6	1,142.9	670.5	1,813.4	1,146.3	804.3	1,950.6
Other Medicaid Enhancement Revenues to Fund Net Appropriations	<u>9.2</u>	<u>15.9</u>	<u>12.9</u>	<u>-</u>	<u>12.9</u>	<u>13.0</u>	<u>-</u>	<u>13.0</u>	<u>16.3</u>	<u>-</u>	<u>16.3</u>
Total	<u>\$973.0</u>	<u>\$1,039.3</u>	<u>\$1,046.3</u>	<u>\$729.2</u>	<u>\$1,775.5</u>	<u>\$1,155.9</u>	<u>\$670.5</u>	<u>\$1,826.4</u>	<u>\$1,162.6</u>	<u>\$804.3</u>	<u>\$1,966.9</u>

**GENERAL FUND AND EDUCATION FUND NET APPROPRIATIONS**  
**FISCAL YEARS 1998-2002**  
**(GAAP Basis)**  
**(In Millions)**

<u>Category of Government</u>	<u>FY98</u>	<u>FY99</u>	<u>FY 2000</u>			<u>FY 2001</u>			<u>(Unaudited)</u> <u>FY 2002</u>		
			<u>General</u>	<u>Education</u>	<u>Total</u>	<u>General</u>	<u>Education</u>	<u>Total</u>	<u>General</u>	<u>Education</u>	<u>Total</u>
General Government	\$176.4	\$190.1	\$216.4	\$1.4	\$217.8	\$213.9	\$0.7	\$214.6	\$220.6	\$5.0	\$225.6
Justice and Public Protection	145.7	150.0	166.5		166.5	170.8		170.8	181.1	-	181.1
Resource Protection and Development	34.7	35.4	36.0		36.0	37.6		37.6	40.7	-	40.7
Transportation	2.6	2.7	2.7		2.7	2.8		2.8	2.8	-	2.8
Health and Social Services	411.0	420.4	467.5		467.5	479.0		479.0	500.0	-	500.0
Education	<u>158.5</u>	<u>158.0</u>	<u>170.1</u>	<u>825.9</u>	<u>996.0</u>	<u>178.8</u>	<u>824.8</u>	<u>1,003.6</u>	<u>241.7</u>	<u>882.2</u>	<u>1,123.9</u>
Net Appropriations	<u>\$928.9</u>	<u>\$956.6</u>	<u>\$1,059.2</u>	<u>\$827.3</u>	<u>\$1,886.5</u>	<u>\$1,082.9</u>	<u>\$825.5</u>	<u>\$1,908.4</u>	<u>\$1,186.9</u>	<u>\$887.2</u>	<u>\$2,074.1</u>

The following table sets out the General Fund and Education Fund undesignated fund balances and the amounts reserved for the Revenue Stabilization Account and Health Care Fund for each of the fiscal years 1998 through 2002. The information for fiscal years 1998 through 2001 is derived from the State's audited financial statements. The fiscal year 2002 information is unaudited and subject to change.

**GENERAL FUND AND EDUCATION FUND BALANCES**  
**FISCAL YEARS 1998 – 2002**  
**(GAAP Basis - In Millions)**

	FY 98	FY 99	FY 2000			FY 2001			(Unaudited) FY 2002		
			General	Education	Total	General	Education	Total	General	Education	Total
Undesignated Fund Balance, July 1	<u>\$(1.2)</u>	<u>\$41.4</u>	<u>-</u>	<u>\$124.8</u>	<u>\$124.8</u>	<u>\$4.0</u>	<u>\$66.3</u>	<u>\$70.3</u>	<u>\$0.0</u>	<u>\$0.0</u>	<u>\$0.0</u>
Additions:											
Unrestricted Revenue	973.0	1,039.3	\$1,046.3	729.2	1,775.5	1,155.9	670.5	1,826.4	1,162.6	804.3	1,966.9
Transfers from General Fund	<u>-</u>	<u>-</u>	<u>-</u>	<u>39.6</u>	<u>39.6</u>	<u>-</u>	<u>40.6</u>	<u>40.6</u>	<u>-</u>	<u>65.7</u>	<u>65.7</u>
Total Additions	<u>973.0</u>	<u>1,039.3</u>	<u>1,046.3</u>	<u>768.8</u>	<u>1,815.1</u>	<u>1,155.9</u>	<u>711.1</u>	<u>1,867.0</u>	<u>1,162.6</u>	<u>870.0</u>	<u>2,032.6</u>
Deductions:											
Appropriations Net of Estimated Revenues	(954.1)	(999.4)	(1,094.0)	(827.3)	(1,921.3)	(1,116.0)	(825.5)	(1,941.5)	(1,217.3)	(887.6)	(2,104.9)
Less: Lapses	<u>25.2</u>	<u>42.8</u>	<u>34.8</u>	<u>-</u>	<u>34.8</u>	<u>33.1</u>	<u>-</u>	<u>33.1</u>	<u>30.4</u>	<u>0.4</u>	<u>30.8</u>
Total Net Appropriations	<u>(928.9)</u>	<u>(956.6)</u>	<u>(1,059.2)</u>	<u>(827.3)</u>	<u>(1,886.5)</u>	<u>(1,082.9)</u>	<u>(825.5)</u>	<u>(1,908.4)</u>	<u>(1,186.9)</u>	<u>(887.2)</u>	<u>(2,074.1)</u>
GAAP and Other Adjustments <sup>(1)</sup>	3.1	(1.5)	11.0	-	11.0	7.1	-	7.1	2.1	-	2.1
HHS Revenue Enhancements	<u>(1.0)</u>	<u>7.5</u>	<u>7.4</u>	<u>-</u>	<u>7.4</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Other	<u>2.1</u>	<u>6.0</u>	<u>18.4</u>	<u>-</u>	<u>18.4</u>	<u>7.1</u>	<u>-</u>	<u>7.1</u>	<u>-</u>	<u>-</u>	<u>-</u>
Current Year Balance	<u>46.2</u>	<u>88.7</u>	<u>5.5</u>	<u>(58.5)</u>	<u>(53.0)</u>	<u>80.1</u>	<u>(114.4)</u>	<u>(34.3)</u>	<u>(22.2)</u>	<u>(17.2)</u>	<u>(39.4)</u>
Transfers (to)/from:											
Revenue Stabilization Account	-	-	-	=	=	(35.2)	-	(35.2)	-	-	-
Health Care Fund	(3.6)	(5.3)	(1.5)	=	(1.5)	(0.8)	-	0.8	-	-	-
Education Fund	<u>-</u>	<u>(124.8)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(48.1)</u>	<u>48.1</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Undesignated Fund Balance, June 30	<u>\$41.4</u>	<u>-</u>	<u>\$4.0</u>	<u>\$66.3</u>	<u>\$70.3</u>	<u>\$0.0</u>	<u>\$0.0</u>	<u>\$0.0</u>	<u>\$(22.2)</u>	<u>\$(17.2)</u>	<u>\$(39.4)</u>
Reserved for Revenue Stabilization Account	<u>\$20.0</u>	<u>\$20.0</u>	<u>\$20.0</u>	<u>-</u>	<u>\$20.0</u>	<u>\$55.2</u>	<u>-</u>	<u>\$55.2</u>	<u>\$55.2</u>	<u>-</u>	<u>\$55.2</u>
Reserved for Health Care Fund	<u>\$38.2</u>	<u>\$43.5</u>	<u>\$45.0</u>	<u>-</u>	<u>\$45.0</u>	<u>\$45.8</u>	<u>-</u>	<u>\$45.8</u>	<u>\$45.8</u> <sup>(2)</sup>	<u>-</u>	<u>\$45.8</u> <sup>(2)</sup>
Reserved for Local Education Betterment <sup>(3)</sup>	<u>-</u>	<u>\$124.8</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Equity	<u>\$99.6</u>	<u>\$188.3</u>	<u>\$69.0</u>	<u>\$66.3</u>	<u>\$135.3</u>	<u>\$101.0</u>	<u>\$0.0</u>	<u>\$101.0</u>	<u>\$78.8</u>	<u>\$(17.2)</u>	<u>\$61.6</u>

<sup>(1)</sup> The fiscal year 2002 GAAP adjustment is an estimate. The actual GAAP adjustments for fiscal year 2002 will be available in September.

<sup>(2)</sup> See also the last paragraph under the heading "STATE FINANCES – Health Care Fund."

<sup>(3)</sup> As of July 1, 1999, amount reserved was transferred to newly created Education Fund.

*Fiscal Year 2003 Budget.* The information regarding unrestricted revenues for fiscal year 2003 in this Information Statement is based on House Resolution 24 dated May 22, 2002, which is the latest fiscal year 2003 forecast of revenues available. As more complete data for fiscal year 2002 becomes available, the forecast for fiscal year 2003 will change accordingly. The estimates by category are detailed in the revised revenue estimate for fiscal year 2003 as shown on the table on a subsequent page. Revenues are currently anticipated to be below plan by approximately \$15.5 million; however, Medicaid enhancement revenues are anticipated to be \$13.3 million above plan, netting a \$2.2 million shortfall in revenues.

Appropriations for fiscal year 2003 Chapter 130 of the Laws of 2001 and Chapter 158 of the Laws of 2001 and also include \$13.3 million of increased Medicaid costs and another \$3.2 million for anticipated requests such as worker's compensation which are expected to occur throughout the year. Also included in fiscal year 2003 spending is a \$2.5 million appropriation created by Chapter 328, Laws of 2000, which transfers 50% of the gross profit increase in Liquor Tax revenue from fiscal year 2003 as compared to fiscal year 2002 to the Alcohol Abuse Prevention and Treatment Fund. There is a similar appropriation in fiscal year 2002 for \$3.9 million.

The aggregate deficit for the current biennium (ending June 30, 2003) is presently forecast at \$70.4 million. Due to the preliminary nature of the fiscal year 2002 data, more information is required before specific actions are taken to address the deficit. The forecasted shortfall at the end of the biennium is less than the reserves the State currently has in its Revenue Stabilization Account and Health Care Fund, which total \$101 million. The Governor is committed to fiscal stability while not taking actions that will prolong the State's recovery from the economic downturn. In the event that there is a deficit at the end of the current biennium, the Governor and Legislature are required by law to propose and authorize a budget that will address any such deficit. (See "STATE FINANCES – Revenue Stabilization Account.")

Based on estimated revenues and expenditures for fiscal year 2003, the State currently estimates that the State will have adequate cash to meet obligations of the State in fiscal year 2003. However, this estimate is subject to change and if actual revenues are less than anticipated or expenditures more than currently estimated, the State may experience a cash flow deficit. The State Treasurer is authorized under existing State law to borrow, with the approval of the Governor and Council, up to \$200 million of revenue anticipation notes to meet obligations of the State. For information on the State's capital budget for the 2002-2003 biennium, see "STATE INDEBTEDNESS-Capital Budget."

The following table presents a comparison of General Fund and Education Fund unrestricted revenues for fiscal years 2001 through 2003. The fiscal year 2002 information is unaudited and subject to change. The fiscal year 2003 information represents the revised estimates for the General Fund and the Education Fund.

**GENERAL FUND AND EDUCATION FUND UNRESTRICTED REVENUES  
ACTUAL AND BUDGET  
FISCAL YEARS 2001-2003  
(GAAP Basis-In Millions)**

Revenue Category	Actual Fiscal Year 2001			Actual (Unaudited) Fiscal Year 2002			Revised Estimate Fiscal Year 2003		
	General	Education	Total	General	Education	Total	General	Education	Total
Business Profits Tax	\$179.6	\$15.8	\$195.4	\$132.9	\$32.6	\$165.5	\$209.3	\$33.2	\$242.5
Business Enterprise Tax	<u>122.2</u>	<u>36.7</u>	<u>158.9</u>	<u>117.1</u>	<u>101.2</u>	<u>218.3</u>	<u>52.0</u>	<u>97.0</u>	<u>149.0</u>
Subtotal	301.8	52.5	354.3	250.0	133.8	383.8	261.3	130.2	391.5
Meals & Rooms Tax	157.2	6.8	164.0	165.0	6.6	171.6	181.2	8.2	189.4
Tobacco Tax	61.0	25.4	86.4	60.3	24.0	84.3	61.9	25.1	87.0
Liquor Sales and Distribution	89.3	-	89.3	96.9	-	96.9	98.7	-	98.7
Interest & Dividends Tax	76.7	-	76.7	71.3	-	71.3	75.0	-	75.0
Insurance Tax	66.5	-	66.5	76.1	-	76.1	76.0	-	76.0
Communications Tax	49.0	-	49.0	63.8	-	63.8	65.6	-	65.6
Real Estate Transfer Tax	59.5	29.7	89.2	66.4	33.1	99.5	77.0	38.0	115.0
Estate and Legacy Tax	59.3	-	59.3	56.0	-	56.0	56.0	-	56.0
Transfers from Sweepstakes	-	59.4	59.4	-	65.5	65.5	-	67.5	67.5
Tobacco Settlement	-	38.7	38.7	5.7	40.0	45.7	4.5	40.0	44.5
Utility Property Tax	-	15.6	15.6	-	18.2	18.2	-	21.5	21.5
Property Tax Not Retained Locally	-	24.2	24.2	-	29.0	29.0	-	32.7	32.7
Property Tax Retained Locally	-	418.0	418.0	-	454.1	454.1	-	453.1	453.1
Other	<u>137.4</u>	<u>0.2</u>	<u>137.6</u>	<u>128.0</u>	<u>-</u>	<u>128.0</u>	<u>133.6</u>	<u>-</u>	<u>133.6</u>
Subtotal	1,057.7	670.5	1,728.2	1,039.5	804.3	1,843.8	1,090.8	816.3	1,907.1
Net Medicaid Enhancement Revenues	<u>85.2</u>	<u>-</u>	<u>85.2</u>	<u>106.8</u>	<u>-</u>	<u>106.8</u>	<u>104.5</u>	<u>-</u>	<u>104.5</u>
Subtotal	1,142.9	670.5	1,813.4	1,146.3	804.3	1,950.6	1,195.3	816.3	2,011.6
Other Medicaid Enhancement Revenues to Fund Net Appropriations	<u>13.0</u>	<u>-</u>	<u>13.0</u>	<u>16.3</u>	<u>-</u>	<u>16.3</u>	<u>16.2</u>	<u>-</u>	<u>16.2</u>
Total	<u>\$1,155.9</u>	<u>\$670.5</u>	<u>\$1,826.4</u>	<u>\$1,162.6</u>	<u>\$804.3</u>	<u>\$1,966.9</u>	<u>\$1,211.5</u>	<u>\$816.3</u>	<u>\$2,027.8</u>

The following table compares on an accrual basis, for the fiscal year ended June 30, 2002, General Fund and Education Fund unaudited unrestricted revenues for the fiscal years 2001 and 2002 and a comparison to the revenue estimates for fiscal year 2002. 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.

**GENERAL FUND AND EDUCATION FUND UNRESTRICTED REVENUES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002 (UNAUDITED)  
(Preliminary Accrual - In Millions)**

<u>Revenue Category</u>	<u>FY01 Actual</u>	<u>FY02 Actual</u>	<u>FY02 Plan</u>	<u>FY02 vs Plan</u>		<u>FY02 vs FY01</u>	
				<u>Variance</u>	<u>%Change</u>	<u>Variance</u>	<u>%Change</u>
Business Profits Tax	\$195.4	\$165.5	\$275.9	\$(110.4)	-40.0%	\$(29.9)	-15.3%
Business Enterprise Tax	<u>158.9</u>	<u>218.3</u>	<u>168.0</u>	<u>50.3</u>	<u>29.9</u>	<u>59.4</u>	<u>37.4</u>
Subtotal	354.3	383.8	443.9	(60.1)	(13.5)	29.5	8.3
Meals & Rooms Tax	164.0	171.6	176.0	(4.4)	(2.5)	7.6	4.6
Tobacco Tax	86.4	84.3	86.0	(1.7)	(2.0)	(2.1)	-2.4
Liquor Sales and Distribution	89.3	96.9	93.0	3.9	4.2	7.6	8.5
Interest & Dividends Tax	76.7	71.3	77.0	(5.7)	(7.4)	(5.4)	-7.0
Insurance Tax	66.5	76.1	62.0	14.1	22.7	9.6	14.4
Communications Tax	49.0	63.8	67.7	(3.9)	(5.8)	14.8	30.2
Real Estate Transfer Tax	89.2	99.5	99.5	-	-	10.3	11.5
Estate and Legacy Tax	59.3	56.0	58.0	(2.0)	(3.4)	(3.3)	-5.6
Transfers from Sweepstakes	59.4	65.5	64.0	1.5	2.3	6.1	10.3
Tobacco Settlement	38.7	45.7	44.0	1.7	3.9	7.0	18.1
Utility Property Tax	15.6	18.2	18.8	(0.6)	(3.2)	2.6	16.7
Property Tax Not Retained							
Locally	24.2	29.0	29.1	(0.1)	(0.3)	4.8	19.8
Property Tax Retained							
Locally	418.0	454.1	454.0	0.1	0.0	36.1	8.6
Other	<u>137.6</u>	<u>128.0</u>	<u>128.9</u>	<u>(0.9)</u>	<u>0.0</u>	<u>(9.6)</u>	<u>-7.0</u>
Subtotal	1,728.2	1,843.8	1,901.9	(58.1)	(3.1)	115.6	6.7
Net Medicaid Enhancement							
Revenues	<u>85.2</u>	<u>106.8</u>	<u>95.0</u>	<u>11.8</u>	<u>12.4</u>	<u>21.6</u>	<u>25.4</u>
Subtotal	1,813.4	1,950.6	1,996.9	(46.3)	(2.3)	137.2	7.6
Other Medicaid							
Enhancement Revenues to							
Fund Net Appropriations	<u>13.0</u>	<u>16.3</u>	<u>13.4</u>	<u>2.9</u>	<u>21.6</u>	<u>3.3</u>	<u>25.4</u>
Total	<u>\$1,826.4</u>	<u>\$1,966.9</u>	<u>\$2,010.3</u>	<u>\$(43.4)</u>	<u>-2.2%</u>	<u>\$140.5</u>	<u>7.7%</u>

The following table presents a comparison of General Fund and Education Fund net appropriations for fiscal years 2001, 2002 and 2003. The fiscal year 2002 information is unaudited and subject to change. The fiscal year 2003 information for the General Fund is based on the current State budget and adjusted for executive order reduction and lapses.

**GENERAL FUND AND EDUCATION FUND NET APPROPRIATIONS  
ACTUAL AND BUDGET  
FISCAL YEARS 2001-2003  
(GAAP Basis)  
(In Millions)**

Category of Government	Actual FY 2001			Actual (Unaudited) FY 2002			Projected FY 2003		
	General	Education	Total	General	Education	Total	General	Education	Total
General Government	\$213.9	\$0.7	\$214.6	\$220.6	\$5.0	\$225.6	\$227.8	\$5.0	\$232.8
Justice and Public Protection	170.8	-	170.8	181.1	-	181.1	180.2	-	180.2
Resource Protection and Development	37.6	-	37.6	40.7	-	40.7	39.8	-	39.8
Transportation	2.8	-	2.8	2.8	-	2.8	3.1	-	3.1
Health and Social Services	479.0	-	479.0	500.0	-	500.0	518.0	-	518.0
Education	<u>178.8</u>	<u>824.8</u>	<u>1,003.6</u>	<u>241.7</u>	<u>882.2</u>	<u>1,123.9</u>	<u>265.8</u>	<u>899.5</u>	<u>1,165.3</u>
Net Appropriations	<u>\$1,082.9</u>	<u>\$825.5</u>	<u>\$1,908.4</u>	<u>\$1,186.9</u>	<u>\$887.2</u>	<u>\$2,074.1</u>	<u>\$1,234.7</u>	<u>\$904.5</u>	<u>\$2,139.2</u>

The following table sets out the General Fund and Education Fund undesignated fund balances and the amounts designated for the Revenue Stabilization Account and Health Care Fund for fiscal years 2001, 2002 and 2003. The fiscal year 2002 information is unaudited. The fiscal year 2003 information is based on revised estimates.

**GENERAL FUND AND EDUCATION FUND BALANCES  
FISCAL YEARS 2001 – 2003  
(GAAP Basis - In Millions)**

	<u>FY 2001</u>			<u>FY 2002</u>			<u>FY 2003</u>		
	<u>Actual</u>		<u>Total</u>	<u>Actual (Unaudited)</u>		<u>Total</u>	<u>Revised Estimate</u>		
	<u>General</u>	<u>Education</u>		<u>General</u>	<u>Education</u>		<u>General</u>	<u>Education</u>	<u>Total</u>
Undesignated Fund Balance, July 1	\$4.0	\$66.3	\$70.3	\$0.0	\$0.0	\$ 0.0	\$(22.2)	\$(17.2)	\$(39.4)
Additions:									
Unrestricted Revenue	1,155.9	670.5	1,826.4	1,162.6	804.3	1,966.9	1,211.5	816.3	2,027.8
Transfers from General Fund	-	40.6	40.6	-	65.7	65.7	-	83.4	83.4
Total Additions	<u>1,155.9</u>	<u>711.1</u>	<u>1,867.0</u>	<u>1,162.6</u>	<u>870.0</u>	<u>2,032.6</u>	<u>1,211.5</u>	<u>899.7</u>	<u>2,111.2</u>
Deductions:									
Appropriations Net of									
Estimated Revenues	(1,116.0)	(825.5)	(1,941.5)	(1,217.3)	(887.6)	(2,104.9)	(1,272.3)	(904.5)	(2,176.8)
Less: Lapses	33.1	-	33.1	30.4	0.4	30.8	37.6	-	37.6
Total Net Appropriations	<u>(1,082.9)</u>	<u>(825.5)</u>	<u>(1,908.4)</u>	<u>(1,186.9)</u>	<u>(887.2)</u>	<u>(2,074.1)</u>	<u>(1,234.7)</u>	<u>(904.5)</u>	<u>(2,139.2)</u>
GAAP and Other Adjustments <sup>(1)</sup>	7.1	-	7.1	2.1	-	2.1	(3.0)	-	(3.0)
Current Year Balance	<u>80.1</u>	<u>(114.4)</u>	<u>(34.3)</u>	<u>(22.2)</u>	<u>(17.2)</u>	<u>(39.4)</u>	<u>(26.2)</u>	<u>(4.8)</u>	<u>(31.0)</u>
Transfers (to)/from:									
Revenue Stabilization Account	(35.2)	-	(35.2)	-	-	-	-	-	-
Health Care Fund	(0.8)	-	(0.8)	-	-	-	-	-	-
Education Fund	<u>(48.1)</u>	<u>48.1</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Undesignated Fund Balance, June 30	<u>\$ 0.0</u>	<u>\$0.0</u>	<u>\$ 0.0</u>	<u>(22.2)</u>	<u>\$(17.2)</u>	<u>\$(39.4)</u>	<u>\$(48.4)</u>	<u>\$(22.0)</u>	<u>\$(70.4)</u>
Reserved for Revenue Stabilization Account	<u>\$55.2</u>	<u>-</u>	<u>\$ 55.2</u>	<u>\$55.2</u>	<u>-</u>	<u>\$55.2</u>	<u>\$55.2</u>	<u>-</u>	<u>\$55.2</u>
Reserved for Health Care Fund	<u>\$45.8</u>	<u>-</u>	<u>\$ 45.8</u>	<u>\$45.8</u> <sup>(2)</sup>	<u>-</u>	<u>\$45.8</u> <sup>(2)</sup>	<u>\$45.8</u> <sup>(2)</sup>	<u>-</u>	<u>\$45.8</u> <sup>(2)</sup>
Total Equity	<u>\$101.0</u>	<u>\$ 0.0</u>	<u>\$101.0</u>	<u>\$78.8</u>	<u>\$(17.2)</u>	<u>\$61.6</u>	<u>\$52.6</u>	<u>\$(22.0)</u>	<u>\$30.6</u>

<sup>(1)</sup> The fiscal year 2002 GAAP adjustment is an estimate. The actual GAAP adjustment for fiscal year 2002 will be available in September.

<sup>(2)</sup> See also the last paragraph under the heading "STATE FINANCES – Health Care Fund."

*Medicaid General and Rehabilitative Disproportionate Share Hospital Program.* On June 15, 2000, the Federal Centers for Medicare and Medicaid Services (CMS) (formerly the Health Care Financing Administration (HCFA)) sent a letter to nine states, including New Hampshire, Massachusetts, New York and Florida, indicating that portions of their Medicaid programs may be funded with impermissible taxes on health care providers, jeopardizing federal reimbursements collected on any Medicaid program expenditures funded with such taxes. In the case of New Hampshire, the letter related to the portion of the State's Medicaid program funded by the uncompensated care pool. The Medicaid program is 50% funded by federal reimbursements. CMS promulgated regulations in 1992 and 1993 regarding the collection of taxes imposed on health care providers and establishing a process for waiver approval of state taxes subject to the regulations. The state Department of Health and Human Services (DHHS), which administers the Medicaid program in the State, filed a waiver request in February 1993 relating to the permissibility of the State's assessment on general and rehabilitative hospitals to fund the uncompensated care pool in New Hampshire. DHHS has submitted additional information to CMS since the time of the original waiver request. DHHS believes that the original waiver request addressed the concerns that have been recently articulated by CMS and that this waiver was automatically approved in 1993 because of CMS's failure to take action within the federally required timeframes. Moreover, DHHS believes that the State's uncompensated care pool complies with federal law.

The June 15, 2000 HCFA letter requested the State to resubmit its original waiver request by June 30, 2000. (The State requested a 180 day extension of this deadline, but was only granted a 30-day extension.) The letter further stated that if CMS makes a final determination that the State has imposed an impermissible provider tax, CMS will undertake an audit of the State's uncompensated care pool program and seek retroactive repayment of federal Medicaid reimbursements. Under federal regulations, recoupment of federal Medicaid reimbursements is generally accomplished by withholding a portion of future Medicaid reimbursements to the state owing the repayment. States can appeal a request for repayment to an appeals panel within the U.S. Department of Health and Human Services and then to a federal district court. Since 1991, prior to when the waiver request was submitted, the State has received an estimated \$900 million in federal Medicaid reimbursements related to expenditures associated with the uncompensated care pool.

Officials from DHHS met with officials from CMS to review the State's program in an effort to show the State meets the automatic waiver provision for approval of the State's current uncompensated care pool. Clarification of the law surrounding permissible provider taxes is a national issue and resolution could take several years. In addition, and more fundamentally, the State believes its waiver was automatically approved in 1993 because of CMS's failure to take action within the federally required timeframes. Finally, the State believes its uncompensated care pool complies with applicable federal law.

On July 26, 2000, DHHS sought a time extension for submittal of the waiver due to the new data and information demands required by CMS. On July 28, 2000, CMS agreed to extend the waiver submittal deadline to August 31, 2000.

DHHS submitted the waiver to CMS on August 25, 2000, indicating the Inpatient Hospital formula and the Outpatient Hospital formula exceeded the standard contained in the federal regulations and warranted CMS approval. Since that time, CMS has requested and DHHS has supplied additional information to support its waiver request, culminating with updated information being provided to CMS on September 19, 2000. The formula ratios for both Inpatient and Outpatient remain unchanged using this new information. A CMS representative obtained copies of the 1992 hospital cost reports from the Department in October 2000. No further communication has been received from CMS on this matter as of July 30, 2002.

*Medicaid Proportionate Share Program.* In July 2000, newspaper accounts reported CMS was concerned about states using a Medicaid regulation to increase payments from Medicaid, using the gain to benefit programs in each state, including medical programs. CMS indicated that at least fifteen states, including Pennsylvania, New York, Illinois, and Nebraska were being audited, with additional states possibly being reviewed in coming months. CMS's focus was on states which were using a process called intergovernmental transfers. New Hampshire's Proportionate Share Program utilizes such a process. Part of the CMS approved state plan is based on the federal requirement that payments to each group of health care facilities may not exceed the amount which can reasonably be estimated would have been paid had those services been provided using Medicare payment principles. The State's process is a comparison between actual Medicaid and comparable Medicare nursing home rates. The State makes payment to the county governments to reimburse their expenses at the Medicare level. The federal government then pays the State its 50% of the expense and these are apportioned to the State and county

governments using a formula in State law. It is important to note that federal law explicitly permits county and local governments to contribute to the State's Medicaid match requirement. Under New Hampshire law, the counties pay fifty percent of the non-federal share of long-term nursing services, home and community-based care services for the elderly and chronically ill, mid-level services for the elderly, and long-term care-related medical provider payments. Since 1994, the State has realized a gain to State and county governments totaling \$86 million from these intergovernmental transfers.

In October 2000, CMS indicated that new rules would be proposed that would curtail and possibly phase out intergovernmental transfers over a four year period beginning in State fiscal year 2003. The new proposed rules were published in the Federal Register of October 10, 2000. The new proposed rules indicated that facilities eligible for inclusion in the calculation of the Medicare/Medicaid differential would be limited to non-state government owned and operated public facilities, such as county government owned and operated nursing homes.

Congress passed and the President signed the Medicare, Medicaid and SCHIP Benefits Improvement and Protection Act of 2000 (Public Law 106-554) on December 21, 2000, directing CMS to implement their proposed rules, phasing out certain intergovernmental transfers in a three-tiered approach. CMS issued their final rules on January 12, 2001 in the Federal Register (Vol. 66, Number 9) to be effective March 13, 2001. The final rules established three transition schedules; one for Medicaid plans approved prior to October 1, 1992, a second for plans approved after October 1, 1992 and before October 1, 1999, and a third for plans approved or pending approval after October 1, 1999.

The State's plan was approved on October 7, 1994 and thus is subject to the second transition period. This transition period remains the same as that in the earlier proposed rules, specifically, a four-year period beginning in State Fiscal Year 2003.

Based on CMS interpretations as of October 18, 2001, DHHS estimated a cumulative lesser amount of previously anticipated revenue to the General Fund over the four year period for State fiscal years 2003 through 2006 of approximately \$17 million. Thereafter, revenues were estimated to be approximately \$3 million per year lower than would have been realized had Congress and CMS not implemented the new laws and regulations.

In June 2002, CMS notified New Hampshire that an evolving interpretation of how the transition period was being defined would enable New Hampshire to claim costs in full for non-state government owned and operated public facilities, such as county government owned and operated nursing homes. Costs for private facilities would still be limited to the amount paid in fiscal year 2000. As a result, the State realized an additional \$6 million in fiscal year 2002 and currently expects to receive an additional \$6 million in fiscal year 2003 above what has been previously estimated.

## SCHOOL FUNDING

*Litigation.* In June, 1991, five school districts and taxpayers and students in those school districts commenced an action (*Claremont School District v. Governor*) against the State, challenging the constitutionality of the State's statutory system of financing the operation of elementary and secondary public schools. On December 17, 1997, the New Hampshire Supreme Court ruled that the State's system of financing elementary and secondary public education primarily through local property taxes was unconstitutional. In its decision, the State Supreme Court noted that several financing models could be fashioned to fund public education, but it was for the Legislature to select one that passed constitutional muster. The State Supreme Court did not remand the matter for consideration of remedies, but instead allowed the then existing funding mechanism to continue in effect through the property tax year ending March 31, 1999, and stayed all further proceedings to permit the Legislature to address the issues raised in the case. During the course of 1998 and early 1999, the Legislature considered various plans to establish a new educational funding system.

On April 29, 1999, the Legislature passed and the Governor signed Chapter 17 of the Laws of 1999 ("Chapter 17") that addressed the school funding issues. Chapter 17 contains the methods to be followed in determining the per pupil adequate education cost for each biennium and each municipality's adequate education grant for each fiscal year.

In order to fund the adequate education cost, Chapter 17, as subsequently amended, established the Education Fund and earmarked funding from the following sources:

- transfer of \$124.8 million of accumulated General Fund surplus at June 30, 1999;
- establishment of a uniform education property tax at the uniform rate of \$6.60 on each \$1,000 of value of taxable property;
- increases in the business profits tax, the business enterprise tax, the tobacco tax, and the real estate transfer tax;
- extension of the meals and rooms tax to the rental of motor vehicles;
- a portion of tobacco settlement funds and profits from the Sweepstakes Commission; and
- continuation of general funded appropriations for education in the amount of approximately \$40 million per year.

Under Chapter 17, as originally enacted, the adequate education grant to a municipality was the difference between the amount raised by applying the \$6.60 uniform education property tax to the equalized value of taxable property in the municipality (exclusive of certain utility property) and the amount of the adequate education cost for the municipality. In those municipalities where the amount raised by the uniform education property tax exceeds the adequate education cost for that municipality (a “donor” municipality), the excess is to be deposited in the newly created State Education Fund and distributed to other municipalities entitled to an adequate education grant (a “receiver” municipality). Under Chapter 17, the uniform education property tax was to have been phased-in over a five-year period for the donor municipalities in order to ameliorate the potentially adverse effects of a possibly sudden, sharp rise in property tax rates in such municipalities.

Chapter 17 did not limit the amounts a municipality may appropriate to fund education above its per pupil adequate education cost and did not limit the amount of additional taxes that could be levied to raise such appropriations or to pay debt issued for school purposes.

As noted above, the State Supreme Court in its December 17, 1997 ruling had stayed further proceedings in the original litigation to permit the Legislature to address the issues raised in the case. In August, 1999, the plaintiffs in the *Claremont* matter challenged the constitutionality of Chapter 17, including the five-year phase-in of the uniform education property tax.

In October, 1999, the State Supreme Court held that the phase-in of the uniform education property tax was unconstitutional and that because the phase-in was not severable from the uniform education property tax, the uniform education property tax itself was unconstitutional. The Court did not invalidate any other provisions of Chapter 17. It also denied, without prejudice, the plaintiffs’ remaining requests for relief as being premature.

In November, 1999, the Legislature approved and the Governor signed into law Chapter 338 of the Laws of 1999 (“Chapter 338”), which reenacted the uniform education property tax imposed under Chapter 17 at the rate of \$6.60 per \$1,000 of total equalized value to provide funding for an adequate public education. Chapter 338 does not contain a phase-in provision, but does provide education property tax hardship relief to qualifying low and moderate income taxpayers throughout the State. The cost of the hardship relief provision is estimated to have been approximately \$3 million in fiscal year 2000 and \$5 million in fiscal year 2001. Under Chapter 338, the uniform education property tax and the formula for determining adequate education funding grants was to have expired on January 2, 2003, although recent legislation has repealed this sunset provision. The hardship grants will expire in July of 2002.

On December 22, 1999, residents of three “donor” communities filed a lawsuit in the Rockingham County Superior Court against the State and the State Department of Revenue Administration (“DRA”) alleging that the uniform education property tax reenacted by Chapter 338 was not proportional and reasonable as required by the State Constitution nor was there any assurance that the revenue generated by the tax would actually help fund a constitutionally adequate public education. The plaintiffs sought a declaratory judgment that the uniform education property tax violated the State Constitution and the United States Constitution, as well as related pronouncements by the State Supreme Court. The plaintiffs challenged the constitutionality of the uniform education property tax on its face under Part II, Article 6, of the New Hampshire Constitution and as applied under Part II, Article 5.

The Superior Court denied the plaintiffs’ request for class status. The case went to trial on October 16, 2000. On January 17, 2001, the Superior Court ruled in this suit that the uniform education property tax enacted pursuant

to Chapter 338, as applied by the State, was unconstitutional for violating part II, articles 5 and 6 of the New Hampshire Constitution, which require that taxes be “proportional and reasonable” and equal in valuation and uniform in rate and that property revaluations occur at least every five years. The court concluded, in part, that, “all of the taxpayers in the State must have their property valued equally, rather than just the total property valuations being equalized across the towns. Equality across individual taxpayers is required to allow the present system to meet the *Claremont* mandates, that any property tax imposed be both ‘proportional and reasonable’ and ‘equal in valuation and uniform in rate.’” The court ruled that the State’s current assessment and equalization procedures did not meet these constitutional standards.

The court ordered that the State reimburse the tax dollars paid and collected since the enactment of Chapter 338, which amount equaled approximately \$880 million. On January 19, 2001, the plaintiff taxpayers filed with the Superior Court a request for clarification as to whether the required repayment was limited to the approximately \$48 million paid by donor communities to the State or the full amount collected pursuant to the uniform education property tax since the enactment of Chapter 338.

On January 29, 2001, the Superior Court ruled that the remedy previously ordered was to repay all monies collected under the uniform education property tax since its enactment, \$880 million. However, the court noted in its decision that, “...the method or manner to satisfy this obligation has neither been agreed to nor ordered. If a hearing on the method or manner of repayment is necessary, the State may raise the issues of repayment, credit, setoff, etc...”

The State appealed the decisions to the New Hampshire Supreme Court which heard oral argument on the State’s appeal on March 15, 2001. On May 3, 2001, the Supreme Court overturned the Superior Court decision and found that the petitioners had not proven that the property tax system was unconstitutional. The Supreme Court also held that the State must institute a system, by 2003, to ensure that all local property assessments are brought to full value at least once every five years pursuant to Part II, Article 6 of the New Hampshire Constitution. Through various legislation, the Legislature and Governor enacted such a system by the end of June 2001.

On May 13, 2001, the petitioners filed a Motion to Reconsider the Supreme Court’s Decision. The State objected by May 24, 2001. The Supreme Court denied the Motion on September 4, 2001.

In addition, on October 24, 2000, another action was filed in the Merrimack County Superior Court. It was a constitutional challenge to the uniform education property tax and the educational funding distribution system established in Chapters 17 and 338. Petitioners are communities and taxpayers that are members of a cooperative school district and are also “donor” communities under the uniform education property tax. They allege that based on the distribution system enacted by the Legislature, they are treated differently than “donor” communities that are not members of a cooperative school district. They also argue that if the distribution system is found to be constitutional, then they should be allowed to renegotiate their cooperative school district allocation formulae. On October 1, 2001, the State moved to dismiss the case as failing to state a claim for which relief may be granted. On October 14, 2001, the petitioners objected. In December, 2001, the Merrimack County Superior Court granted the State’s motion to dismiss the action originally brought in October, 2000. The petitioners in that action did not appeal the dismissal.

In June 2001, in connection with the enactment of the State’s budget for the current biennium ending June 30, 2003, the Legislature passed Chapter 158 of the Laws of 2001 (“Chapter 158”), which became law without the Governor’s signature on July 5, 2001. Chapter 158, in addition to addressing other State revenue matters, reduces the uniform education property tax rate from \$6.60 per \$1,000 of total equalized value to \$5.80 per \$1,000 of total equalized value, and raises certain taxes on businesses to compensate for the reduction in the uniform education property tax rate. Chapter 158 also eliminates the sunset provisions originally enacted in Chapter 17 and Chapter 338 that would have automatically repealed the uniform education property tax and the adequate education grant determination provisions in 2003, and it changes the sunset provision for the education property tax hardship grants imposed by Chapter 338 from July 1, 2003 to July 1, 2002. Chapter 158 also enacts new laws relative to the assessment of property which institute the system that the Supreme Court held must be enacted by 2003.

On September 5, 2001, the plaintiffs in the original school funding matter (*Claremont School District v. Governor*) filed a Motion with the New Hampshire Supreme Court to have the current school funding system declared unconstitutional. The plaintiffs alleged four substantial failures of the State in its attempt to comply with the *Claremont* mandates. The plaintiffs alleged that the State’s definition of an adequate education is insufficient as it provides no details on how an adequate education must be delivered; that the method chosen to establish the per

pupil cost of an adequate education is unconstitutional as it is based on several arbitrary determinations; that there is no system in place to ensure delivery of an adequate education; and that the system enacted results in disproportional taxation because the per pupil adequacy amount is arbitrarily low causing local districts to have to fund some portion of the State's responsibility. The plaintiffs asked the Court to permit the current plan to remain in effect only through June 2002, in order to allow time for the Legislature to craft another solution. The State, on October 5, 2001, filed an Objection to the plaintiffs' Motion defending the new legislation and requesting that the Supreme Court dismiss the case.

On December 4, 2001, the Supreme Court issued an order dismissing all of the plaintiffs' claims except the one alleging that the State's definition of an adequate education is insufficient. In its order, the Supreme Court requested legal memoranda by December 21, 2001, on the issue of whether the Supreme Court should invoke its continuing jurisdiction to determine if the State has met its obligation to define an adequate education. The State filed a legal memorandum arguing that the Court should not invoke its continuing jurisdiction and the plaintiffs filed one arguing that the Court should invoke its continuing jurisdiction. Oral argument was held on this issue on January 3, 2002.

On January 8, 2002, the Supreme Court issued an order invoking its continuing jurisdiction and asked two questions: (1) whether the State's obligation to provide a constitutionally adequate public education under Part II, Article 83, of the New Hampshire Constitution requires the State to include standards of accountability in New Hampshire statutes, regulations and/or rules; and if so, (2) whether existing statutes, regulations and/or rules satisfy this obligation.

The State and the plaintiffs filed legal memoranda on these issues on February 1, 2002. The State argued that it is required by the Constitution to have a system to deliver an adequate education but that no specific components or specific performance standards are required. The State also argued that the current system to deliver education in New Hampshire does meet the constitutional requirement and does have performance standards. The plaintiffs argued that because the State's system was created before *Claremont II* was decided and a new system has not been instituted, the current system does not meet the requirements of the Constitution. The plaintiffs also argue because the State has no specific performance standard which shows whether a school district is delivering an adequate education, the current system is unconstitutional.

On April 11, 2002, the Supreme Court issued its decision declaring that accountability is an essential component of the State's duty to provide an adequate education and that the existing statutory scheme has deficiencies that are inconsistent with the State's duty. The Supreme Court held that the State could use either an input based or an output based delivery system in meeting its duty. However, the Supreme Court found that the current input based system fails because it allows school districts to not comply with the system for lack of financial resources. The current output based system fails because the State has not established a standard for determining when a school district is providing an adequate education and does not have a sufficient mechanism to require that school districts deliver an adequate education. The Supreme Court's conclusion was that the State "needs to do more work" on creating a delivery system. There was no timeline imposed in the decision for the completion of the delivery system.

*LBA Audit.* The Office of the Legislative Budget Assistant ("LBA") recently performed an audit of the Department of Education ("DOE") which included a review of the calculation of the cost of an adequate education for the years 1999 – 2001. In its report to the Legislature's Fiscal Committee, which was released publicly on February 13, 2002, LBA made three observations regarding the calculation.

The first observation is that in calculating the statewide base expenditure per pupil in the first biennium, the city of Nashua was included in the sample of municipalities whose school costs would be used to determine the base expenditure. Pursuant to the statute, the sample should include schools with grades 1-8. Nashua's primary school financial information includes 9th graders. DOE included the costs for educating the 9th graders but did not include the student numbers in the attendance figures. The result is that this overstated Nashua's cost to educate its primary school students.

The second observation is that in calculating the statewide base expenditure per pupil in the first biennium, the October 1997 enrollment numbers were used to determine which schools were included in the sample of schools whose costs were used to determine the base expenditure. Pursuant to the statute, the average daily membership in attendance numbers should be used for this calculation.

The third observation is not based on a misapplication of the statute. In fact, it is based on the actual impact of a literal application of the statutory language of the formula. In calculating the statewide base expenditure per pupil in the first biennium, the statute requires that certain amounts, including “tuition to other school districts or approved education programs” and “special education costs,” be deducted from the total expenditures of the school districts to determine which schools are included in the sample from which the base expenditure is derived. Because DOE followed the statutory language, DOE deducted both of these amounts. LBA found that there may have been a double deduction of some special education expenses because some school districts may have reported the same cost in both categories.

LBA states that the first two observations could have resulted in the State overpaying the total cost of an adequate education in each of the years of the first biennium by approximately \$11.2 million and the third observation could have resulted in the State underpaying the total cost of an adequate education in each of the years of the first biennium by approximately \$16 million.

The Fiscal Committee of the Legislature met on March 13, 2002 and discussed the report, but recommended no additional action. The Office of the Attorney General disagrees with certain of the legal conclusions contained in the report. As of the date of this Supplement, there are no pending or threatened claims against the State alleging that it is liable to school districts or students for additional monies to pay for the cost of an adequate education, nor is the State contemplating action to recoup possible overpayments made to school districts. The State is unable to predict the likelihood of success of any such claim that might be brought. As of the date of this Information Statement, in response to the report, one school district has asked the Commissioner of the Department of Education and the State Treasurer to pay approximately \$146,000 to it representing an alleged underpayment for the 1997-1998 period. The matter is under review by the Office of the Attorney General.

On July 29, 2002, the Claremont plaintiffs filed a Motion for Attorneys' Fees with the Supreme Court alleging that the motion that they filed in September 2001 challenging, among other things, the State's system to deliver an adequate education and the resulting Supreme Court decisions resulted in a public benefit for which they should be awarded approximately \$60,000 in attorneys' fees. The plaintiffs request that a mediator be appointed to determine the reasonableness of their fee request. The State expects to file an objection by August 8, 2002. The State is not able to predict the outcome of this matter at this time but the State's maximum exposure for this claim is approximately \$60,000.

## STATE INDEBTEDNESS

### Debt Management Program

The State has a debt management program, one purpose of which is to avoid the issuance of short-term debt for operating purposes. (See “Temporary Loans” for information on recent short-term debt issuances.) Another purpose of the State’s debt management program is to hold long-term tax-supported debt to relatively low levels in the future. An additional purpose is to coordinate the issuance of tax-exempt securities by the State, its agencies and public authorities.

### Authorization and Classification of State Debt

The State has no constitutional limit on its power to issue obligations or incur indebtedness and there is no constitutional requirement that a referendum be held prior to the incurrence of any such debt. The authorization and issuance of State debt, including the purpose, amount and nature thereof, the method and manner of the incurrence of such debt, the maturity and manner of repayment thereof, and security therefor, are wholly statutory.

Pursuant to various general or special appropriation acts, the Legislature has from time to time authorized the State Treasurer, with the approval of the Governor and Council, to issue bonds or notes for a variety of specified projects or purposes. In general, except for the Turnpike System revenue bonds, such borrowing constitutes general obligation debt of the State for which its full faith and credit are pledged but for the payment of which no specific State revenues are segregated or pledged. There is general legislation, however, under which the Governor and Council may authorize the State Treasurer to issue revenue bonds for revenue-producing facilities and to pledge the revenue from such facilities for the payment of such bonds. On several occasions, moreover, the Legislature has authorized and the State has issued debt which, while a general obligation of the State, additionally bears a guarantee that the State shall maintain a certain level of specified State receipts. The Legislature has also authorized the guarantee of certain obligations issued by political subdivisions of the State and by various State agencies, which guarantee constitutes a pledge of the State’s full faith and credit, and has authorized two State-wide agencies to incur debt for the financing of revenue producing projects and programs and authorized such agencies to create certain funds which may be maintained by State appropriation (see “Agencies, Authorities and Bonded or Guaranteed Indebtedness”). However, most of this indebtedness is supported by revenues produced by the project or entity for which the debt was issued. Consequently, such self-supported debt is not considered net General Fund debt of the State.

The Legislature has also authorized certain State agencies to issue revenue bonds for various projects, including industrial, health, educational and utility facilities. Except to the extent that State guarantees may be awarded for certain bonds of the New Hampshire Business Finance Authority and the Pease Development Authority, indebtedness of those agencies does not constitute a debt or liability of the State.

**Debt Statement**

The following table sets forth the debt of the State as of June 30, 2002.

**Debt Statement as of June 30, 2002 (Unaudited)**  
(In Thousands)

General Obligation Bonds:		
General Improvement.....	\$445,259	
Turnpike <sup>(1)</sup> .....	22,185	
Highway.....	33,672	
University System of New Hampshire.....	<u>109,490</u>	
Total Direct General Obligation Debt.....		\$610,606
Revenue Bonds:		
Turnpike System <sup>(2)</sup> .....		326,215
Contingent (Guaranteed) Debt:		
Water Pollution Control Bonds issued by Political Subdivisions.....	52,916	
Business Finance Authority.....	46,800	
Manchester Airport.....	0	
Local School District School Bonds.....	33,083	
Pease Development Authority Revenue Bonds.....	0	
Local Landfill Bonds.....	755	
Division of Water Resources Board.....	0	
Housing Finance Authority-Child Care Providers.....	<u>0</u>	
Total Contingent Debt.....		<u>133,554</u>
Total Debt.....		1,070,375
Less: Self-Supporting and Contingent Debt:		
General Fund Self-Supporting Debt <sup>(3)</sup> .....	27,108	
Turnpike System Revenue Bonds.....	326,215	
Turnpike System General Obligation Bonds.....	22,185	
Highway.....	33,672	
University System of New Hampshire <sup>(4)</sup> .....	6,410	
Water Pollution Control Bonds.....	52,916	
Business Finance Authority.....	46,800	
Manchester Airport.....	0	
Local School District School Bonds.....	33,083	
Pease Development Authority General Obligation Bonds <sup>(5)</sup> .....	34,605	
Pease Development Authority Revenue Bonds.....	0	
Local Landfill Bonds.....	755	
Other <sup>(6)</sup> .....	<u>1,973</u>	
Total Self-Supporting and Contingent Debt.....		<u>585,722</u>
Total Net General Fund Debt <sup>(7)</sup> .....		<u>\$ 484,653</u>

(Columns may not add to totals due to rounding.)

<sup>(1)</sup> In accordance with the statutes authorizing the issuance of general obligation bonds for turnpike purposes, the State Treasurer has established accounts into which Turnpike tolls are deposited, after deduction for payments of all expenses of operation and maintenance of the Turnpike System, payments of debt service on Turnpike System revenue bonds, and the funding of reserves and other payments required by the General Bond Resolution securing the revenue bonds. The monies deposited in such accounts are reserved but not pledged by statute for the payment of the principal and interest on the bonds issued for the respective roadways. To the extent the balance in such funds is insufficient to pay such principal and interest, the Governor is authorized to withdraw funds from the Highway Fund, to the extent available, and then from the General Fund.

- (2) Turnpike System revenue bonds are limited obligations of the State payable solely out of net revenues of the Turnpike System. Neither the full faith and credit nor the taxing power of the State is pledged for the payment of the Turnpike System revenue bonds.
- (3) Includes bonds paid from General Fund restricted revenues (primarily user fees, criminal penalty assessments and lease revenues).
- (4) In accordance with State statutes, the Board of Trustees of the University System maintains special funds and accounts for the deposit of dormitory rentals and income from housing facilities, dining halls, student unions, bookstores and other capital improvements constructed with the proceeds of such bonds. Revenues so deposited are used for the payment to the State Treasurer of amounts equal to the annual principal and interest requirements of the bonds issued by the State to construct such facilities. The Legislature has anticipated that such income will be sufficient to pay all debt service requirements on such bonds.
- (5) Includes \$8.2 million general obligation bonds paid by the State. If the Authority has sufficient funds, these bonds will be paid by the Authority.
- (6) Includes, among others, bonds paid from the Fish and Game Fund and other self supporting debt.
- (7) Net General Fund debt is debt for which debt service payments are made directly by the State from its taxes and other unrestricted General Fund revenues.

The State's debt management program has resulted in the State maintaining relatively low debt levels in recent years. The fiscal year 2002 information is unaudited and represents preliminary estimates. The table below sets out the State's debt ratios over the past five years.

**Certain General Obligation Debt Statistics  
(Dollars in Thousands)**

	June 30,				
	1998	1999	2000	2001	2002
Direct General Obligation Debt.....	\$592,442	\$584,313	\$576,763 <sup>(4)</sup>	\$610,536 <sup>(4)</sup>	\$610,606
Contingent (Guaranteed) Debt.....	228,900	195,583	198,080	187,021	133,554
Less: Self-Supporting Debt.....	<u>(370,068)</u>	<u>(332,068)</u>	<u>(327,635)</u>	<u>(314,048)</u>	<u>(259,507)</u>
<b>Total Net General Fund Debt .....</b>	<b><u>\$451,274</u></b>	<b><u>\$447,828</u></b>	<b><u>\$447,208</u></b>	<b><u>\$483,509</u></b>	<b><u>\$484,653</u></b>
Per Capita Debt <sup>(1)</sup> :					
Direct General Obligation Bonds .....	\$500	\$487	\$467	\$485	\$485
Net General Fund Debt.....	380	373	362	384	385
Ratio of Debt to Personal Income <sup>(1)</sup> .....					
Direct General Obligation Bonds .....	1.7%	1.5%	1.4%	1.4%	1.4%
Net General Fund Debt.....	1.3	1.2	1.1	1.1	1.1
Ratio of Debt to Estimated Full Value:					
Direct General Obligation Bonds .....	0.8%	0.8%	0.7%	0.7%	.7%
Net General Fund Debt.....	0.6	0.6	0.5	0.6	.6
General Fund Unrestricted Revenues <sup>(2)</sup> .....	\$963,800	\$1,023,500	\$1,033,447	\$1,142,899	\$1,146,300
Debt Service Expenditures <sup>(3)</sup> .....	61,058	65,061	68,502	66,743	69,570
Debt Service as a Percent of General Fund Unrestricted Revenues.....	6.3%	6.4%	6.6%	5.8%	6.1%
Population (in thousands) .....	1,185	1,201	1,235	1,259	1,259
Total Personal Income (in millions) .....	\$34,943	\$38,379	\$41,126	\$42,721	\$42,721
Estimated Full Value (in thousands).....	\$70,012,523	\$70,900,000	\$83,306,280	\$99,862,834	\$99,862,834

- (1) Based on U.S. Department of Commerce and U.S. Bureau of the Census estimates for population and personal income.
- (2) For fiscal years 1998 through 2002, excludes medicaid enhancement revenues to fund net appropriation for uncompensated care pool. Fiscal year 2002 revenue is unaudited.
- (3) Debt service on Net General Fund Debt.
- (4) Includes \$50 million outstanding commercial paper. See "Temporary Loans."

**Rate of Debt Retirement  
(as of June 30, 2002)**

	<u>General Obligation Debt</u>	<u>Net General Fund Debt</u>
5 years.....	46%	45%
10 years.....	79	78
15 years.....	93	93
20 years.....	100	100

**Recent Debt Issuances**

In recent years, the State has issued bonds and bond anticipation notes for a variety of authorized purposes, including turnpike construction, highway construction and other capital construction. The following table compares the amount of issuances and retirements of direct State general obligation indebtedness for each of the past five fiscal years. The fiscal year 2002 information is unaudited and represents preliminary estimates.

**Issuances and Retirements of Direct General Obligation Debt  
(In Thousands)**

	<u>Fiscal Year Ended June 30,</u>				
	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>
Beginning Debt.....	\$614,870	\$592,442	\$584,313	\$576,763	\$610,536
Bonds Issued .....	0	180,250	0	90,000	105,130
Bond Anticipation Notes Issued .....	<u>30,000</u>	<u>10,000</u>	<u>50,000</u>	<u>50,000</u>	<u>0</u>
Total Net Debt.....	<u>644,870</u>	<u>782,692</u>	<u>634,313</u>	<u>716,763</u>	<u>715,666</u>
Less: Bonds Paid .....	52,428	57,899	57,550	56,227	55,060
Defeasance .....	0	100,480	0	0	0
Bond Anticipation Notes Paid .....	<u>0</u>	<u>40,000</u>	<u>0</u>	<u>50,000</u>	<u>50,000</u>
Ending Debt.....	<u>\$592,442</u>	<u>\$584,313</u>	<u>\$576,763</u>	<u>\$610,536</u>	<u>\$610,606</u>

**Schedule of Debt Service Payments**

The following table sets forth the projected principal and interest requirements of all general obligation bonds of the State at June 30, 2002.

**Direct General Obligation Debt  
as of June 30, 2002<sup>(1)</sup> (unaudited)  
(In Thousands)**

<u>Fiscal Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2003 .....	\$ 63,059	\$ 33,210	\$ 96,270
2004 .....	60,476	32,721	93,197
2005 .....	56,301	31,055	87,356
2006 .....	53,183	28,168	81,351
2007 .....	49,581	25,298	74,879
2008 .....	47,132	22,953	70,085
2009 .....	46,657	21,890	68,547
2010 .....	41,120	20,417	61,537
2011 .....	37,316	18,341	55,657
2012 .....	29,440	13,013	42,453
2013 .....	24,993	8,551	33,544
2014 .....	18,918	6,689	25,608
2015 .....	16,360	10,790	27,151
2016 .....	13,390	7,328	20,718
2017 .....	12,274	4,698	16,973
2018 .....	10,600	1,668	12,268
2019 .....	10,600	1,158	11,758
2020 .....	7,600	725	8,325
2021 .....	7,600	365	7,965
2022 .....	<u>4,000</u>	<u>92</u>	<u>4,092</u>
Total	<u>\$610,606</u>	<u>\$289,139</u>	<u>\$899,745</u>

<sup>(1)</sup> Columns may not add to totals due to rounding.

**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. The State last issued revenue anticipation notes during fiscal year 1991, in an amount of \$40 million. No revenue anticipation notes were issued in fiscal years 1992 through 2002. See also "STATE FINANCES – Fiscal Year 2003 Budget."

In general, the State Treasurer, with the approval of the Governor and Council, is authorized to issue bond anticipation notes maturing within five years of their dates of issue. Refunding notes must be paid within five years of the dates of issue of the original notes.

The State Treasurer established a commercial paper program during Fiscal Year 1998 for the purpose of issuing bond anticipation notes. As of the date of this Information Statement, no commercial paper is outstanding. The maximum amount of commercial paper to be outstanding at any time is currently \$50 million.

## Authorized But Unissued Debt

As of July 1, 2002 the State had statutorily authorized but unissued direct general obligation debt in the total principal amount of \$153.2 million (unaudited), under various laws. This amount does not include the State's Turnpike System authorizations or statutorily authorized guarantees, nor its authority to issue bonds in lieu of all or a portion of the State's guarantee of bonds of the Pease Development Authority.

The State has various guarantee programs, which are described under the caption "Agencies, Authorities and Bonded or Guaranteed Indebtedness" below. The statutes authorizing the guarantee programs require approval by the Governor and Council of any award of a State guarantee. In addition, statutory limitations apply to all of the guarantee programs, but they vary in two major respects. First, the limit may be either on the total amount guaranteed or on the total amount guaranteed that remains outstanding at any time; the latter is a revolving limit, allowing additional guarantees to be awarded as guaranteed debt is retired. Second, the statutory dollar limit may represent either the total amount of principal and interest or only the total amount of principal that may be guaranteed; in the latter case interest on that principal amount may also be guaranteed but is not otherwise specifically limited. As of June 30, 2002 the remaining unused guarantee authorizations under the various statutory limitations were as follows:

<u>Purpose</u>	<u>Guarantee Limit</u>	<u>Remaining Guarantee Capacity</u>
Local Water Pollution Control Bonds	\$175.0 million <sup>(1)(2)</sup>	\$105.6 million
Local School Bonds	75.0 million <sup>(1)(2)</sup>	29.4 million
Local Superfund Site Bonds	50.0 million plus interest	50.0 million plus interest
Local Landfill and Waste Site Bonds	30.0 million <sup>(1)(2)</sup>	29.0 million
Business Finance Authority Bonds, Loans	95.0 million plus interest <sup>(1)</sup>	48.2 million
Pease Development Authority	85.0 million plus interest	46.4 million
Division of Water Resources Bonds	5.0 million plus interest	5.0 million plus interest
Housing Finance Authority Child Care Loans	0.3 million (principal only)	0.3 million

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<sup>(1)</sup> Revolving limit.

<sup>(2)</sup> Limit applies to total principal and interest.

## Capital Budget

The following table sets out the State's capital appropriations as amended for the 2002-2003 biennium.

<b>Biennium Capital Budget</b>	<b>Biennium Ending <u>June 30, 2003</u></b>
Adjutant General .....	\$ 38,990,700
Administrative Services .....	19,921,976
Agriculture.....	200,000
Community-Technical College System.....	6,804,230
Corrections.....	100,000
Cultural Resources.....	600,000
Education .....	10,597,500
Environmental Services.....	6,914,674
Health & Human Services.....	11,650,000
Liquor Commission.....	1,278,000
Resources & Economic Development .....	1,977,200
Courts.....	3,500,000
Justice.....	270,800
Revenue Adm .....	530,000
Transportation.....	26,443,000
Veteran's Home.....	190,000
Youth Development Services.....	915,000
Retirement .....	5,250,000
University System of New Hampshire <sup>(1)</sup> .....	38,000,000
Fish & Game.....	200,000
Safety .....	<u>4,111,900</u>
Gross Appropriations .....	178,444,980
Less-Federal, Local & Other Funds.....	<u>48,863,700</u>
Net Bonds Authorized .....	<u>\$ 129,581,280</u>
 <b>Funding of Bonds</b>	
Highway Funded .....	17,880,500
Other Funded .....	5,587,400
General Funded .....	106,113,380
Net Bonds Authorized.....	<u>\$129,581,280</u>

<sup>(1)</sup> An additional \$31 million has been appropriated for this purpose for the bienniums ending June 30, 2005 and June 30, 2007 for a grand total of \$100 million.

In addition to the capital budget, Chapter 348 of the Laws of 1997, as amended, appropriates a total of \$28,500,000 for the Kindergarten Construction Program over a seven-year period. This appropriation is non-lapsing and shall not exceed \$6 million for the biennium ending June 30, 1999; \$5 million for fiscal year 2000; \$5 million for fiscal year 2001; \$6.5 million for fiscal year 2002; \$2 million for fiscal year 2003 and \$4 million for fiscal year 2004. The Department of Education is authorized to make grants available to eligible districts that currently do not operate a kindergarten program for 75% of the cost of construction, exclusive of site acquisition. This appropriation is funded with general obligation bonds.

### Agencies, Authorities and Bonded or Guaranteed Indebtedness

Described below are the principal State agencies or programs for which the State (a) issues revenue bonds, (b) provides State guarantees of payments of indebtedness, or (c) issues general obligation bonds supported in whole or in part by restricted revenues, rather than taxes or unrestricted General Fund revenues. (A summary of the State guarantee programs is also provided under the caption "Authorized But Unissued Debt" above.) Also described briefly below are

the other independent State authorities that issue revenue bonds and notes that do not constitute a debt or obligation of the State.

*New Hampshire Turnpike System.* Effective July 1, 1971, the New Hampshire Turnpike System was established to administer certain toll highways in the State. State statutes establishing the Turnpike System require the collection of tolls on such turnpikes and improvements or extensions thereof at levels sufficient to pay expenses of operations and maintenance and to pay debt service on general obligation bonds issued for Turnpike System purposes. Payment of debt service on such general obligation bonds from Turnpike System revenues is subordinate, however, to payments required with respect to Turnpike System revenue bonds.

Chapter 237-A of the New Hampshire Revised Statutes Annotated, as amended, provides for the issuance by the State Treasurer of revenue bonds of the State for the Turnpike System in such amounts as the Governor and the Council shall determine, from time to time, subject to the current statutory limit of \$586.05 million (excluding bonds issued for refunding purposes). RSA 237-A expressly provides that the bond resolution authorizing Turnpike System revenue bonds may include provisions setting forth the duties of the State in relation to the fixing, revision and collection of tolls and further provides that the State has pledged to perform all such duties as set forth in such bond resolution. Turnpike System revenue bonds constitute limited obligations of the State, and the State has not pledged its full faith and credit for the payment of such bonds. Approximately \$326.2 million of such bonds were outstanding as of June 30, 2002.

*The University System of New Hampshire.* The University System is a body politic and corporate created by State law under the control and supervision of a 25 member board of trustees. The board of trustees is entrusted with the management and control of all property comprising the University System and maintains the financial affairs of the University System separate and apart from the accounts of the State. Income received by the University System, except where specifically segregated, is retained by the University System for its general purposes. State statutes additionally provide for annual appropriations by the Legislature to be used for the general purposes of the University System. General obligation bonds issued by the State for the construction of capital improvements at the University System are supported in part by revenues from the University System. Approximately \$109.5 million of such bonds were outstanding June 30, 2002, of which \$6.4 million are self-supporting from dormitory rentals and other income. The University System has the power to borrow through the issuance of revenue bonds for dormitory or other housing facility purposes by the New Hampshire Higher Educational and Health Facilities Authority, without pledging the full faith and credit of the State or the University System for payment.

*State Guaranteed Local Water Pollution Control Bonds.* The State's programs for the protection of adequate water supplies and the control and elimination of water pollution are under the supervision of the Department of Environmental Services' Water Division. In order to assist municipalities in the financing of sewerage systems and sewage treatment and disposal plants for the control of water pollution, the Governor and Council are authorized to guarantee unconditionally as a general obligation of the State the payment of all or some portion of the principal of and interest on bonds or notes issued by any town, city, county or district for construction of such facilities. The outstanding State guaranteed amount of principal and interest of such bonds and notes may not exceed \$175 million. As of June 30, 2002, \$69.4 million of principal and interest was guaranteed under this program.

In addition, the Legislature has provided in RSA 486 that the State shall pay annually an amount equal to 20% of the yearly principal and interest expense on the original costs resulting from the acquisition and construction of sewage disposal facilities by counties, cities, towns or village districts in the State and, with respect to certain specified facilities, the State shall pay annually an amount, after completion thereof, equal to the yearly principal and interest expense on the remaining portion of the eligible costs (after application of available federal funds and the 5% local share). Such assistance payments are made to the municipalities, are not binding obligations of the State and require appropriation by the Legislature.

*New Hampshire Department of Environmental Services-Water Division.* The Department of Environmental Services' Division of Water Resources (formerly the New Hampshire Water Resources Board) is charged with authority to construct, maintain and operate reservoirs, dams and other waterworks systems (including hydro-energy production facilities) and to charge and collect fees and tolls for the use of water and other services supplied by the division. Projects constructed by the division are intended to be self-liquidating and self-supporting through user fees. The division is authorized to issue self-supporting revenue bonds from time to time for the acquisition and construction of projects and, except to the extent guaranteed by the State as described below, such bonds shall not constitute a debt of the State but are payable solely from the revenues of the projects.

The Governor and Council are authorized to guarantee the payment of the principal and interest of not more than \$5 million principal amount of bonds issued by the division. The full faith and credit of the State are pledged for such guarantee. As of June 30, 2002, no debt is guaranteed under this program.

*State Guaranteed Local School Bonds.* The Governor with the advice and consent of the Council may agree to award an unconditional State guarantee for the payment of not more than \$75 million of the principal and interest on bonds or notes issued by school districts for school projects of not less than \$100,000 involving construction, enlargement or alteration of school buildings. The supervision of the guarantee program is the responsibility of the New Hampshire School Building Authority, consisting of the State Treasurer, the State Commissioner of Education and three members appointed by the Governor and Council. Guarantees may be awarded on either a split issue basis, where the payment of not in excess of 75% of the aggregate principal amount of bonds issued for a project and interest thereon may be guaranteed, or on a declining balance basis, where a specified percentage of the principal of and interest on each bond or note issued is guaranteed. The full faith and credit of the State are pledged to such guarantees. As of June 30, 2002, \$45.6 million of principal and interest was guaranteed under this program.

*State Guaranteed Local Superfund Site Bonds and Landfill and Waste Site Bonds.* The Governor with the advice and consent of the Council may award an unconditional State guarantee for the payment of not more than \$50 million in aggregate principal amount (plus the interest thereon) of bonds issued by municipalities in the State for costs of cleanup of "superfund" hazardous waste sites for which the municipalities are named potentially responsible parties (including bonds issued by a municipality on behalf of other potentially responsible parties at the same site). No bonds have been guaranteed under this program.

In addition, the Governor and Council may award an unconditional State guarantee for the payment of principal and interest on bonds issued by municipalities in the State for closing or cleanup of landfills, other solid waste facilities or hazardous waste sites. The outstanding State guaranteed amount of principal and interest on such bonds may not exceed \$30 million at any one time. As of June 30, 2002, \$1.0 million of principal and interest was guaranteed under this program.

*New Hampshire Business Finance Authority.* The Legislature created the Business Finance Authority of the State of New Hampshire (formerly the Industrial Development Authority) as a body politic and corporate as an agency of the State to provide financial assistance to businesses and local development organizations in the State. Legislation enacted in 1992 and 1993 significantly expanded the power of the Authority, with the concurrence of the Governor and Council, to issue State guaranteed bonds and to award State guarantees of other indebtedness for the purpose of promoting business development in the State.

In order to carry out its programs, the Authority was authorized to issue up to \$25 million in principal amount of bonds as general obligations of the Authority, the principal of and interest on which is guaranteed by the State. The Authority issued \$25 million State-guaranteed bonds in November, 1992, of which \$13.7 million remained outstanding as of June 30, 2002. In April, 2002, the Authority issued an additional \$10 million of State guaranteed bonds, half of which were used to refund 1992 bonds.

The Authority was authorized until June 30, 2002, to issue revenue bonds that are limited obligations of the Authority secured solely by specified revenues and assets. The principal of and interest on up to \$15 million in principal amount of the Authority's revenue bonds may be guaranteed by the State with the approval of the Governor and Council; \$5.6 million of such guaranteed revenue bonds are currently outstanding. In addition, the Authority was previously authorized to issue State-guaranteed revenue bonds for capital improvements to Manchester Airport. The Authority issued State guaranteed bonds for the Manchester Airport project in 1992 in the principal amount of \$42.7 million. All of such remaining State guaranteed bonds were redeemed on January 1, 2002 with the proceeds of general airport revenue bonds issued by the City of Manchester. The State has no further liability with respect to such bonds.

The Authority may also recommend that the Governor and Council award state guarantees of certain indebtedness of businesses, but the total principal amount of indebtedness guaranteed, when combined with the outstanding principal amount of State guaranteed bonds of the Authority, may not exceed \$95 million at any time. As of June 30, 2002, \$17.5 million of State-guaranteed loans were outstanding under those Authority programs. The Authority expects that over the next five years it will seek Governor and Council approval of State bond and loan guarantees at or near the maximum authorized amount.

In addition to its loan and guarantee programs, the Authority is also authorized to issue notes or bonds for the construction of industrial facilities, and certain commercial, recreational, railroad, small scale power and other facilities, for lease or sale to specific private entities. Except for the guaranteed bonds described above, such bonds or notes are not a debt or obligation of the State and no State funds may be used for their payments.

*Pease Development Authority.* The Pease Development Authority was established in 1990 to develop and implement a comprehensive conversion and redevelopment plan relating to the Pease Air Force Base. The Authority is authorized to issue bonds, not exceeding in the aggregate \$250 million, and the Governor and Council may award an unconditional State guarantee to secure up to \$85 million in principal amount plus interest on those bonds. In August 1992 the Authority issued \$10 million State-guaranteed bonds to finance improvements, equipment and working capital for Business Express, Inc. ("BEX") and a related corporation in connection with BEX's lease and operation of facilities at the Pease International Tradeport. An involuntary petition in bankruptcy was filed in January, 1996 by BEX creditors, which BEX converted to a reorganization proceeding under Chapter 11 of the Bankruptcy Code. BEX defaulted on its obligations under the bond documents and during its bankruptcy proceedings ceased its operations at Pease. In December, 1996, the State accelerated the bonds and refinanced its guarantee obligation. As a result of the confirmed plan of reorganization of BEX, the State has received approximately \$2.1 million to date and currently expects to receive no further distributions under the plan.

In addition, a \$1.0 million State-guaranteed bond was issued, for Atlantic Coast Airlines, which has now ceased operations at Pease. It did not default on its loan and repaid the remaining principal balance of approximately \$682,000 on July 2, 1997. The State is authorized to issue up to \$50 million general obligation bonds in lieu of a portion of the guarantee, with the maximum amount to be guaranteed then reduced by the amount of such bonds issued by the State. In April 1993 the State issued \$30 million of general obligation bonds for a project at the Tradeport consisting of construction and acquisition of certain manufacturing facilities to be leased to Celltech Biologics, Inc. (Celltech was acquired in June, 1996 by a British subsidiary of Alusuisse-Lonza of Switzerland, and is now called Lonza Biologics, Inc.) The State has also issued \$7.6 million of general obligation bonds in lieu of state guarantees to make loans to the Pease Development Authority with respect to its operations.

*New Hampshire Housing Finance Authority.* The New Hampshire Housing Finance Authority is a body politic and corporate having a distinct existence separate from the State and not constituting a department of State government. The Authority is generally authorized to provide direct construction and mortgage loans for residential housing and to make loans to and to purchase loans from lending institutions in order to expand available mortgage funds in the State. In order to carry out its corporate purposes, the Authority is authorized to issue its bonds or notes in an amount outstanding at any one time not to exceed \$1.4 billion. Such bonds or notes are general obligations of the Authority, but do not constitute a debt or obligation of the State. As additional security for any of its bonds, the Authority is authorized to establish one or more reserve funds and to maintain in each fund for a specific series of bonds a bond reserve fund requirement established by resolution of the Authority in an amount not to exceed one year's debt service on the bonds secured by such fund. The chairman of the Authority is directed to request an appropriation of the sum, if any, needed to maintain the bond reserve funds at their required levels. Amounts so requested are subject to appropriation by the Legislature and do not constitute a debt of the State.

Legislation enacted in 1989 authorizes the Authority to issue certificates of guarantee equal to 50% of the principal of loans made to eligible child care agencies or organizations, such principal guarantee not to exceed \$10,000 per recipient. The full faith and credit of the State are pledged for such guarantees, provided that the total obligation of the State shall at no time exceed \$300,000. As of June 30, 2002, no outstanding debt was guaranteed under this program.

*New Hampshire Municipal Bond Bank.* The New Hampshire Municipal Bond Bank was established by the State in 1977 for the purpose of aiding local governmental units in the financing of public improvements. The powers of the Bank are vested in a board of five directors, including the State Treasurer and four members appointed by the Governor and Council. The Bank is authorized to issue revenue bonds in unlimited principal amount and to make loans to political subdivisions of the State through the purchase by the Bank of general obligation bonds and notes of the political subdivisions. The obligations of the political subdivisions bear interest at a rate equal to the rate on the Bank's bonds plus administrative costs. Bonds of the Bank do not constitute a debt or obligation of the State. The Bank is authorized to establish one or more reserve funds to additionally secure its bonds and is directed to request such appropriations from the Legislature as are necessary to (1) maintain such reserve funds at required cash levels or (2) reimburse the payor of any sums paid by such payor under any insurance policy, letter or line of credit or other credit facility maintained by the Bank for the purpose of meeting the reserve fund requirements in lieu of the deposit of cash.

Amounts so requested are subject to appropriation by the Legislature and do not constitute a debt of the State. See also "SCHOOL FUNDING."

The Bank is also authorized to issue revenue bonds in unlimited principal amount for small scale power facilities and to make loans to public utilities and to certain elementary and secondary educational institutions through the purchase by the Bank of bonds of such public utilities and educational institutions. Such bonds are issued through a separate division of the Bank and are not a debt or obligation of the State and no State funds may be used for their payment.

*New Hampshire Health and Education Facilities Authority.* This authority, formerly known as the New Hampshire Higher Educational and Health Facilities Authority, was established to provide financing for the State's private colleges and hospitals; the Authority can now also provide financing for the University System. The State is not directly or indirectly responsible for any obligations of this Authority issued for private entities. Moreover, bonds issued for the University System by the Authority constitute limited obligations of the University System payable solely from designated revenues.

## **STATE RETIREMENT SYSTEM**

Prior to 1967 four separate retirement systems were operated by the State involving State employees and State and local teachers, police officers and firefighters. Effective July 1, 1967, these four systems were combined under a common board of trustees in a new system known as the New Hampshire Retirement System (the "System") to include all employees hired subsequent to such time and all members of the prior systems electing to transfer to the new system. At June 30, 2002, after taking account of such transfers, there were approximately 53,200 active and inactive members and 16,250 retired members of the System.

The financing of the System as well as its predecessor programs is provided through both employee contributions and political subdivision and State employer contributions. The State's normal contribution rate is based on the actuarial valuation of the amount necessary to provide the State annuity for current service.

The State funds 100% of the employer cost for all State employees and 35% of the employer cost for teachers, firefighters and police officers employed by political subdivisions. The total State contribution increased from approximately \$33.8 million in fiscal year 2001 to approximately \$36.4 million in fiscal year 2002. The Board of Trustees of the System has certified employer contribution rates that would result in total contributions by the State during fiscal year 2003 approximately equal to those during fiscal year 2002.

In addition to providing pension benefits, the State provides certain health care insurance benefits for retired employees. These benefits include group hospitalization, hospitable medical care and surgical care. Substantially all of the State's employees may become eligible for these benefits if they reach normal retirement age while working for the State and receive their pension on a periodic basis rather than a lump sum. The State recognizes the cost of providing these benefits by paying the entire annual insurance premiums with minor contributions offset by members and a portion paid by the New Hampshire Retirement System's Group II medical premium subsidy. For the first time, in fiscal year 2002, a portion (\$6.4 million) was also paid by the New Hampshire Retirement System for Group I members to offset the cost of medical premiums. The State paid approximately \$35 million of annual insurance premiums for approximately 7,559 State retirees and their beneficiaries for the fiscal year ended June 30, 2002.

As of June 30, 2001, the net assets available to pay pension benefits of the combined retirement programs, at market value, were reported by the System to be \$3.46 billion. The total accumulated benefit obligation at June 30, 2001 was \$3.51 billion, resulting in an unfunded liability at June 30, 2001 of \$56.6 million.

As of June 30, 2002, the net assets available to pay pension benefits of the combined retirement programs, at fair value, were estimated by the System to be \$3.17 billion. The total accumulated benefit obligation at June 30, 2002 is estimated to be \$3.82 billion, resulting in an estimated unfunded liability at June 30, 2002 of approximately \$653.7 million. All of the June 30, 2002 information is unaudited and subject to change.

In addition to the regular pension benefit obligations described above, the State has medical insurance benefit obligations, which are described in Note 8 of Exhibit A. That Note also contains a more complete description of the System and other employee benefit plans.

## **EMPLOYEE RELATIONS**

The State Employees' Association of New Hampshire Inc.-SEIU Local 1984 (the "SEA") is the exclusive bargaining representative of the majority of classified (merit system) employees in the State with the exception of sworn non-commissioned employees of the Division of State Police, who are represented by the New Hampshire Troopers Association (the "Troopers"). The employees of the University System are not included in these bargaining units. The State has collective bargaining agreements with the SEA that were effective July 1, 2001 and expire June 30, 2003. The State and the Troopers recently concluded the process of negotiating a new contract that will expire on June 30, 2003.

## LITIGATION

A consolidated action is pending against the New Hampshire Department of Revenue Administration in which taxpayers are challenging the constitutionality, under both the State and federal Constitutions, of the interest and dividends tax law in effect from 1989 through June 30, 1994. On April 3, 1997, the New Hampshire Supreme Court ruled on several questions transferred to it by the Superior Court, relating primarily to the former exemptions in the law for interest paid by New Hampshire depository institutions and stock dividends paid by such institutions. (Those exemptions were eliminated by statutory amendments effective January 1, 1995.) The State Supreme Court rejected the petitioners' argument that the classification of bank interest and stock bank dividends violated the State Constitution; it acknowledged the State's concession, however, that the commerce clause of the United States Constitution was violated by the challenged exemptions and remanded the case to the trial court to determine the scope of the violation and an appropriate remedy.

The petitioners contend that the scope of the discrimination covers nearly all other investments paying interest or dividends. If the petitioners' contention were to prevail, the State's potential exposure to refunds or other remedies in this case and all related matters, based upon timely claims for refunds filed with the State, would be approximately \$98.3 million, plus interest. The State contends that the scope of the commerce clause violation is limited to taxes attributable to interest and dividends received solely from out-of-state banks.

The case was tried in the Merrimack County Superior Court in June, 2000. That trial resulted in a judgment rejecting plaintiffs' claims for more than \$100 million and ordering the State to provide plaintiffs with a refund of taxes paid on interest and dividends from out-of-state bank instruments only. The State estimates its potential maximum exposure under this order to be approximately \$3 million plus interest.

In October, 2000, the plaintiffs appealed the decision of the Superior Court rejecting their claim for a broader refund. The State has also filed a cross appeal which, if found in the State's favor, could result in no liability for the State. The New Hampshire Supreme Court has accepted the appeal, and the plaintiffs filed their brief with the New Hampshire Supreme Court. The State's brief was filed on April 8, 2002. Plaintiffs filed a reply brief on May 3, 2002. Oral argument was held on June 5, 2002. It is not yet possible to predict the outcome of this case.

See "SCHOOL FUNDING" for detailed information concerning the lawsuit against the State challenging the constitutionality of the State's statutory system of financing the operation of elementary and secondary public schools.

The State and certain of its agencies and employees are defendants in numerous other lawsuits which assert claims regarding social welfare program funding, breach of contract, negligence and 42 U.S.C. §1983. Although the Attorney General is unable to predict the ultimate outcome of the majority of these suits, which seek monetary awards that do not exceed \$50 million in the aggregate, the State believes that the likelihood of such litigation resulting, either individually or in the aggregate, in final judgments against the State which would materially affect its financial position is remote. Accordingly, no provision for the ultimate liability, if any, has been made in the State's financial statements.

## **FINANCIAL STATEMENTS**

Specific reference is made to the State's financial statements for the fiscal year ended June 30, 2001, presented in accordance with generally accepted accounting principles, and the report of the State's independent auditors with respect thereto, which have been filed with each Nationally Recognized Municipal Securities Information Repository currently recognized by the Securities and Exchange Commission. The State's audited financial statements for the fiscal year ended June 30, 2002 are not available as of the date of this Information Statement, but are expected to be released by early calendar 2003.

All Fiscal Year 2002 financial information presented in this Information Statement is preliminary and unaudited and subject to change.

## **ADDITIONAL INFORMATION**

The references herein to the Constitution and Laws of the State of New Hampshire are brief summaries of certain provisions thereof. Such summaries do not purport to be complete and reference is made to the Constitution and such laws for full and complete statements of such provisions. Additional information concerning the State and certain of its departments and agencies, including periodic public reports relating to the financial position of the State and annual or biennial reports of such departments and agencies, may be obtained upon request from the office of the Commissioner of the Treasury, Michael A. Ablowich, State House Annex, Concord, New Hampshire.

**STATE OF NEW HAMPSHIRE  
AUDITED FINANCIAL STATEMENTS  
FOR FISCAL YEAR 2001**

**(Included by Reference and Filed with Each Nationally  
Recognized Municipal Securities Information Repository)**