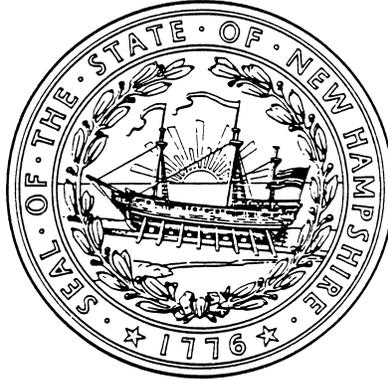


The State of New Hampshire



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 Municipal Securities Rulemaking Board for purposes of Rule 15c2-12 of the Securities and Exchange Commission. The Information Statement may not be reproduced or used in whole or in part for any other purpose without the express written consent of Catherine A. Provencher, State Treasurer, 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

Catherine A. Provencher
State Treasurer

March 26, 2012

TABLE OF CONTENTS

	<u>Page</u>		<u>Page</u>
STATE GOVERNMENT	1	Fiscal Year 2009	22
Executive Branch	1	Fiscal Year 2010	23
Legislative Branch.....	1	Fiscal Year 2011	24
Judicial Branch.....	1	Operating Budget Fiscal Years 2012 and	
STATE DEMOGRAPHIC AND ECONOMIC		2013	29
DATA	1	Fiscal Year 2012	31
General.....	1	MEDICAID PROGRAM	37
Population	1	SCHOOL FUNDING.....	41
Personal Income	2	STATE INDEBTEDNESS	42
Civilian Labor Force, Employment and		Debt Management Program.....	42
Unemployment	3	Authorization and Classification of State	
Composition of Employment.....	3	Debt.....	42
Largest Employers	4	Debt Statement	43
State and Local Taxation	5	Recent Debt Issuances	44
Housing.....	5	Schedule of Debt Service Payments.....	45
Building Activity.....	6	Temporary Loans	46
Transportation	6	Authorized But Unissued Debt	46
Education	7	Capital Budget and Bonds Authorized.....	47
STATE FINANCES	7	Agencies, Authorities and Bonded or	
General.....	7	Guaranteed Indebtedness	49
Fund Types.....	9	STATE RETIREMENT SYSTEM.....	53
Governmental Funds	9	HEALTH CARE COVERAGE FOR RETIRED	
Proprietary (Enterprise) Funds.....	9	EMPLOYEES.....	65
Fiduciary Funds.....	10	STATE RETIREE HEALTH PLAN COMMISSION	
Investment Policy	10	67
Budget and Appropriation Process.....	10	JUDICIAL RETIREMENT PLAN.....	67
Financial Controls	11	EMPLOYEE RELATIONS.....	69
Revenue Stabilization Reserve Account	12	LITIGATION	70
State Revenues	13	FINANCIAL STATEMENTS.....	77
Expenditures.....	19	MISCELLANEOUS	78
Results of Operations.....	20	ADDITIONAL INFORMATION.....	79
Fiscal Year 2007	20	EXHIBIT A.....	A-1
Fiscal Year 2008	21		

STATE OF NEW HAMPSHIRE

GOVERNOR
JOHN H. LYNCH

EXECUTIVE COUNCIL
RAYMOND S. BURTON
DANIEL ST. HILAIRE
CHRISTOPHER T. SUNUNU
DAVID K. WHEELER
RAYMOND J. WIECZOREK

STATE TREASURER
CATHERINE A. PROVENCHER

SECRETARY OF STATE
WILLIAM M. GARDNER

ATTORNEY GENERAL
MICHAEL A. DELANEY

COMMISSIONER OF ADMINISTRATIVE SERVICES
LINDA M. HODGDON

COMPTROLLER
EDGAR R. CARTER

BUDGET DIRECTOR
JOHN T. BEARDMORE

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, 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 or Guaranteed Indebtedness." In addition, a State liquor commission manages the sale and distribution of beer and alcohol statewide. A lottery 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 with 11 sites, Probate Courts with 10 sites, 32 District Courts and 25 Family Division Courts. All justices and judges are appointed by the Governor and Council and may serve until seventy years of age. Effective July 1, 2011, pursuant to Chapter 88, Laws of 2011, a circuit court with three divisions: probate, district, and family, replaces the probate, district, and family division courts, respectively.

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 steady increase in population between 2001 and 2011, primarily as a result of net migration from neighboring states. The State's population was 1,318,194 in July 2011 according to the U.S.

Census Bureau. Population has increased by 4.9% since 2001. 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>
2001	1,256	1.6%	14,041	0.6%	284,969	1.3%
2002	1,269	1.0	14,122	0.6	287,625	0.9
2003	1,280	0.9	14,182	0.4	290,108	0.9
2004	1,290	0.8	14,207	0.2	292,805	0.9
2005	1,298	0.6	14,217	0.1	295,517	0.9
2006	1,308	0.8	14,246	0.2	298,380	1.0
2007	1,313	0.4	14,279	0.2	301,231	1.0
2008	1,316	0.2	14,340	0.4	304,094	1.0
2009	1,316	0.0	14,404	0.4	306,772	0.9
2010	1,316	0.0	14,445	0.3	308,746	0.6
2011	1,318	0.2	14,492	0.3	311,592	0.9

Percent Change:

2001-2011	4.9%	3.2%	9.3%
2006-2011	0.8%	1.7%	4.4%

Source: U.S. Census Bureau.

Personal Income

The State's per capita personal income increased 35.7% between 2000 and 2010 (as contrasted with an increase of 33.8% in the per capita personal income for the United States and a 27.8% increase for the New England region). The State's per capita personal income ranked 9th in 2010 with \$43,586 or 109.1% of the national average. The State's total personal income for 2010 was \$57.4 billion. The following table sets forth information on personal income for New Hampshire, New England and the United States since 2000.

**Comparisons of New Hampshire Personal Income
to New England and United States, 2000-2010**

<u>Year</u>	<u>New Hampshire Total Personal Income (In Millions)</u>	<u>Per Capita Personal Income</u>			<u>Percent Change</u>			<u>New Hampshire Per Capita Personal Income Ranking⁽¹⁾</u>
		<u>New Hampshire</u>	<u>New England</u>	<u>United States</u>	<u>New Hampshire</u>	<u>New England</u>	<u>United States</u>	
2000	\$42,283	\$34,102	\$36,610	\$30,319	9.9%	9.0%	7.0%	6
2001	43,699	34,805	37,996	31,157	2.1	3.8	2.8	7
2002	44,711	35,231	38,131	31,481	1.2	0.4	1.0	6
2003	45,828	35,808	38,798	32,295	1.6	1.7	2.6	6
2004	48,661	37,718	40,837	33,909	5.3	5.3	5.0	6
2005	50,028	38,528	42,376	35,452	2.1	3.8	4.6	10
2006	53,765	41,092	45,627	37,725	6.7	7.7	6.4	10
2007	56,418	42,984	48,223	39,506	4.6	5.7	4.7	9
2008	58,155	44,194	49,708	40,947	2.8	3.1	3.6	9
2009	55,859	42,443	47,659	38,846	(4.0)	(4.1)	(5.1)	9
2010	57,393	43,586	48,989	39,945	2.7	2.8	2.8	9

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

⁽¹⁾ Does not include the District of Columbia.

Civilian Labor Force, Employment and Unemployment

Employment in New Hampshire grew faster than in the region from 2001 to 2011. 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

	<u>Employment (In Thousands)</u>		<u>Average Annual Growth</u>
	<u>2001</u>	<u>2011</u>	<u>2001-2011</u>
New Hampshire	681	698	0.26%
Connecticut	1,700	1,749	0.14
Maine	651	651	(0.14)
Massachusetts	3,275	3,202	(0.24)
Rhode Island	521	500	(0.23)
Vermont	330	339	0.24
New England	7,158	7,140	(0.07)
United States	136,933	139,869	0.15

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

Over the past ten years, 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. Annual unemployment data for 2011 and January 2012 show that New Hampshire's unemployment rate was below both the regional and the national level. The table below sets forth information on the civilian labor force, employment and unemployment statistics since 2001.

Labor Force Trends (Not Seasonally Adjusted) New Hampshire Labor Force (In Thousands)

<u>Year</u>	<u>Civilian Labor Force</u>			<u>Unemployment Rate</u>		
	<u>Force</u>	<u>Employed</u>	<u>Unemployed</u>	<u>New Hampshire</u>	<u>New England</u>	<u>United States</u>
2001.....	705	681	24	3.4%	3.6%	4.7%
2002.....	712	680	32	4.5	4.8	5.8
2003.....	711	679	32	4.5	5.4	6.0
2004.....	716	688	28	3.9	4.9	5.5
2005.....	723	697	26	3.6	4.7	5.1
2006.....	735	709	26	3.5	4.5	4.6
2007.....	740	714	26	3.5	4.5	4.6
2008.....	744	715	29	3.9	5.4	5.8
2009.....	742	696	46	6.2	8.1	9.3
2010.....	739	694	45	6.1	8.5	9.6
2011.....	738	698	40	5.4	7.7	8.9
January 2012 ⁽¹⁾	740	698	42	5.7	7.9	8.8

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

⁽¹⁾ Preliminary.

Composition of Employment

The service sector was the largest employment sector in New Hampshire in 2011, accounting for 44.5% of nonagricultural employment, as compared to 38.7% in 2001. 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, accounting for 44.6% of employment in 2011, up from 40.2% in 2001.

The second largest employment sector in New Hampshire during 2011 was wholesale and retail trade, accounting for 18.6% of total employment as compared to 15.3% nationally. In 2001, wholesale and retail trade accounted for 19.4% 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 10.5% of nonagricultural employment in 2011, down from 15.5% in 2001. For the United States as a whole, manufacturing accounted for 8.9% of nonagricultural employment in 2011, versus 12.5% in 2001. 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**

	<u>New Hampshire</u>		<u>United States</u>	
	<u>2001</u>	<u>2011⁽¹⁾</u>	<u>2001</u>	<u>2011⁽¹⁾</u>
Manufacturing	15.5%	10.5%	12.5%	8.9%
Durable Goods	11.7	8.1	7.9	5.5
Nondurable Goods	3.8	2.4	4.6	3.4
Nonmanufacturing	84.5	89.5	87.5	91.1
Construction & Mining	4.5	3.3	5.7	4.8
Wholesale and Retail Trade	19.4	18.6	15.9	15.4
Service Industries	38.7	44.5	40.2	44.6
Government	13.7	15.2	16.0	16.8
Finance, Insurance & Real Estate	5.7	5.7	5.9	5.8
Transportation & Public Utilities	2.5	2.2	3.8	3.7

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

⁽¹⁾ Preliminary

Largest Employers

The following table lists the twenty largest private employers in the State and their approximate number of employees as of January 2012.

**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.	8,166	Bedford	Retail Department Stores
2. Dartmouth Hitchcock Medical Center	6,654	Lebanon	Acute Care Hospital
3. DeMoulas & Market Basket	6,000	Nashua	Supermarkets
4. Hannaford Brothers	4,817	Manchester	Supermarkets
5. Fidelity Investments	4,600	Merrimack	Financial Services
6. BAE Systems Electronic Systems	4,500	Nashua	Communications
7. Dartmouth College	4,250	Hanover	Private College
8. Liberty Mutual-Northern N.E. Division	4,200	Bedford	Financial Services
9. Shaw's Supermarkets Inc.	3,556	Stratham	Supermarkets
10. Elliot Hospital	3,375	Manchester	Hospital
11. Concord Hospital	3,256	Concord	Hospital
12. Home Depot	2,550	Manchester	Hardware Store
13. Wentworth-Douglas Hospital	2,366	Dover	Hospital
14. Southern New Hampshire Medical Center	2,200	Nashua	Healthcare Providers
15. Catholic Medical Center	2,100	Manchester	Healthcare Providers
16. Lowe's	1,932	Bedford	Hardware Store
17. Sunbridge Healthcare NH Region	1,600	Exeter	Long Term Care Providers
18. New Hampshire Motor Speedway	1,500	Loudon	Motorsports Facility
19. Public Service Company of New Hampshire	1,500	Manchester	Electric Utility
20. Exeter Hospital	1,470	Exeter	Hospital

Source: *New Hampshire Business Review*, Book of Lists 2012.

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 and business enterprise taxes and a meals and rooms tax. The State does not levy any personal earned income tax or general sales tax but does impose a tax on interest and dividends. The State believes its tax structure has played an important role in the State's economic growth.

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.

Housing

According to the 2010 American Community Survey 1-year estimates, housing units in the State numbered 614,996, of which 84% were occupied. The tenure of occupied housing units in the State was 72% owner occupied and 28% renter occupied. The median purchase price of all primary homes sold in 2010 was \$215,000, an increase of 2.4% from 2009. The median price for primary non-condominium homes sold in 2010 was \$223,500, an increase of 3.0% from 2009.

The table below sets forth housing prices and rents in recent years.

Housing Statistics Median Purchase Price and Median Gross Rent

	Owner-Occupied Non-Condominium Housing Unit Median Purchase Price	Percent Change	Renter-Occupied Housing Unit Median Gross Rent ⁽¹⁾	Percent Change
2001	\$174,500	14.4%	\$738	5.9%
2002	200,880	15.1	810	9.8
2003	229,400	14.2	854	5.4
2004	252,660	10.1	896	4.9
2005	270,000	6.9	901	0.6
2006	265,000	(1.9)	928	3.0
2007	269,900	1.8	946	1.9
2008	250,000	(7.4)	969	2.4
2009	217,000	(13.2)	969	0.0
2010	223,500	3.0	980	1.1
2011 ⁽²⁾	217,000	(2.9)	984	0.4

Source: New Hampshire Housing Finance Authority.

⁽¹⁾ Includes utilities.

⁽²⁾ January through August.

The New Hampshire Housing Finance Authority issued an updated report in January 2012 with respect to foreclosure activity in the State that included the following:

"There were 273 foreclosure deeds recorded in November 2011, an increase of about 20% from foreclosure deeds recorded in November 2010, and an increase of 4% from the number of foreclosure deeds recorded in the prior month. The cumulative total for 2011 through November is approximately 7% below last year's record pace of foreclosures. Nonetheless, there continue to be significant numbers of New Hampshire households that are delinquent on their mortgage. In addition, lenders have allowed the period of delinquency prior to foreclosure to extend in part due to delays in document processing and in part in hopes that the market will improve, mitigating their losses."

Building Activity

The pattern of building activity in New Hampshire in recent years, as evidenced by the issuance of residential building permits, has generally paralleled that of the New England region. There was growth in the 1992 to 2002 period in New Hampshire, New England, and the nation. The number of permits and dollar value peaked in 2004 and declined in each subsequent year through 2009 and increased slightly in 2010. In 2010, building permits totaled 2,670, with a value of \$462 million. This represents an increase of 16.7% in the number of permits, and an increase of 9.7% in dollar value, from 2009. 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)						
New Hampshire	<u>2000</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
Single Family	6,097	4,826	3,772	2,333	1,662	1,890
Multi-Family	<u>583</u>	<u>851</u>	<u>789</u>	<u>901</u>	<u>625</u>	<u>780</u>
Total	6,680	5,677	4,561	3,234	2,287	2,670
Value	\$937	\$1,037	\$856	\$593	\$421	\$462
New England						
Single Family	38,670	33,204	26,079	15,870	13,595	14,880
Multi-Family	<u>6,665</u>	<u>13,578</u>	<u>11,453</u>	<u>8,584</u>	<u>5,868</u>	<u>6,084</u>
Total	45,335	46,782	37,532	24,454	19,463	20,964
Value	\$6,442	\$8,091	\$7,119	\$4,705	\$3,560	\$4,048
United States						
Single Family	1,198,067	1,378,220	979,889	575,554	441,148	447,311
Multi-Family	<u>394,200</u>	<u>460,683</u>	<u>418,526</u>	<u>329,805</u>	<u>141,815</u>	<u>157,299</u>
Total	1,592,267	1,838,903	1,398,415	905,359	582,963	604,610
Value	\$185,744	\$291,314	\$225,237	\$141,623	\$95,410	\$101,943

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 to date provides for continued development of the State's Turnpike System. The State issued in December, 2009, \$150 million of its Turnpike System revenue bonds to finance additional capital improvements to the Turnpike System. The State also issued \$80 million of its Federal Highway Grant Anticipation Bonds in November 2010 to finance a portion of the costs of improvements to Interstate 93 from the Massachusetts border to Manchester.

There are twenty-four public commercial airports in the State, two of which have scheduled air service (Manchester and Lebanon), eight private commercial airports and nine private non-commercial airports.

Manchester-Boston Regional Airport, the State's largest commercial passenger and air cargo airport, undertook a 158,000 square foot new terminal construction 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 1,393,035 enplanements in fiscal year 2011. Due to a continued soft global economy, jet fuel price uncertainty and a dramatically changing aviation industry, the Airport experienced a 4.7% decrease in enplanements in fiscal year 2011 as compared with fiscal year 2010 enplanements. Manchester-Boston Regional Airport has undertaken a number of additional expansion, improvement and renovation projects, which were financed by the City of Manchester through the issuance of airport revenue bonds in October 1998, April 2000, June 2002, and July 2005; and a refunding of bonds in July 2008 and December 2009.

These projects are expected to enhance the airport’s capacity for increased passenger and freight traffic in the future. The 1998, 2000, 2002, 2005, 2008 and 2009 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.

The New Hampshire Rail Transit Authority was created pursuant to Chapter 360 of the Laws of 2007 for the purpose of establishing regular commuter rail or other passenger rail service between points within and adjacent to the State. If passed into law, House Bill 218 of the 2011 legislative session would effectively dissolve the current Rail Transit Authority and would establish a new governmental body to study various rail issues. The bill passed both houses during the legislative session and was vetoed by the Governor on June 15, 2011. Because the veto was sustained on January 4, 2012 when the legislature failed to muster the two-thirds vote required to override, the current Rail Transit Authority has not changed. See “STATE INDEBTEDNESS – Agencies, Authorities and Bonded or Guaranteed Indebtedness – New Hampshire Rail Transit Authority.”

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 176 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 University. The University System also operates Granite State College, 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 community 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, as of 2010, the educational level of New Hampshire residents over the age of 25 was higher than that of the nation as a whole.

<u>Level of Education</u>	<u>2000</u>		<u>2010</u>	
	<u>New Hampshire</u>	<u>United States</u>	<u>New Hampshire</u>	<u>United States</u>
9-11 years	N/A	84.5%	97.3%	93.9%
12 years	88.1%	78.5	91.5	85.6
1-3 years post-secondary	N/A	47.5	61.7	57.1
4 or more years post-secondary	30.1	21.9	32.8	28.2

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

STATE FINANCES

General

Responsibility for financial management of the State is vested in several State officials. The State 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 U.S. generally accepted accounting principles ("GAAP"). The State has contracted with KPMG LLP to provide audit services since fiscal year 1997 and has a current audit contract through completion of the fiscal year 2011 audit. The audited financial statements for fiscal year 2011, together with the unqualified report thereon of KPMG LLP, are included herein by reference, copies of which were provided to the Municipal Securities Rulemaking Board as directed by SEC Rule 15c2-12. See "FINANCIAL STATEMENTS." The audited financial statements for fiscal year 2011 are also available as part of the State's fiscal year 2011 CAFR (pages 14 through 75 of the CAFR) at the website of the State's Department of Administrative Services, Bureau of Financial Reporting at <http://admin.state.nh.us/accounting/reports.asp>. The release of the fiscal year 2011 CAFR on February 29, 2012 was delayed from the statutorily required date of December 31, 2011 due to the lack of sufficient available information to objectively estimate the effect of outcomes of hospitals' requests for Medicaid Enhancement Tax refunds (discussed in Note 19 to the financial statements). It was not until February, 2012 that the Department of Revenue Administration was able to reach resolution for many of the requests, thereby providing documentation on which to base an estimate and provide sufficient audit assurance.

All dollar amounts referred to in this Information Statement for any period subsequent to June 30, 2011 are preliminary, unaudited and subject to change, whether or not expressly labeled as such.

One correction should be noted in the CAFR for fiscal year 2007. The last paragraph on page 20 incorrectly sets forth the ratings assigned to the State's general obligation bonds as being "AAA" from Fitch Ratings ("Fitch") and Standard & Poor's ("S&P") and "Aaa" from Moody's Investors Service ("Moody's"). These ratings only apply to bonds of the State that have the benefit of bond insurance policies issued by certain bond insurers. The underlying ratings assigned to the State's general obligation bonds as of June 30, 2007 by Fitch, Moody's and S&P were "AA," "Aa2," and "AA," respectively. See "RATINGS" in Part I of the Official Statement to which this Information Statement is attached for information regarding the current ratings assigned to the State's general obligation bonds.

For information relating to delays in the delivery of the audited financial statements for fiscal year 2006, and matters relating to management letters delivered to the State for fiscal years 2006 through 2010, see "FINANCIAL STATEMENTS."

The CAFR includes comparisons to budgetary basis accounting and is presented as Required Supplementary Information (RSI). 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 a Note to the RSI in the CAFR.

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 enterprise resource planning 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.

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.

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 turnpike purposes), or by the application of certain federal matching grants.

Education Trust Fund. The Education Trust Fund is established in RSA 198:39. See "SCHOOL FUNDING." Adequate education grants to school districts are appropriated from this fund, as is kindergarten and charter school aid and low and moderate income homeowners property tax relief. Pursuant to RSA 198:39, certain revenues are dedicated to this fund including portions of the State's business, cigarette, real estate transfer, and rental car taxes. In addition, lottery revenues and up to \$40 million in tobacco settlement revenues are dedicated to the Education Trust Fund as are utility property tax and excess statewide education tax revenues.

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.

Lottery Commission. The State conducts daily and weekly lotteries and instant games through tickets sold by or on behalf of the State Lottery Commission in State liquor stores, at horse and dog race tracks and at authorized retail outlets in the State. Monthly net profit from lotteries is transferred to the Education Trust 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.

Unemployment Trust Fund. This fund is used to account for contributions from employers and to pay benefits to eligible claimants.

In accordance with the provisions of Section 1201 of the Social Security Act, the State applied for, received and repaid advances from the Federal Unemployment Account to the State's Unemployment Trust Fund. These repayable advances were needed on an intermittent basis in both calendar years 2010 and 2011. The advances were necessary in order to continue the payment of unemployment compensation to eligible individuals.

For calendar year 2010, the advances were interest-free. For calendar year 2011, interest was due and owing unless the State met the criteria for a "cash flow" loan which bears no interest. The criteria for a "cash flow" loan are (1) states must have a zero outstanding balance as of January 1st and (2) states must repay advances by September 30th and not borrow again for the remainder of the calendar year. The State did not have an outstanding loan as of January 1, 2011 and on May 5, 2011 fully paid the \$56.3 million borrowed for the period January 12 through May 4, 2011.

The State's unemployment compensation law changed in the 2009 legislative session. All employers have experienced a 1% emergency surcharge rate increase, all negatively rated employers whose benefit charge exceeds taxes paid have experienced a 1.5% rate increase and those negatively rated employers identified as chronic experienced an additional 0.5% rate increase. Of the emergency surcharge, 0.5% is the result of the 2009 law. The resultant increase in the amount of employer tax projected to be collected in future years is currently expected to be sufficient to maintain the solvency of the fund from the second half of calendar year 2011 forward.

Internal Service Fund. The Employee Benefit Risk Management Fund was created to account for the State's self-insurance program and to pool all resources to pay for the cost associated with providing employee benefits for active state employees and retirees. See also "HEALTH CARE COVERAGE FOR RETIRED EMPLOYEES."

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 Pension Funds are also included in this category.

Investment Policy

The Treasury Department is entrusted with the fiduciary responsibility of managing State funds to ensure cash is available when required to maintain the efficient operation of the State while employing prudent investment policies and procedures. The Treasury Department has in place investment policies and procedures for the safekeeping and prudent management of various State assets. Certain trust and custodial funds have very specific investment guidelines in order to meet goals or income targets consistent with stated donor requests as well as state and federal law. General operating funds of the State are invested primarily to preserve the value and safety of the principal, maintain liquidity appropriate for short-term cash needs, and optimize the return on these investments consistent with the goals of safety and liquidity and in accordance with state and federal law. Investment decisions are made within the context of several risk categories, including custodial risk, concentration risk, and interest rate risk. Investment policies are developed, implemented, and reviewed periodically to insure best practices are followed and to incorporate strategies to reduce risk that may arise or become highlighted due to current events.

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.

Pursuant to Chapter 229, Laws of 2011, beginning with the 2014-2015 biennial budget, all departments are required by November 15 prior to the start of the biennial legislative session to also submit a budget that in the first year is 10% less than the first year of the preceding biennium and in the second year is 10% less than the second year of the preceding biennium, exclusive of debt service.

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 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.

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 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.

ERP System. The Legislature appropriated nearly \$22 million dollars in the 2002-2003 capital budget and passed subsequent laws to enable the acquisition and implementation of an enterprise resource planning (ERP) system. The ERP is designed to serve as a single system of fully integrated modules that facilitate the financial and human resources business functions of all State agencies including accounts payable, accounts receivable, assets and inventory, budgeting, financial accounting, grants and projects, human resources, payroll, benefits administration, purchasing, revenues and receipts, and treasury functions.

The first phase of this project was completed in July, 2008 with the implementation of a new accounting structure that improved clarity of expenditures. In August, 2008, the budgeting component of the ERP was implemented and used for fiscal years 2010-2011 budget planning.

In July, 2009, the remaining financial, grants, procurement, revenue and receipts and treasury functions were implemented. This phase was a major undertaking to improve the sustainability, accountability, and efficiency of financial administration, processing controls, and management information.

The Legislature appropriated \$1.4 million in the 2010-2011 capital budget for planning of Phase II of the project which includes human resources and payroll and a capital appropriation of \$4.0 million was approved in the 2012-2013 capital budget for the implementation of human resources, payroll, fixed assets, and strategic sourcing. Implementation is scheduled for completion by January 2013. The State expects that Phase II will enable it to realize efficiencies by the implementation of full ERP functionality.

Limitations built into the legacy human resources and payroll system require labor intensive manual steps to account for and process employee leave plans, payroll calculations, and payroll cost accounting and to maintain compliance with appropriations. Phase II will streamline these currently paper-bound processes by moving employee, manager and back office processing to digital forms, and will also extensively automate policies and business rules to reduce manual calculation, collation, and records coordination.

The State plans to use Phase II to achieve similar efficiencies in asset management, accounting and control and to increase the State's purchasing power by implementing web-based strategic sourcing for suppliers and vendors and thereby increase competitive bidding for State business. Chapter 224:84-85, Laws of 2011 mandates that \$2.78 million in savings be achieved in the current biennium.

Revenue Stabilization Reserve Account

Legislation was enacted in 1986 to establish a Revenue Stabilization Reserve 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 Reserve Account, to the extent available, an amount equal to the lesser of the deficit or the revenue shortfall. No monies in the Revenue Stabilization Reserve 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 Reserve 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 Reserve 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 Reserve Account. The maximum amount in the account is equal to 10% of General Fund unrestricted revenue for the most recently completed fiscal year.

Pursuant to Chapter 177:53 of the Laws of 2005, the biennial transfer of surplus from the General Fund to the Revenue Stabilization Reserve Account, if any, was suspended for the biennium ending June 30, 2005. Chapter 35:1 of the Laws of 2006 directed that any undesignated General Fund surplus from the fiscal year ending June 30, 2005 in excess of \$30.5 million be transferred to the Revenue Stabilization Reserve Account. During fiscal year 2006, \$51.7 million was transferred to the Revenue Stabilization Reserve Account, for a balance of \$69.0 million at June 30, 2006.

Chapter 263:110 of the Laws of 2007 directed that any surplus in excess of \$20.0 million for the close of the fiscal biennium ending June 30, 2007 shall remain in the General Fund and shall not be deposited in the Revenue Stabilization Reserve Account. Therefore, at the end of fiscal year 2007, \$20.0 million was transferred to the Revenue Stabilization Reserve Account, bringing the balance to \$89.0 million at June 30, 2007. The balance of the fiscal year 2007 surplus, \$27.3 million and the carry forward surplus of \$34.4 million, remained in the General Fund. The balance in the Revenue Stabilization Reserve Account at June 30, 2008 remained at \$89.0 million.

Chapter 143 of the Laws of 2009, the operating budget for fiscal years 2010-2011, assumed \$69 million would be drawn from the Revenue Stabilization Reserve Account at June 30, 2009 leaving a balance of \$20 million at June 30, 2009. The actual draw on the Revenue Stabilization Reserve Account at June 30, 2009 was \$79.7 million leaving a balance of \$9.3 million. The balance remained at \$9.3 million at June 30, 2010. See "STATE FINANCES – Results of Operations-Fiscal Year 2009 and – Operating Budget Fiscal Years 2010 and 2011" below.

Chapter 223, Laws of 2011, the operating budget for fiscal years 2012-2013, assumed \$8.8 million would be drawn from the Revenue Stabilization Reserve Account at June 30, 2011. As reported in the audited financial statements, the draw was not necessary and the audited balance in the fiscal stabilization account at June 30, 2011 remained at the prior year balance of \$9.3 million. Chapter 224:206, Laws of 2011, directed that any budget surplus at June 30, 2011 shall not be deposited in the Revenue Stabilization Reserve Account and shall remain in the General Fund.

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 of the State. Except as otherwise noted below, such revenues are credited to the General Fund:

Meals and Rooms Tax. Effective July 1, 2009, a tax is imposed equal to 9% of hotel, motel and other public accommodation charges and 9% of charges for meals served in restaurants, cafes and other eating establishments. Prior to July 1, 2009, the meals and rooms tax rate was at 8%. Effective July 1, 2009, this tax was extended to cover campsites, however, Chapter 6 of the Laws of 2010 repealed the extension of the meals and rooms tax to campsites effective May 3, 2010. Chapter 144 of the Laws of 2009 designated the amount necessary to pay debt service on general obligation bonds issued to fund school building aid grants to come from the meals and rooms tax. The amount of the annual debt service on bonds issued for this purpose totaled \$365,000 in fiscal year 2010, \$5.1 million in fiscal year 2011, and is budgeted at \$14.6 million in fiscal year 2012. In addition 3.15% of net meals and rooms tax collections was designated for travel and tourism development, however, Chapter 224 of the Laws of 2011 suspends the distribution of meals and rooms taxes to the Division of Resources and Economic Development for travel and tourism development for the biennium ending June 30, 2013. Effective July 1, 1999, this tax was extended to cover rental cars, the receipts from which have been earmarked for the Education Trust 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 1997 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 million. Chapter 224 of the Laws of 2011 effectively extends the cap on such distributions instituted by Chapter 144 of the Laws of 2009 by limiting the meals and rooms tax distributions to cities and towns in each of fiscal years 2012 and 2013 to no more than the fiscal year 2009 distribution of \$58.8 million. The following table shows for each fiscal year, the amount of meals and rooms tax distributed and the percentage of previous year's tax collections for fiscal years 2007 through 2012:

<u>Fiscal Year</u>	<u>Amount Distributed</u>	<u>% of Previous Years Total Meals and Rooms Tax Collection</u>
2007	\$50,903,052	26.3%
2008	55,513,020	27.4
2009	58,805,057	28.5
2010	58,805,057	28.9
2011	58,805,057	25.3
2012	58,805,057	24.5

Business Profits Tax. The business profits tax rate was 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 Trust 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 after July 1, 2001 and previously had been .50% for tax years ending on or after July 1, 1999 and .25% prior to that time. The increases (.50%) have been dedicated to the Education Trust 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 in gross receipts and an enterprise value base of less than \$75,000 are exempt from the business enterprise tax. Every business enterprise is required to make quarterly estimated tax payments due on the fifteenth day of the fourth, sixth, ninth and twelfth months of its taxable year. The business enterprise tax may be used as a credit against the business profits tax under RSA 77-A:5. Any unused portion of the credit may be carried forward and allowed against the business profits tax for five (5) taxable periods from the taxable period in which the business profits tax was paid.

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

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 a General Fund appropriation of \$3.3 million was recorded in fiscal year 2002. Chapter 319 of the Laws of 2003 suspended this allocation for the biennium ending June 30, 2005. Chapter 177 of the Laws of 2005 suspended this allocation for the biennium ending June 30, 2007. Chapter 263 of the Laws of 2007 suspended this allocation for the biennium ending June 30, 2009, and Chapter 144 of the Laws of 2009 suspended this allocation for the biennium ending June 30, 2011, providing that all gross revenue derived by the liquor commission from the sale of liquor, or from license fees, shall be deposited into the General Fund of the State.

Chapter 296 of the Laws of 2008 reduced the discounts offered to certain wine licensees. Chapter 144:254 of the Laws of 2009, which proposed a repeal of the reductions as stated in Chapter 296 was itself repealed, thereby maintaining the discount reductions offered in Chapter 296:31 and 32 of the Laws of 2008. Discounts for holders of off-premises retail licenses with annual purchases of less than \$350,000 continue to receive the discount of 15% less than the regular retail price at New Hampshire Liquor and Wine Outlets and 20% less than the regular F.O.B. price at the warehouse. Holders of off-premises retail licenses with annual purchases exceeding \$350,000 shall receive a discount of 15% less than the regular F.O.B. price at the warehouse.

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 was dedicated for the Education Trust Fund. Effective July 1, 2005, the tax was increased to 80 cents per pack, and effective July 1, 2007 the tax was increased to \$1.08 per pack. Smokeless and loose tobacco is generally taxed at a rate proportionate to the cigarette tax, but was not subject to the tax increase effective July 1, 2007. Effective July 1, 2008, the definition of a cigarette was changed to include any roll of tobacco wrapped in any substance containing tobacco, weighing not more than 3 lbs. per thousand, which would include the taxation of some little cigars. Effective October 15, 2008, the rate increased to \$1.33 per package of 20 cigarettes. Effective July 1, 2009, the tax rate increased by 45 cents to \$1.78 per package of 20 cigarettes. Chapter 144:257 of the Laws of 2009 provides that the revenue produced in excess of \$1.00 per pack shall be deposited in the Education Trust Fund. Pursuant to Chapter 224:377-381 of the Laws of 2011, effective July 1, 2011, the tobacco tax rate for each pack containing 20 cigarettes was decreased from \$1.78 to \$1.68 per pack, the rate for each pack containing 25 cigarettes was decreased from \$2.23 to \$2.10 per pack, and the rate for all other tobacco products, except premium cigars, was decreased from 65.03% to 48.0% of the wholesale price. Tobacco taxes for the eight months ended February 29, 2012 are \$6.7 million (4.4%) below plan and \$12.5 million (8.0%) less than in the prior year.

The new law has a contingency provision that requires the Department of Revenue Administration (DRA) to report, on or before July 15, 2013, the amount of tobacco tax revenue received for the period of July 1, 2011 through June 30, 2013. If the DRA reports that the amount of tobacco tax revenue received for the period was below the amounts received for the period of July 1, 2009 through June 30, 2011, then, effective August 1, 2013, the tax rate for each pack containing 20 cigarettes shall increase back to \$1.78 per pack, the tax rate for each pack containing 25 cigarettes shall increase back to \$2.23 per pack, and the tax rate for all other tobacco products, excluding premium cigars, shall increase back to 65.03% of the wholesale sales price. If, however, the DRA reports that the amount of tobacco tax revenue received was equal to or greater than the amount received for the prior period, then the tobacco tax rates shall remain at the decreased rates.

Medicaid Enhancement Tax (MET) Revenues. Effective July 1, 1993, the State lowered the MET rate from 8% to 6%, and effective July 1, 2007, the State lowered such tax to 5.5%. Previously, the tax was assessed against the gross patient services revenue of hospitals operating in the State. "Gross patient services revenue" was defined as the amount 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. As of July 1, 2005, the tax is assessed against net patient services revenue, which means the "gross charges of the hospital, less any deducted amount for bad debts, charity care and payor discounts." As of July 1, 2011, Chapter 224 of the Laws of 2011 amended the definition of "hospital" under RSA 84-A:1, III to mean general hospitals and special hospitals for rehabilitation required to be licensed under RSA 151 that provide inpatient and outpatient hospital services, but not including government facilities. The definition of "net patient services revenue" under RSA 84-A:1, IV-a was amended to include revenues received from the State's uncompensated care account and revenues received from all payers of inpatient and outpatient patient care. A portion of the revenue collected pursuant to the tax is placed in the Uncompensated Care Fund to fund medical care for the Medicaid population. The tax is due on October 15 but no interest or penalties are assessed if the tax is received by the State on or before October 31. A final tax return is then due to be filed the following July.

From inception of the tax until June 30, 2010, hospitals often received payment from the State to reimburse for the provision of uncompensated care in the amount that they paid to the State in MET. The source of uncompensated care reimbursements to hospitals was approximately one-half of the MET receipts and the balance was federal disproportionate share hospital (DSH) Medicaid funds. The other half of the tax paid by the hospitals was credited as General Fund unrestricted revenue. In fiscal year 2011, the uncompensated care payments were made under a redesigned calculation formula, however one-half of the total tax paid by hospitals continued to be used to match federal dollars and, in the aggregate, hospitals received uncompensated care payments equal to the total tax received by the State. The operating budget for fiscal years 2012 and 2013, Chapters 223 and 224 of the Laws of 2011, leaves the tax rate at 5.5% of net patient services revenue but significantly decreases the State's commitment to reimburse hospitals for uncompensated care. Certain hospitals have challenged a number of legislative and agency actions since 2005 that have reduced the reimbursement rates for certain Medicaid services and related payments. If the plaintiffs were to prevail on all claims, the cost to the State could be in excess of \$100 million. See LITIGATION – *Dartmouth Hitchcock, et al v. Toumpas*.

Since enactment of the operating budget for fiscal years 2012 and 2013, between the middle of June 2011 and the end of November 2011, the DRA received amended returns of MET from 20 of the 28 hospital taxpayers for fiscal periods ending 2008 through 2011, which requested refunds or credits totaling \$89 million. Soon after receipt,

the DRA denied \$20 million of requests as being outside the statute of limitations period. The appeal period for these denials has expired and no hospital has appealed.

The DRA has reviewed records for open years for many of the taxpayers making the remaining \$69 million of requests, and has issued determinations. On a case by case basis, these have resulted in refunds for some open years and assessment of additional taxes for other open years, the net result of which did not result in a material amount. While further reviews are being performed and could yield unexpected results, based on the determinations made on taxpayer reviews thus far, the State does not believe that a material net obligation to taxpayers will result from the refund requests.

An aggrieved taxpayer has 60 days to appeal a determination with the DRA's Hearings Bureau. The statutory process for appeal requires a minimum of 180 days before a hearing can be scheduled. The Hearing Officer's decision may be further appealed to the Superior Court. See also MEDICAID PROGRAM.

Medicaid Enhancement Tax Estimates and Uses For Fiscal Years 2011-2013

	<u>FY 2011 (Actual)</u>	<u>FY 2012 (Budgeted)</u>	<u>FY 2013 (Budgeted)</u>
Medicaid Enhancement Tax Revenues	\$187,696,000	\$197,500,000	\$213,700,000
To hospitals for uncompensated care	\$94,952,000	\$24,600,000	\$27,000,000
To General Fund	\$92,744,000	\$97,000,000	\$104,800,000
To medical providers	\$0	\$75,900,000	\$81,900,000

Fiscal year 2012 MET payments from hospitals were due in October 2011. Through March 16, 2012, the State has received \$161 million of the \$197.5 million estimated for fiscal year 2012. When making the October 2011 MET payments, some hospitals used a definition of net patient services revenue that varied from the definition used in previous years and excluded certain hospital services. However, during this same time frame the State adjusted some Medicaid reimbursements made to hospitals for these services. The payment adjustments will total approximately \$13 million in general funds, of which \$7.7 million was charged to fiscal year 2011 and \$5.3 million will be charged to fiscal year 2012. In January 2012, the State received confirmation from the U.S. Department of Health and Human Services, Centers for Medicaid & Medicare Services (CMS) that it can apply the definition of net patient services revenue used in previous years with respect to these services. The State has received amended reports of net patient services revenue generated by most hospitals. The hospitals' 2012 MET tax returns are due in July 2012. Based on amended reports of net patient services revenue filed by the hospitals, the State anticipates that the July 2012 tax returns will reflect additional MET tax liability of the hospitals to make up the \$36.5 million shortfall between what was estimated and what has been received in MET to date. Payment for any additional MET liability will be due in July 2012.

Insurance Tax. Prior to fiscal year 2008, the State imposed 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). Chapter 277 of the Laws of 2006, reduced such tax to 1.75% effective July 1, 2007, 1.5% effective January 1, 2009, and 1.25% effective January 1, 2010, and would have reduced it to 1% effective January 1, 2011 but for Chapter 1 of the Laws of 2010 Special Session which repealed the provision bringing the tax to 1%. The tax rate remains at 1.25%. This applies to all lines of insurance except accident and health insurance (RSA 401:1, IV), and insurers licensed as Health Service Corporations (RSA 420-A), Health Maintenance Organizations (RSA 420-B), and Delta Dental Plan Of NH, Inc (RSA 420-F) which remains at 2%. Prior to 2011, ocean marine insurance was taxed on an underwriting profit basis. The purpose of the legislation was to stimulate economic growth by retaining current domestic insurers and recruiting other insurance companies to incorporate in the State. Effective for calendar year 2007, the new legislation also changed the collection of the tax from quarterly to annually on or before March 15 of each year. Under an insurance retaliatory statute, the State collects the greater of premium tax calculated by the effective New Hampshire premium tax rate or premium tax calculated by the effective tax rate of the state of which each insurer is domiciled. As of December 31, 2010, companies of 35 states having a higher premium tax rate in their domiciliary states were licensed in the State. Premium tax on unlicensed companies ranges from 2% to 4% of premiums written.

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.

Chapter 144 of the Laws of 2009 amended the interest and dividends tax to treat distributions from limited liability companies, partnerships and associations as dividends subject to the tax to the same extent that distributions to corporate shareholders are taxable as dividends. This change was effective for calendar tax years beginning on or after January 1, 2009. A distribution that is a return of capital is not subject to taxation. This change in the tax was estimated to generate an additional \$15 million in each of fiscal years 2010 and 2011. However, Chapter 1, Laws of the 2010 Special Session, repealed the inclusion of distributions from limited liability companies, partnerships and association as dividends subject to the interest and dividends tax effective January 1, 2010, leaving such distributions received during the 2009 tax year subject to the tax.

Estate and Legacy Tax. The State imposes an estate tax equal to the maximum amount of the credit for state taxes allowed under the federal estate tax. For decedents dying after December 31, 2004, Congress terminated the federal credit for state death taxes. Accordingly, the State's estate tax is not anticipated to raise material revenue in the future. In addition to this estate tax, the State had imposed a legacies and succession tax and a transfer tax on personal property of nonresident decedents, but these taxes were repealed for decedents dying after December 31, 2003.

Communications Tax. For the 2002-03 biennium, the communications tax was increased to a 7% aggregate tax applicable to the gross charges collected for most retail communication services. The 7% tax rate was made permanent pursuant to Chapter 319 of the Laws of 2003.

Real Estate Transfer Tax. The real estate transfer tax was first enacted in 1967. Chapter 17 of the Laws of 1999 increased the permanent tax rate assessed on the sale, granting, and transfer of real estate and any interest in real estate from \$.50 per \$100 to \$.75 per \$100, or fractional part thereof, of the price or consideration effective July 1, 1999. The increase has been dedicated to the Education Trust Fund. This rate is assessed on both the buyer and the seller for the combined tax rate of \$1.50 per \$100. Where the price or consideration is \$4,000 or less, there is a minimum tax of \$20 assessed on both the buyer and seller. Pursuant to Chapter 179 of the Laws of 2011, the buyer and seller must each file a separate Declaration of Consideration (Form CD-57) with the Department of Revenue Administration. Chapter 158 of the Laws of 2001 removed the exception from the tax on transfer of real property for transfers of the title pursuant to a merger, consolidation or other reorganization qualifying as a tax-free reorganization. It also removed the exception of the transfer of title from one business entity to another, the ownership interest of which may be the same. These changes were effective for transfers occurring on or after July 1, 2001.

Effective July 1, 2008, an additional \$25 fee was legislated to be assessed for the recording of each deed, mortgage, mortgage discharge, or plan. This assessment is recorded with the LCHIP stamp. Chapter 144 of the Laws of 2009 requires that 50% of the revenue received from the \$25 LCHIP stamp in fiscal year 2011 be credited to the General Fund. Chapter 224:3, Laws of 2011, provides that \$120,000 in each of fiscal years 2012 and 2013 are credited to the LCHIP administrative fund. The balance of all recording surcharge fees collected shall be credited to the General 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. Effective July 1, 2009, pursuant to Chapter 144 of the Laws of 2009, motor vehicle fines collected at the court are credited as unrestricted revenue to the Highway Fund, while fines collected through the plea by mail program are credited as restricted Highway Fund revenue.

Statewide Education Property Tax. The State imposes an education property tax at the rate on each \$1,000 of the equalized value of real estate to raise \$363.0 million. The statewide education property tax was established in

1999 in response to litigation challenging the State's method of financing public schools. See "SCHOOL FUNDING" and "LITIGATION" herein. Since 1999, when the tax rate was established at \$6.60 per \$1,000, the State has periodically reduced the tax rate as real property valuations have risen. In addition, for fiscal years after June 30, 2004, the law requires the Commissioner of the Department of Revenue Administration to set the education property tax rate at a level sufficient to generate \$363.0 million.

Utility Property Tax. Chapter 17 of the Laws of 1999 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 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 Trust Fund.

Electric Consumption Tax. The franchise tax on electric utilities was replaced in fiscal year 2001 with a tax on electricity consumption. A tax is imposed on the consumption of electricity at the rate of \$.00055 per kilowatt hour. Consumers who are customers of municipal providers are exempt from the tax.

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 and Charitable Gaming Revenue. The operation of greyhound, harness and thoroughbred racing in the State is conducted under the supervision of the New Hampshire Racing and Charitable Gaming Commission as are Bingo and Lucky 7, games of chance. 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.

Tax on Gambling Winnings. Effective July 1, 2009, a tax of 10% is imposed on gambling winnings of New Hampshire residents from anywhere derived and gambling winnings of nonresidents derived from New Hampshire entities. Effective May 23, 2011, Chapter 47 of the Laws of 2011, the tax on gambling winnings was repealed. The repeal was not applied retroactively and, therefore, those taxpayers who reported and paid gambling winnings tax for gambling winnings received between July 1, 2009 and December 31, 2010 are not entitled to a refund based upon the repeal. Taxable gambling winnings received between January 1, 2011 and May 22, 2011 must be reported and the tax due paid by April of 2012.

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:

Lottery Receipts. The State conducts daily and weekly lotteries and instant games throughout the State through tickets sold by or on behalf of the Lottery Commission in State liquor stores, at horse and dog tracks and at authorized retail outlets in the State. In addition, 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 Lottery Enterprise Fund and are netted with expenses and transferred monthly to the Education Trust 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, 4 cents per gallon for aviation fuel, and 2 cents per gallon for aviation jet fuel. The proceeds from the aviation and aviation jet fuel tax are credited to the General Fund. 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. Prior to July 1, 2007, 2.64 cents of the 18 cent motor vehicle fuel tax was allocated to a separate account in the Highway Fund, the Highway and Bridge Betterment Account. Effective July 1, 2007, the amount allocated to the separate Highway and Bridge Betterment Account was reduced to 1.76 cents. Effective July 1, 2009, the amount allocated to Highway and Bridge Betterment returned to 2.64 cents.

Motor Vehicle Surcharge. Chapter 144:244 of the Laws of 2009, established new motor vehicle surcharges on the registration fees of all classes of vehicles to be credited to the Highway Fund. These surcharges, which were effective for the 2010-2011 biennium only, were estimated to generate \$40.9 million in fiscal year 2010 and \$44.7 million in fiscal year 2011. The portion of revenue actually attributable to the surcharge is not identifiable. In fiscal year 2009, \$73.3 million was credited as registration fees. In fiscal years 2010 and 2011, registration revenues, including the surcharge, totaled \$113.5 million and \$103.9 million, respectively. The surcharges were repealed effective July 1, 2011. Registration fee revenue for fiscal year 2012 is estimated at \$72.6 million.

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

Fiscal Year 2007

The combined General and Education Trust Fund balances, including the Revenue Stabilization Account (Rainy Day Fund) at June 30, 2007 was \$150.7 million. Fund balances have been increasing since the last recession period low point of \$17.3 million in fiscal year 2003. Prior to year-end transfers, the fiscal year 2007 operating surplus was \$47.3 million for the General and Education Trust Funds combined.

A portion of the cumulative combined surplus of \$81.7 million (current year surplus of \$47.3 million and carry forward surplus of \$34.4 million) was transferred to the Rainy Day Fund at year-end. In accordance with Chapter 263:111 of the Laws of 2007, the \$40.6 million surplus remaining in the Education Trust Fund at June 30, 2007 was transferred to the General Fund. In addition, pursuant to Chapter 263:110 of the Laws of 2007, any surplus in excess of \$20.0 million for the close of the fiscal biennium ending June 30, 2007 shall not be deposited into the Rainy Day Fund but shall remain in the General Fund. Therefore, \$20.0 million was transferred from the General Fund to the Rainy Day Fund bringing its balance to \$89.0 million at June 30, 2007.

After the Rainy Day Fund transfer, the combined General and Education Trust Fund surplus at June 30, 2007 was \$61.7 million. The surplus was primarily revenue driven as a result of greater than expected collections. Total General and Education Trust Fund unrestricted revenue for fiscal year 2007 were \$2,291.2 million or \$87.9 million (4%) greater than plan and \$108.9 million (5%) greater than prior year. Strong performance was seen from Business Taxes, Interest and Dividends Tax and Other taxes.

- Business Taxes (Business Profits Tax and Business Enterprise Tax) totaled \$598.7 million for the year, which were \$74.8 million ahead of plan and \$52.5 million above the prior year. The growth in fiscal year 2007 was a combination of audit revenue collections during the year and increases in final returns and extensions filed in March and April.
- Interest & Dividends Tax collections were \$108.1 million and were above plan by \$34.8 million and \$27.6 million above prior year. Stronger economic growth and higher interest and dividend activity resulted in many new taxpayers exceeding exemption thresholds.
- The "Other" category saw receipts of \$191.8 million, which were \$32.2 million above plan and \$34.8 million above prior year due in large part to an escheatment processed by the Treasury Department which included unclaimed shares received by the State in fiscal year 2004 related to the demutualization of insurance companies. It should be noted, however, that in accordance with accounting standards, a substantial portion of this escheatment had been previously recognized as revenue and included in prior year surplus.

Offsetting the performance of Business Taxes, Interest & Dividends Tax, and "Other" were large decreases in the Real Estate Transfer Tax, Meals and Rooms Tax and the Tobacco Tax.

- The Real Estate Transfer Tax performed below expectations with receipts totaling \$137.4 million, which were below the plan by \$43.6 million and below prior year by \$21.3 million. Due to the significant downturn in the housing market, the weak performance of the Real Estate Transfer Tax which began during the second half of fiscal year 2006 continued throughout fiscal year 2007, ending the year 24.1% and 13.4% below estimates and prior year, respectively.
- Although the Meals and Rooms Tax performed below expectations with receipts totaling \$209.8 million, which were \$7.8 million (3.6%) below plan, receipts exceeded the prior year by \$8.9 million (4.4%).
- The Tobacco Tax collected \$143.6 million for the year, \$0.9 million below plan and \$7.2 million (4.8%) below prior year due to a decrease in demand for tobacco products.

Total net appropriations, including lapses, anticipated budget reductions and savings from budget initiatives, for the General and Education Trust Fund were \$2,229.6 million, which was a minimal 2% increase over

the prior year. Lapses for fiscal 2007 for the General and Education Trust Funds were \$46.1 million as compared to \$29.4 million for fiscal year 2006. Although lapses from salaries and benefits decreased from the prior year, these were more than offset by significant lapses from certain program areas including retiree benefits, 2006 flood relief and property tax relief.

The State's self-insurance fund ended fiscal year 2007 with a surplus of \$19.5 million, net of the liability associated with pending insurance claims (commonly referred to as "incurred but not reported" or "IBNR") and reserves as required per RSA 21-I:30-b. The cash balance was \$54.8 million prior to these requirements. The surplus is the result of managing rates with effective cost containment measures.

Fiscal Year 2008

The combined General and Education Trust Fund balance, including the Revenue Stabilization Account (Rainy Day Fund) at June 30, 2008 was \$106.2 million. The Rainy Day Fund balance remained at \$89.0 million at June 30, 2008. The combined General and Education Trust Fund activity for fiscal year 2008 resulted in an aggregate operating deficit of \$37.7 million (including a \$15.3 million deficit in the Education Trust Fund). After a \$6.8 million budgeted transfer from the General Fund to the Highway Fund, a surplus of \$17.2 million remained because of a \$61.7 million surplus carry forward from fiscal year 2007. The fiscal year 2008 budget as originally adopted estimated an \$18.4 million surplus at June 30, 2008.

General and Education Trust Fund unrestricted revenue for fiscal year 2008 totaled \$2,336.7 million, which was \$48.1 million (2%) below plan and \$75.5 million (3%) above the prior year. The shortfall from plan was driven primarily by Business Taxes, the Tobacco Tax, and the Real Estate Transfer Tax.

- Real Estate Transfer Tax collections totaled \$116.3 million, which were \$23.7 million (17%) below plan and \$21.1 million (15%) below the prior year.
- Business Taxes totaled \$618.1 million, which were \$19.9 million (3%) below plan and \$19.4 million (3%) above the prior year.
- The Tobacco Tax collected \$166.4 million, which was \$17.0 million (9%) below plan and \$22.8 million (16%) above the prior year due to the tax increase implemented at the beginning of the fiscal year.

In response to the fiscal year 2008 revenue shortfalls explained above, the Governor issued three executive orders during fiscal year 2008 to reduce spending:

- Executive Order 2008-1, issued on February 22, 2008, reduced expenditures by \$3.4 million by freezing vacant positions, equipment, and out of state travel.
- Executive Order 2008-2, targeted savings of approximately \$46.4 million, which included \$44.4 million of appropriation reductions plus a \$2.0 million payment from the University System in lieu of a reduction in appropriations. This order targeted cuts across all State agencies, with approximately \$22.5 million coming from the Department of Health and Human Services. The actual fiscal year 2008 savings realized by this order totaled approximately \$40.9 million.
- Executive Order 2008-5, issued on April 29, 2008, froze State purchases except those considered an emergency.

In addition to the executive orders discussed above, Chapter 1 of the 2008 Special Legislative Session mandated the Pease Development Authority repay the State \$10 million loaned to the Authority in 1993 and 1994 for start up costs. The legislation requires the Authority repay the \$10 million by December 1, 2008 and also increases the State guarantee limit on Authority related debt, in order to permit the Authority to finance the payment. The \$10 million receivable from the Authority is included in the \$17.2 million fiscal year 2008 surplus discussed above. The Authority paid \$10 million to the State on November 26, 2008.

General and Education Trust Fund total net appropriations for fiscal year 2008, including budget reductions and lapses, were \$2,411.6 million, \$182.0 million (8%) above the prior year primarily due to increases in education grants, health and social services and aid to cities and towns. Lapses for fiscal 2008 for the General and Education Trust Funds were \$61.3 million as compared to \$46.1 million for fiscal year 2007. Salaries and benefits lapses accounted for slightly over half of this increase as a result of the hiring freezes and employee health benefit savings.

Fiscal year 2008 lapses attributable to the Executive Orders and other targeted savings initiatives totaled approximately \$35.3 million for fiscal year 2008.

The State's self-insurance fund ended fiscal year 2008 with a surplus of \$5.3 million, net of the liability associated with pending insurance claims (commonly referred to as "incurred but not reported" or IBNR) and reserves as required per RSA 21-I:30-b. The cash balance was \$44.6 million prior to these requirements. The surplus is the result of managing insurance rates with effective cost containment measures.

Fiscal Year 2009

The fiscal year 2009 budget as originally adopted estimated a surplus of \$18.4 million would be available to begin fiscal year 2009. The actual General Fund surplus at June 30, 2008 totaled \$17.2 million.

The General and Education Trust Funds revenues for fiscal year 2009 were \$2,202.4 million, which were \$315.3 million (12.5%) below plan and \$164.3 million (6.9%) below the prior year revenues. As experienced in fiscal year 2008, business taxes and the Real Estate Transfer Tax continued to drive the underperformance in revenues. Business taxes were \$182.9 million (27.1%) below plan for the year and \$127.0 million (20.5%) below the prior year figures. The Real Estate Transfer Tax was \$64.4 million (44.2%) below plan for the year and \$35.1 million (30.2%) below the prior year figures. Including \$15.1 million of additional revenues included in Executive Order's discussed below, total General and Education Trust Fund revenues were \$2,217.5 million for fiscal year 2009.

Throughout fiscal year 2009, the State's revenue outlook for the year deteriorated. To close the then projected fiscal year 2009 shortfall, the following actions were taken:

- Chapter 144 of the Laws of 2009 ("HB 2") directed that \$65 million be liquidated from the \$110 million surplus in the medical malpractice insurance fund. This fund was originally established in the 1970s to provide coverage as the insurer of last resort. The fund is administered by the Joint Underwriters Association ("JUA") and has accumulated a surplus in excess of required reserves. However, a group of medical providers ("Providers") in the State challenged the State's right to use this surplus and on January 28, 2010, the State Supreme Court decided in the favor of the Providers' position, rendering this revenue action ineffective. In order to address this shortfall, an additional \$65 million was transferred from the State's Rainy Day Fund in lieu of the amount from the medical malpractice insurance fund.
- Bonding of \$40 million in fiscal year 2009 school building aid payments.
- Applying increased federal Medicaid reimbursement rates from the American Recovery and Reinvestment Act (ARRA) of \$22.4 million to Medicaid costs incurred during fiscal year 2009.
- Applying \$34.0 million in unallocated State Fiscal Stabilization Funds from ARRA monies.
- Executive Order 2008-1 was expanded with Executive Order 2008-8 to freeze vacant positions, equipment and out of state travel for fiscal year 2009, reducing fiscal year 2009 expenditures by \$9.2 million.
- Executive Order 2008-9, issued on June 17, 2008, reduced fiscal year 2009 appropriations and increased miscellaneous revenues across all State agencies, and totaled \$30.1 million.
- Executive Order 2008-10 issued on November 21, 2008 further reduced fiscal year 2009 appropriations and increased miscellaneous revenues across all State agencies in addition to those in Order 2008-9 and totaled \$53.5 million.
- Executive Order 2008-11 significantly restricted, and in some instances eliminated, the use of overtime, consultants, tuition reimbursements, and other categories of spending for fiscal year 2009 estimated savings of \$5.0 million.
- Chapter 1 of the Laws of 2009 effective February 20, 2009 further reduced the shortfall by \$16.7 million primarily by transferring dedicated funds and reducing the General Fund contribution to the Highway Fund.

Various other actions taken by the State to close the gap, along with ongoing efforts by agencies and departments statewide to manage expenses, contributed to fiscal year 2009 lapses coming in approximately \$20

million above estimates. After these measures, a total of \$79.7 million (including the \$65 million transfer referenced above) of the State's Rainy Day Fund was needed to cover the remaining undesignated, unreserved deficit in the State's General and Education Trust Funds, leaving the Rainy Day Fund with a balance of \$9.3 million at June 30, 2009.

General and Education Trust Fund total net appropriations for fiscal year 2009, including budget reductions and lapses, were \$2,332.7 million, \$78.9 million (3%) below the prior year. Lapses for General and Education Trust Funds were \$74.2 million as compared to \$61.3 million for the prior year.

Fiscal Year 2010

Effective with the close of fiscal year 2009, a total of \$79.7 million was drawn from the Rainy Day Fund to eliminate the deficit at that time. Accordingly, fiscal year 2010 began with no undesignated surplus. The State's revenues continued to decline from plan throughout the early part of fiscal year 2010, and mid-year revenue estimates from the House Ways and Means Committee predicted a \$295 million shortfall over the biennium, of which \$173.4 million was expected for fiscal year 2010. To close the then projected fiscal year 2010 shortfall, the following actions were taken:

- On April 12, 2010, the Joint Legislative Fiscal Committee approved the Governor's Executive Order 2010-2, addressing this shortfall and affecting the Departments of Health and Human Services, Administrative Services, Corrections and Education, as described below.
- On June 9, 2010, the House and Senate approved Special Session House Bill 1 (SSHB1), which, combined with Executive Order 2010-2, was intended to address the projected shortfall. On June 10, 2010 the bill was signed into law thereby enacting revenue enhancements and spending reductions spanning the remainder of the 2010-2011 biennium. The actions expected to affect the remainder of the 2010-2011 biennium included General Fund spending reductions, transfers from dedicated fund balances, increases in expected lapses, restructuring of the state debt, a transfer from the University System, transfers of State Fiscal Stabilization Funds (ARRA) from fiscal year 2011 and the sale of assets to the Turnpike System, among others.

Prior to Executive Order 2010-2 and SSHB1, the General and Education Trust Funds revenues for fiscal year 2010 were expected to be \$2,224.7 million, which amount was \$34.4 million below the amount in the original enacted budget. Executive Order 2010-2 and SSHB1 resulted in \$28.1 million of projected additional revenues.

Appropriations under the original enacted budget totaled \$2,485.7 million. Executive Order 2010-2 and SSHB1 reduced appropriations to \$2,237.2 million before year end lapses. The amount of lapses anticipated in the original budget was \$23.1 million and legislative actions added another \$18.4 million. Final lapses were \$44.4 million, \$2.9 million greater than the amount expected, thereby resulting in total net appropriations of \$2,192.8 million for fiscal year 2010. Transfers from other funds and the effects of adjustments to conform reporting to generally accepted accounting principles resulted in a General and Education Trust Fund undesignated fund balance of \$65.7 million at the end of fiscal year 2010. A balance of \$9.3 million also remains in the Rainy Day Fund. As provided by law, no further transfer to or from the Rainy Day Fund will be made until the end of the current biennium.

Fiscal year 2010 unrestricted revenue for the General and Education Funds totaled \$2,252.8 million including \$28.1 million of revenue related to legislative actions discussed above. After excluding \$15.1 million of Executive Order revenues from the prior year, non Special Session and Executive Order revenues for fiscal year 2010 exceeded prior year (2009) revenues by \$22.3 million but were still \$34.4 million below the original plan. Ongoing economic weakness and the resulting impact on the investment environment and discretionary spending is believed to have contributed to the following effects on revenues:

- Interest & Dividend Taxes were below the plan by 27% and below the prior year by 13%.
- Meals and Rooms Taxes were below the plan by 7%, although above the prior year by 11% due to a rate increase of 12.5% effective for all of fiscal year 2010.
- The Lottery Commission contributed 11% less than plan for the year and was 3% below the prior year, due to increased regional competition, low Powerball jackpots and a fall off in sales of other products.
- Other taxes and revenues, comprised of numerous categories, were \$5.7 million less than the plan and \$20.7 million less than the prior year, primarily in miscellaneous taxes and fees.

These impacts of the economic environment were mitigated in part by the strong performance from the Tobacco Tax which was 12% above the plan and 30% above the prior year due to a tax rate increase of 34%, which was effective for all of fiscal year 2010. Also, the Real Estate Transfer Tax showed signs of stabilization, ending the year slightly above the plan and \$3.6 million above the prior year.

Fiscal Year 2011

Fiscal year 2011 began with a an undesignated surplus of 65.7 million and a Rainy Day Account balance of \$9.3 million versus the original fiscal year 2011 budget estimate which was a combined total of \$21.6 million. This was an increase of approximately \$53.4 million of which a significant portion was utilized during fiscal year 2011.

In fiscal year 2010 as the State's revenue receipts remained less than the original budget had projected, the State implemented cost reduction plans to align with the revised revenue projections for both fiscal years 2010 and 2011. The revised revenue estimate for fiscal year 2011 became \$2,234.1 million (2010 Special Session) which represented a reduction of approximately \$58 million for the general revenue decline and an additional \$17 million in reductions for certain tax laws that were repealed in 2010.

The General and Education Trust Funds revenues, before Executive Order and Special Session revenues, for fiscal year 2011 were \$2,193.2 million, which were \$40.9 million (1.8%) below plan (SSHB1 2010 Special Session) and \$31.5 million (1.4%) below prior year. Several individual categories also performed below SSBH1 estimates and below prior year results, respectively, including: Business taxes, \$12.8 million (2.5%) and \$19.9 million (3.9%); Interest and Dividends, \$13.5 million (15.0%) and \$8.3 million (9.8%); Real Estate Transfer tax, \$7.2 million (8.1%) and \$2.8 million (3.3%); and Lottery collections, \$15.5 million (19.9%) and \$4.0 million (6.0%). Other results include Meals and Rooms taxes which were \$9.5 million (3.9%) below plan but \$3.0 million (1.3%) above prior year, Tobacco taxes which were \$6.0 million (2.7%) above plan but \$16.9 million (6.9%) below prior year, and the shortfall of Medicaid Enhancement Tax which was below plan and prior year by \$15.1 million (13.9%) and \$4.7 million (4.8%), respectively.

As a result of (i) the lower unrestricted revenues anticipated during fiscal year 2011, (ii) the absence of other funding sources originally budgeted (JUA funding, Sale/Lease of certain Liquor Assets), and (iii) the fiscal year 2010 utilization of fiscal year 2011 budgeted ARRA State Fiscal Stabilization Funds (Education & Government Services), the State implemented various cost savings and cost reduction measures. Some of the significant cost savings measures implemented included the restructuring of debt which generated savings of approximately \$40 million, direct budget cuts and a continued freeze on hiring, equipment and travel. In addition, the State received more ARRA FMAP funding (approximately \$32 million from a Federal extension of this program) as well as increased federal Education Jobs funding. Of the \$41 million of Education Jobs funding received, approximately 50% was used to fund the budgeted State education requirements and the remaining 50% was provided to Local Education Agencies.

In addition to direct budget reductions implemented during the year, various lapses were required of State agencies as of June 30, 2011. The initial budgeted lapse requirement for fiscal year 2011 of \$23.5 million had been increased during the 2010 Special Session and additional increases were part of Chapters 223 and 244 Laws of 2011. Ultimately, the State's actual lapse realized for fiscal year 2011 was \$101.9 million which was approximately \$78.4 million above the original budget estimate. Through enabling legislation and strict financial management during the year, the State was able to return a significant amount of additional funding back to the General Fund.

The final undesignated fund balance as of June 30, 2011 was \$17.7 million plus the Rainy Day fund balance of \$9.3 million for a total of \$27.0 million. The combined balances are approximately \$3 million less than the original budget had projected in 2009 (\$30.4 million).

The following tables present a comparison of General Fund and Education Trust Fund unrestricted revenues for fiscal years 2007 through 2011 and General Fund and Education Trust Fund net appropriations for fiscal years 2007 through 2011. The information is derived from the State's audited financial statements.

GENERAL AND EDUCATION TRUST FUND UNRESTRICTED REVENUES
FISCAL YEARS 2007-2011
(GAAP Basis - In Millions)

Revenue Category	FY 2007			FY 2008			FY 2009			FY 2010			FY 2011		
	General	Education	Total												
Business Profits Tax	\$ 287.4	\$ 57.8	\$ 345.2	\$ 317.4	\$ 68.0	\$ 385.4	\$ 251.9	\$ 53.9	\$ 305.8	\$ 258.6	\$ 57.6	\$ 316.2	\$ 248.5	\$ 49.3	\$ 297.8
Business Enterprise Tax	<u>79.3</u>	<u>174.2</u>	<u>253.5</u>	<u>77.7</u>	<u>155.0</u>	<u>232.7</u>	<u>61.9</u>	<u>123.4</u>	<u>185.3</u>	<u>71.7</u>	<u>122.2</u>	<u>193.9</u>	<u>63.0</u>	<u>129.4</u>	<u>192.4</u>
Subtotal	366.7	232.0	598.7	395.1	223.0	618.1	313.8	177.3	491.1	330.3	179.8	510.1	311.5	178.7	490.2
Meals & Rooms Tax	202.6	7.2	209.8	206.7	7.6	214.3	203.6	6.1	209.7	228.3	4.2	232.5	228.9	6.6	235.5
Tobacco Tax	65.3	78.3	143.6	57.1	109.3	166.4	59.3	128.8	188.1	130.5	113.0	243.5	129.8	96.8	226.6
Liquor Sales and Distribution	124.7	-	124.7	133.1	-	133.1	146.0	-	146.0	120.7	-	120.7	125.7	-	125.7
Interest & Dividends Tax	108.1	-	108.1	118.7	-	118.7	97.1	-	97.1	84.9	-	84.9	76.6	-	76.6
Insurance Tax	97.9	-	97.9	95.9	-	95.9	94.2	-	94.2	86.8	-	86.8	84.9	-	84.9
Communications Tax	73.0	-	73.0	80.9	-	80.9	80.3	-	80.3	81.0	-	81.0	76.5	-	76.5
Real Estate Transfer Tax	91.7	45.7	137.4	77.7	38.6	116.3	53.5	27.7	81.2	56.0	28.8	84.8	54.0	28.0	82.0
Securities Revenue	33.0	-	33.0	34.7	-	34.7	34.7	-	34.7	34.2	-	34.2	37.0	-	37.0
Lottery Transfers Racing & Charitable Gaming Commission Transfers	-	79.0	79.0	-	75.5	75.5	-	68.1	68.1	-	66.2	66.2	-	62.2	62.2
Tobacco Settlement	-	1.5	1.5	-	1.5	1.5	-	1.5	1.5	-	1.4	1.4	-	1.3	1.3
Tobacco Settlement	-	40.8	40.8	8.4	40.0	48.4	12.8	40.0	52.8	4.2	40.0	44.2	1.7	40.0	41.7
Utility Property Tax	-	21.8	21.8	-	24.2	24.2	-	29.0	29.0	-	29.9	29.9	-	32.3	32.3
State Property Tax	-	363.3	363.3	-	363.1	363.1	-	363.7	363.7	-	363.2	363.2	-	363.6	363.6
Other	<u>159.4</u>	<u>-</u>	<u>159.4</u>	<u>162.4</u>	<u>-</u>	<u>162.4</u>	<u>143.5</u>	<u>-</u>	<u>143.5</u>	<u>123.3</u>	<u>-</u>	<u>123.3</u>	<u>135.9</u>	<u>-</u>	<u>135.9</u>
Subtotal	1,322.4	869.6	2,192.0	1,370.7	882.8	2,253.5	1,238.8	842.2	2,081.0	1,280.2	826.5	2,106.7	1,262.5	809.5	2,072.0
Net Medicaid Enhancement Revenues	83.3	-	83.3	93.1	-	93.1	99.6	-	99.6	98.1	-	98.1	93.4	-	93.4
Recoveries	<u>15.9</u>	<u>-</u>	<u>15.9</u>	<u>20.1</u>	<u>-</u>	<u>20.1</u>	<u>21.8</u>	<u>-</u>	<u>21.8</u>	<u>19.9</u>	<u>-</u>	<u>19.9</u>	<u>27.8</u>	<u>-</u>	<u>27.8</u>
Subtotal	1,322.4	869.6	2,291.2	1,483.9	882.8	2,366.7	1,360.2	842.2	2,202.4	1,398.2	826.5	2,224.7	1,383.7	809.5	2,193.2
Executive Orders & Special Session Revenues	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>15.1</u>	<u>-</u>	<u>15.1</u>	<u>28.1</u>	<u>-</u>	<u>28.1</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>\$1,421.6</u>	<u>\$869.6</u>	<u>\$2,291.2</u>	<u>\$1,483.9</u>	<u>\$882.8</u>	<u>\$2,366.7</u>	<u>\$1,375.3</u>	<u>\$842.2</u>	<u>\$2,217.5</u>	<u>\$1,426.3</u>	<u>\$826.5</u>	<u>\$2,252.8</u>	<u>\$1,383.7</u>	<u>\$809.5</u>	<u>\$2,193.2</u>

**GENERAL FUND AND EDUCATION TRUST FUND NET APPROPRIATIONS
FISCAL YEARS 2007-2011
(GAAP Basis – In Millions)**

Category of Government	<u>FY 2007</u>			<u>FY 2008</u>			<u>FY 2009</u>			<u>FY 2010</u>			<u>FY 2011</u>		
	<u>General</u>	<u>Education</u>	<u>Total</u>												
General Government	\$276.1	\$0.0	\$276.1	\$311.2	\$0.0	\$311.2	\$311.4	\$0.0	\$311.4	\$300.5	\$0.0	\$300.5	\$248.3	\$0.0	\$248.3
Justice and Public Protection	221.7	-	221.7	246.6	-	246.6	233.7	-	233.7	211.8	-	211.8	208.0	-	208.0
Resource Protection and Development	42.2	-	42.2	43.9	-	43.9	39.3	-	39.3	36.3	-	36.3	31.1	-	31.1
Transportation	2.6	-	2.6	1.1	-	1.1	1.1	-	1.1	0.6	-	0.6	1.0	-	1.0
Health and Social Services	626.5	-	626.5	675.6	-	675.6	655.0	-	655.0	647.7	-	647.7	647.5	-	647.5
Education	<u>221.9</u>	<u>838.6</u>	<u>1,060.5</u>	<u>235.8</u>	<u>897.4</u>	<u>1,133.2</u>	<u>197.5</u>	<u>894.7</u>	<u>1,092.2</u>	<u>201.2</u>	<u>794.7</u>	<u>995.9</u>	<u>190.0</u>	<u>933.4</u>	<u>1,123.4</u>
Net Appropriations	<u>\$1,391.0</u>	<u>\$838.6</u>	<u>\$2,229.6</u>	<u>\$1,514.2</u>	<u>\$897.4</u>	<u>\$2,411.6</u>	<u>\$1,438.0</u>	<u>\$894.7</u>	<u>\$2,332.7</u>	<u>\$1,398.1</u>	<u>\$794.7</u>	<u>\$2,192.8</u>	<u>\$1,325.9</u>	<u>\$933.4</u>	<u>\$2,259.3</u>

The following table sets out the General Fund and Education Trust Fund undesignated fund balances and the amounts reserved for the Revenue Stabilization Account for each of the fiscal years 2007 through 2011. The information for fiscal years 2007 through 2011 is derived from the State's audited financial statements.

**GENERAL FUND AND EDUCATION TRUST FUND BALANCES
FISCAL YEARS 2007-2011
(GAAP Basis - In Millions)**

	<u>FY 2007</u>			<u>FY 2008</u>			<u>FY 2009</u>			<u>FY 2010</u>			<u>FY 2011</u>		
	<u>General</u>	<u>Education</u>	<u>Total</u>												
Undesignated Fund Balance, July 1	\$ <u>26.0</u>	\$ <u>8.4</u>	\$ <u>34.4</u>	\$ <u>61.7</u>	\$ <u>0.0</u>	\$ <u>61.7</u>	\$ <u>17.2</u>	\$ <u>0.0</u>	\$ <u>17.2</u>	\$ <u>0.0</u>	\$ <u>0.0</u>	\$ <u>0.0</u>	\$ <u>65.7</u>	\$ <u>0.0</u>	\$ <u>65.7</u>
Additions:															
Unrestricted Revenue	1,421.6	869.6	2,291.2	1,483.9	882.8	2,366.7	1,360.2	842.2	2,202.41	1,398.2	826.5	2,224.7	1,383.7	809.5	2,193.2
Executive Orders and Special Session Revenues	-	-	-	-	-	-	15.1	-	15.1	28.1	-	28.1	1.5	-	1.5
Total Additions	<u>1,421.6</u>	<u>869.6</u>	<u>2,291.2</u>	<u>1,483.9</u>	<u>882.8</u>	<u>2,366.7</u>	<u>1,375.3</u>	<u>842.2</u>	<u>2,217.5</u>	<u>1,426.3</u>	<u>826.5</u>	<u>2,252.8</u>	<u>1,385.2</u>	<u>809.5</u>	<u>2,194.7</u>
Deductions:															
Appropriations Net of Estimated Revenues	(1,432.6)	(843.1)	(2,275.7)	(1,575.8)	(897.1)	(2,472.9)	(1,509.2)	(897.7)	(2,406.9)	(1,440.4)	(796.8)	(2,237.2)	(1,595.5)	(938.3)	(2,533.8)
Special Session Reductions	-	-	-	-	-	-	-	-	-	-	-	-	172.5	-	172.5
Less: Lapses	<u>41.6</u>	<u>4.5</u>	<u>46.1</u>	<u>61.6</u>	<u>(0.3)</u>	<u>61.3</u>	<u>71.2</u>	<u>3.0</u>	<u>74.2</u>	<u>42.3</u>	<u>2.1</u>	<u>44.4</u>	<u>97.1</u>	<u>4.8</u>	<u>101.9</u>
Total Net Appropriations	<u>(1,391.0)</u>	<u>(838.6)</u>	<u>(2,229.6)</u>	<u>(1,514.2)</u>	<u>(897.4)</u>	<u>(2,411.6)</u>	<u>(1,438.0)</u>	<u>(894.7)</u>	<u>(2,332.7)</u>	<u>(1,398.1)</u>	<u>(794.7)</u>	<u>(2,192.8)</u>	<u>(1,325.9)</u>	<u>(933.5)</u>	<u>(2,259.4)</u>
GAAP and Other Adjustments	<u>(15.5)</u>	<u>1.2</u>	<u>(14.3)</u>	<u>7.9</u>	<u>(0.7)</u>	<u>7.2</u>	<u>20.5</u>	<u>(0.4)</u>	<u>20.1</u>	<u>(7.0)</u>	<u>(0.3)</u>	<u>(7.3)</u>	<u>14.6</u>	-	<u>14.6</u>
Current Year Balance	<u>15.1</u>	<u>32.2</u>	<u>47.3</u>	<u>(22.4)</u>	<u>(15.3)</u>	<u>(37.7)</u>	<u>(42.2)</u>	<u>(52.9)</u>	<u>(95.1)</u>	<u>21.2</u>	<u>31.5</u>	<u>52.7</u>	<u>73.9</u>	<u>(124.0)</u>	<u>(50.1)</u>
Transfers (to)/from:															
Revenue Stabilization Account	(20.0)	-	(20.0)	-	-	-	79.7	-	79.7	-	-	-	-	-	-
Liquor Commission	-	-	-	-	-	-	-	-	-	6.5	-	6.5	2.1	-	2.1
Highway Fund	-	-	-	(6.8)	-	(6.8)	(1.8)	-	(1.8)	6.5	-	6.5	-	-	-
Education Trust Fund	<u>40.6</u>	<u>(40.6)</u>	-	<u>(15.3)</u>	<u>15.3</u>	-	<u>(52.9)</u>	<u>52.9</u>	-	<u>31.5</u>	<u>(31.5)</u>	-	<u>(124.0)</u>	<u>124.0</u>	-
Undesignated Fund Balance, June 30	<u>61.7</u>	<u>0.0</u>	<u>61.7</u>	<u>17.2</u>	<u>0.0</u>	<u>17.2</u>	-	<u>0.0</u>	<u>0.0</u>	<u>65.7</u>	<u>(0.0)</u>	<u>65.7</u>	<u>17.7</u>	<u>(0.0)</u>	<u>17.7</u>
Reserved for Revenue Stabilization Account	<u>89.0</u>	-	<u>89.0</u>	<u>89.0</u>	-	<u>89.0</u>	<u>9.3</u>	-	<u>9.3</u>	<u>9.3</u>	-	<u>9.3</u>	<u>9.3</u>	-	<u>9.3</u>
Total Equity	\$ <u>150.7</u>	\$ <u>0.0</u>	\$ <u>150.7</u>	\$ <u>106.2</u>	\$ <u>(0.0)</u>	\$ <u>106.2</u>	\$ <u>9.3</u>	\$ <u>0.0</u>	\$ <u>9.3</u>	\$ <u>75.0</u>	\$ <u>(0.0)</u>	\$ <u>75.0</u>	\$ <u>27.0</u>	\$ <u>(0.0)</u>	\$ <u>27.0</u>

American Recovery and Reinvestment Act of 2009

On January 27, 2009, the Governor issued Executive Order 2009-1 creating the Office of Economic Stimulus (“OES”). On June 30, 2011 the office was discontinued. The OES was responsible for coordinating with State agencies to ensure all conditions of the American Recovery and Reinvestment Act of 2009 (“ARRA”) were met.

In fiscal year 2010, the State received \$105.6 million in ARRA funding on Medicaid claims paid from July 1, 2009 through June 30, 2010. The State received approximately \$84.2 million from ARRA funding in fiscal year 2011. Medicaid reimbursement rates for the fiscal years 2010 and 2011 were 61.24% and 59.59%, respectively.

The ARRA provided significant State funding through a provision known as the State Fiscal Stabilization Fund. The State’s allocation totaled \$200.8 million. As required by federal law, the State budgeted 81.8 percent (\$164 million) of its allocation for education. With approval from the Federal Department of Education, the State utilized \$160,156,434 for primary and secondary education funding in its fiscal year 2010. The ARRA provided that a portion of the State Fiscal Stabilization Fund could be used by states for public safety and other government services. The State allocated this flexible portion to fund other State government services of \$34 million in fiscal year 2009 and \$2.0 million over fiscal years 2010 and 2011.

Under the federal Education Jobs Fund (Public Law 111-226), the State was awarded \$40,988,015, which is in the process of being distributed to Local Education Agencies (LEAs) through the State’s primary elementary and secondary education funding formula. To provide additional support for communities, fifty percent of these funds, \$20,494,008, is being distributed to LEAs proportionally through the State’s primary elementary and secondary education funding formula as additional aid above the fiscal year 2011 education funding distribution under State law. This additional federal aid was available to LEAs during the previous fiscal year. An LEA that has funds remaining after the 2010-2011 school year may obligate those remaining funds through September 30, 2012.

In July 2010, Network New Hampshire Now (NNHN), a collaboration of public and private partners from across the State led by the University of New Hampshire, received a \$44.5 million grant of economic stimulus funds for critically needed broadband expansion across the State. The \$44.5 million grant was matched with \$22 million in private cash and in-kind funding. NNHN is expanding broadband in all 10 counties in the State and includes a wireless public safety network, connectivity for an intelligent transportation system, and last mile “fiber to the home” in two communities. The largest component is a middle mile fiber network that connects and supports the entire program, including connecting dozens of community anchor institutions, such as healthcare providers, community colleges, schools and libraries. The State does not expect a budget impact under this program.

During fiscal year 2011 the State received additional direct program allocations through the ARRA for specific program purposes that are being administered through various State agencies. The State does not anticipate receiving any new American Recovery and Reinvestment Awards during State fiscal year 2012. Remaining balances of awarded funds are anticipated to be expended fully by calendar 2015.

Summary of Awards: these amounts cannot be used to offset amounts previously funded with State dollars. All ARRA amounts (other than enhanced FMAP funds) are included.

Office of Economic Stimulus	\$200.8 million
Department of Transportation	\$139.6 million
Department of Education.....	\$135.5 million
Department of Environmental Services.....	\$ 64.5 million
Office of Energy and Planning	\$ 70.2 million
Department of Health and Human Services	\$ 25.9 million
Department of Justice	\$ 8 million
Department of Labor	\$ 8 million
Department of the Adjutant General	\$ 5 million
Community Development Finance Authority	\$ 2.4 million
Department of Employment Security	\$ 1.6 million
Public Utilities Commission.....	\$784 thousand
Department of Cultural Resources	\$293 thousand
Department of Administrative Services	\$218 thousand

Operating Budget Fiscal Years 2012 and 2013

General and Education Trust Funds. Chapters 223 and 224 of the Laws of 2011, the operating budget laws for fiscal years 2012 and 2013, became law without the Governor's signature on June 29, 2011. The adopted budget assumed an \$8.8 million draw on the \$9.3 million Rainy Day Fund balance at June 30, 2011. However, results from the audited financial statements for the year ended June 30, 2011, released on February 29, 2012, indicate fiscal year 2011 closed with a \$17.6 million surplus. Total net appropriations (including estimated lapses) for the General and Education Trust Funds for fiscal years 2012 and 2013 as set forth in Chapter 223 and 224 are \$2,209.3 million and \$2,211.2 million, respectively. Lapse estimates are \$43.2 million and \$44.6 million for fiscal years 2012 and 2013, respectively. The State cannot predict whether these lapse estimates will be achieved. Total net General and Education Trust Fund appropriations are 1% less than expenditures in the 2010-2011 biennium amounting to a reduction of \$31.7 million over the biennium. Noteworthy reductions and program changes in the 2012-2013 budgeted appropriations include:

- Redirecting \$158 million of State Medicaid enhancement tax revenue that has historically been provided to the State's disproportionate share hospital program (DSH) to fund provider payments in the State's Medicaid program that have historically been funded by State general funds.
- State support for public higher education reduced by \$105.2 million over the biennium. The Community College System is reduced from \$37.6 million in fiscal year 2011 to \$31.6 million in fiscal year 2012 and \$32 million in fiscal year 2013, and State support for the University System is reduced from \$100 million in fiscal year 2011 to \$51.7 million in fiscal year 2012 and \$54.7 million in fiscal year 2013, inclusive of the 529 program fee revenue discussed below.
- A requirement that \$50 million (\$20 million allocable to the State General Fund) in savings over the biennium be achieved from compensation and benefit expenses, with the goal of flat-funding employee healthcare costs at the fiscal year 2011 level through the biennium, subject to collective bargaining. On November 20, 2011, the Governor submitted a plan to reduce compensation and benefit expenses over the biennium by \$60.6 million in total funds and \$20 million in general funds. New contract agreements were reached with all State employee unions, which provided for over half of the savings included in the Governor's plan. The agreements include a one-year freeze in employee "step" pay increases, increased employee contributions to health insurance working rates, and increased employee copays for prescription drugs and office visits. The agreements also include other changes to employee prescription drug benefits including generic step therapy and quantity limits.
- Eliminating 1,156 positions across State government, including 1,034 eliminations effective June 30, 2011 that included 111 layoffs. The elimination of 122 positions effective on later dates through June 30, 2012 may result in additional layoffs. The savings from position eliminations is approximately \$162 million over the biennium from all funding sources.
- Revenue sharing to cities and towns of \$25 million in each year of the biennium has been suspended for the current biennium as was the case for the biennium ended June 30, 2011.
- The State's share of Retirement System employer contributions on behalf of local governments for teachers, police and fire is reduced to \$3.5 million in fiscal year 2012 and \$0 in fiscal year 2013. The State subsidized 25% of the local government employer contributions for these employees in fiscal year 2011 at a cost of approximately \$45 million. Before the elimination, the State's share was scheduled to return to 35% for fiscal years 2012 and 2013. Eliminating the 35% State share is currently expected to save the State approximately \$171 million over the biennium, net of the \$3.5 million appropriation for fiscal year 2012. The State contributed approximately \$250 million in employer contributions for State and on behalf of local employees during the 2010-2011 biennium. It is expected the State will contribute approximately \$160 million during the 2012-2013 biennium only for State employees. The difference is expected to be funded by increased contributions from both local employers and local employees. See STATE RETIREMENT SYSTEM. Local employers have challenged the reduced State share funding on behalf of local employees in court. See LITIGATION - *City of Concord, Belknap County and Mascenic Regional School District v. State and State Retirement System*.

- The Postsecondary Education Commission, a stand-alone State agency that provides scholarships and regulates institutions of higher education, is eliminated. Certain regulatory functions are transferred to a newly established Division of Higher Education at the Department of Education, saving \$8 million over the biennium.
- Most fee revenue the State receives from its 529 college savings plan is re-directed for the biennium from scholarship and endowment support for both public and private in-state higher education institutions to directly support the operations of the State's Community College and University Systems. This action is currently expected to increase revenue by approximately \$35 million over the biennium, which amount includes a \$16.5 million balance as of June 30, 2011.
- Beginning the centralization of State human resources and other business functions under the Department of Administrative Services, which is estimated to save an aggregate of \$2.4 million total funds over the biennium, of which \$1 million is estimated General Fund savings, with increased savings in future biennia as additional consolidation is achieved.
- Consolidating and eliminating programs at the Department of Health and Human Services, including eliminating the catastrophic illness program (\$510,000 savings), suspending support to hospitals for medical education costs (\$3 million savings), eliminating the contract for management of the children's health insurance program and consolidating the program into the State's existing Medicaid unit (\$5.2 million savings), consolidating eligibility determination and district offices (\$2.9 million savings), and contract consolidation (\$5.5 million savings).
- Launching a comprehensive Medicaid managed care program, building on the many managed care practices the Department of Health and Human Services is already implementing, saving \$16 million over the biennium, net of startup costs.
- Directs the Department of Administrative Services to offer the property of the former State school in Laconia to the City of Laconia for \$10 million and if refused, to Belknap County for fair market value. If that offer is refused, a request for proposals will be issued to sell the land and buildings at fair market value on the open market. The proceeds from the sale will be deposited in the State's Rainy Day Fund. Since the budget was passed, the State has appraised the property at \$2.2 million.
- The State's primary education funding formula is flat-funded at approximately \$940 million per year in the operating budget, avoiding an expected \$100 million increase over the biennium due to changes to the formula passed in separate legislation, Chapter 258 of the Laws of 2011.
- Effective July 1, 2011 the tobacco tax was decreased by ten cents from \$1.78 per package of 20 cigarettes to \$1.68 per package. The tobacco tax revenue estimate for the 2012-2013 biennium was reduced by \$9.9 million or 3.8% over the estimated actual for the 2010-2011 biennium.

Highway Funds. Total net operating appropriations (including estimated lapses) for the Highway Fund for fiscal years 2012 and 2013 as set forth in Chapter 223 and 224 were \$270.5 million and \$266.1 million, respectively. This does not include capital appropriations. It is estimated that the temporary \$30 surcharge on motor vehicle registrations fee that was in place only for fiscal years 2010 and 2011 will reduce Highway Fund unrestricted revenues by \$60 million over the 2012-2013 biennium, with an additional \$30 million reduction in the associated restricted revenues used to fund the "Betterment" maintenance program for State roads. The Betterment program had been increased for the 2010-2011 biennium to benefit from the temporary \$30 surcharge. The \$60 million revenue reduction was covered primarily by accelerating \$40 million in payments over the biennium from the Turnpike System. These payments result from the sale of that occurred in fiscal year 2010 of 1.6 miles of Interstate 95 by the Highway System to the Turnpike System. Additionally, total net operating Highway Fund appropriations are 2.7% less than estimated expenditures in the 2010-2011 biennium amounting to a reduction of \$14.9 million over the biennium.

Summary of Significant Variances Between Budget Assumptions and Actual Results through March 23, 2012. Since approval of the operating budget for fiscal years 2012 and 2013, certain events have occurred that differ from assumptions used when the operating budget was approved. The following lists significant variances from the original assumptions:

- As of July 1, 2011, the General Fund beginning unassigned equity balance was \$26.5 million higher than was estimated at the time the budget was adopted.
- Order to pay CMS resulting from 2004 Audit: this results in approximately \$27 million being paid back to federal government through June 30, 2013 that was not budgeted for. Health & Human Services plans to absorb some of this within its current budgeted appropriations. See *MEDICAID PROGRAM – Office of Inspector General Audit of New Hampshire’s DSH Program*.
- *Chase Home* litigation. The State Supreme Court ruled in favor of the plaintiff. The State will be required to pay judgment not budgeted for. The estimated General Fund impact is \$2.3 million. An additional appropriation may be required in the current biennium to fund this judgment. See *LITIGATION - Chase Home et al v. Division of Children, Youth and Families*.
- Adjustment payments made to hospitals for certain outpatient services totaling \$5.3 million in General Funds in fiscal year 2012. Health & Human Services plans to absorb this within its current budgeted appropriations. See *STATE FINANCES – State Revenues – Medicaid Enhancement Tax (MET) Revenues*.
- Temporary Assistance to Needy Families/Aid to Permanently and Totally Disabled (TANF/APTD) Fiscal years 2012 and 2013 Budget correction. Senate Bill 198 (SB198) made necessary law changes needed to implement the budget as adopted. SB198 was signed into law on January 13, 2012 and will result in an additional \$4.8 million in General Fund spending in fiscal year 2012. Health & Human Services plans to absorb this within its current budgeted appropriations.
- The budget assumed General Fund savings of \$26 million over the biennium resulting from recertification of Retirement System employer contribution rates. Projected General Fund savings are currently \$14 million less than the budgeted amount. The State is developing plans to address this shortfall.
- The budget assumed \$10 million would be credited to Rainy Day Fund in fiscal year 2013 from the sale of the Lakes Region property. Since the budget was passed, the State has appraised the property at \$2.2 million. This will affect the projected Rainy Day Fund balance at June 30, 2013 but does not impact activity during the biennium. See above.

Fiscal Year 2012 (unaudited through February 29, 2012)

The results are preliminary and subject to change.

Unrestricted revenue for the General and Education Funds received during the first eight months of fiscal 2012 totaled \$1,017.0 million, which was below plan by \$28.9 million and below prior year by \$34.1 million. These unfavorable results were largely driven by shortfalls in Tobacco Tax, Interest & Dividends Tax and Medicaid Enhancement Tax collections.

Tobacco tax is down approximately 4.4% for the year versus plan and approximately 8% below the prior year. These results reflect a combination of the \$.10 per pack reduction in tax effective July 1, 2011 (from \$1.78 to \$1.68), and a continued decline in state-wide sales of cigarettes.

The Interest & Dividends tax continues to suffer the effects of low interest rates, tracking 20% below plan and 13% below prior year.

Medicaid Enhancement Tax receipts are lower than plan and prior year due to the reporting by hospitals of significantly lower than expected net patient service revenues, and delays in payment which are expected to be received later in the year. See *STATE FINANCES – State Revenues – Medicaid Enhancement Tax (MET) Revenues*.

Offsetting these shortfalls was favorable performance of Business Taxes and the Meals and Rooms Tax.

Business Tax collections totaled \$265.8 million which was \$18.5 million (7.5%) above plan and \$29.8 million (12.6%) above prior year. Per the Department of Revenue Administration (DRA), receipts on estimated payments are approximately 9% higher than the prior year. There were also 44% less in refunds paid during the year, however 30% less was collected on outstanding tax notices as compared to prior year.

Year-to-date Meals and Rooms gross tax receipts through February 2012 are approximately 5% higher than the prior year. A portion of the gross receipts are reported as restricted revenue designated to fund the State's school building aid debt service. Because the school building aid debt service requirements are approximately \$6.6 million higher in fiscal year 2012, this translates directly into lower retained unrestricted revenues of Meals and Rooms tax gross receipts. Accordingly, on a net basis, year-to-date unrestricted Meals and Rooms tax revenues are only \$1.5 million (.01%) higher than the prior year.

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The following table presents a comparison of General Fund and Education Trust Fund unrestricted revenues for fiscal years 2010 through 2013. The information for fiscal years 2010 and 2011 is audited. The information for fiscal years 2012 and 2013 is based on Chapters 223 and 224, Laws of 2011, the Operating Budget for the 2012-2013 biennium, in effect as of the date of this Information Statement.

GENERAL FUND AND EDUCATION TRUST FUND UNRESTRICTED REVENUES
ACTUAL AND BUDGET
FISCAL YEARS 2010-2013
(GAAP Basis - In Millions)

Revenue Category	Actual Fiscal Year 2010			Actual Fiscal Year 2011			Operating Budget Fiscal Year 2012			Operating Budget Fiscal Year 2013		
	General	Education	Total	General	Education	Total	General	Education	Total	General	Education	Total
Business Profits Tax	\$258.6	\$57.6	\$316.2	\$248.5	\$49.3	\$297.8	\$257.0	\$55.5	\$312.5	\$264.8	\$57.2	\$322.0
Business Enterprise Tax	<u>71.7</u>	<u>122.2</u>	<u>193.9</u>	<u>63.0</u>	<u>129.4</u>	<u>192.4</u>	<u>63.5</u>	<u>127.0</u>	<u>190.5</u>	<u>65.3</u>	<u>130.7</u>	<u>196.0</u>
Subtotal	330.3	179.8	510.1	311.5	178.7	490.2	320.5	182.5	503.0	330.1	187.9	518.0
Meals and Rooms Tax	228.3	4.2	232.5	228.9	6.6	235.5	221.9	7.3	229.2	226.8	7.5	234.3
Tobacco Tax	130.5	113.0	243.5	129.8	96.8	226.6	125.6	97.9	223.5	123.1	95.9	219.0
Liquor Sales and Distribution	120.7	-	120.7	125.7	-	125.7	131.4	-	131.4	139.0	-	139.0
Interest & Dividends Tax	84.9	-	84.9	76.6	-	76.6	85.4	-	85.4	87.1	-	87.1
Insurance Tax	86.8	-	86.8	84.9	-	84.9	86.1	-	86.1	86.8	-	86.8
Communications Tax	81.0	-	81.0	76.5	-	76.5	80.2	-	80.2	82.4	-	82.4
Real Estate Transfer Tax	56.0	28.8	84.8	54.0	28.0	82.0	53.1	26.5	79.6	54.2	27.0	81.2
Securities Revenue	34.2	-	34.2	37.0	-	37.0	35.1	-	35.1	35.9	-	35.9
Transfers from Lottery Commission	-	66.2	66.2	-	62.2	62.2	-	70.0	70.0	-	72.0	72.0
Transfers from Racing & Charitable Gaming Commission	-	1.4	1.4	-	1.3	1.3	-	3.8	3.8	-	3.8	3.8
Tobacco Settlement	4.2	40.0	44.2	1.7	40.0	41.7	2.4	40.0	42.4	2.4	40.0	42.4
Utility Property Tax	-	29.9	29.9	-	32.3	32.3	-	28.2	28.2	-	28.3	28.3
State Property Tax	-	363.2	363.2	-	363.6	363.6	-	363.1	363.1	-	363.1	363.1
Other	<u>123.3</u>	<u>-</u>	<u>123.3</u>	<u>135.9</u>	<u>-</u>	<u>135.9</u>	<u>127.6</u>	<u>-</u>	<u>127.6</u>	<u>128.0</u>	<u>-</u>	<u>128.0</u>
Subtotal	1,280.2	826.5	2,106.7	1,262.5	809.5	2,072.0	1,269.3	819.3	2,088.6	1,295.8	825.5	2,121.3
Net Medicaid Enhancement Revenues	98.1	-	98.1	93.4	-	93.4	97.0	-	97.0	104.8	-	104.8
Recoveries	<u>19.9</u>	<u>-</u>	<u>19.9</u>	<u>27.8</u>	<u>-</u>	<u>27.8</u>	<u>3.6</u>	<u>-</u>	<u>3.6</u>	<u>3.8</u>	<u>-</u>	<u>3.8</u>
Subtotal	1,398.2	826.5	2,224.7	1,383.7	809.5	2,193.2	1,369.9	819.3	2,189.2	1,404.4	825.5	2,229.9
Executive Orders & Special Session Revenues	<u>28.1</u>	<u>-</u>	<u>28.1</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>\$1,426.3</u>	<u>\$826.5</u>	<u>\$2,252.8</u>	<u>\$1,383.7</u>	<u>\$809.5</u>	<u>\$2,193.2</u>	<u>\$1,369.9</u>	<u>\$819.3</u>	<u>\$2,189.2</u>	<u>\$1,404.4</u>	<u>\$825.5</u>	<u>\$2,229.9</u>

The following table compares on a cash basis, for the eight months ended February 29, 2012, General Fund and Education Trust Fund unrestricted revenues for the fiscal years 2011 and 2012 and a comparison to the revenue estimates from the fiscal year 2012 Operating Budget. Due to the combined filing of the business profits tax and business enterprise tax, it is not possible to measure accurately the individual effects of each of these taxes. They should be evaluated in their entirety. All information in this table is preliminary, unaudited and subject to change. Further, because information in this table reflects cash receipts only, final audited numbers may differ to reflect appropriate accruals.

**GENERAL AND EDUCATION TRUST FUNDS UNRESTRICTED REVENUES
FOR THE EIGHT MONTHS ENDED FEBRUARY 29, 2012
(Cash Basis - In Millions)**

<u>Revenue Category</u>	<u>FY 2011</u>	<u>FY 2012</u>	<u>FY 2012</u>	<u>FY 2012 vs Plan</u>		<u>FY 2012 vs FY 2011</u>	
	<u>Actual</u>	<u>Actual</u>	<u>Plan</u>	<u>Variance</u>	<u>% Change</u>	<u>Variance</u>	<u>% Change</u>
Business Profits Tax	\$143.8	\$161.0	\$153.6	\$7.4	4.8%	\$17.2	12.0%
Business Enterprise Tax	<u>92.2</u>	<u>104.8</u>	<u>93.7</u>	<u>11.1</u>	<u>11.8</u>	<u>12.6</u>	<u>13.7</u>
Subtotal	236.0	265.8	247.3	18.5	7.5	29.8	12.6
Meals and Rooms Tax	165.6	167.1	161.7	5.4	3.3	1.5	0.9
Tobacco Tax	156.4	143.9	150.6	(6.7)	-4.4	(12.5)	-8.0
Liquor Sales and Distribution	85.2	86.6	89.0	(2.4)	-2.7	1.4	1.6
Interest & Dividends Tax	34.1	29.7	37.3	(7.6)	-20.4	(4.4)	-12.9
Insurance Tax	12.6	11.6	11.2	0.4	3.6	(1.0)	-7.9
Communications Tax	53.9	52.1	53.1	(1.0)	-1.9	(1.8)	-3.3
Real Estate Transfer Tax	56.5	58.2	55.3	2.9	5.2	1.7	3.0
Securities Revenue	13.6	14.3	12.2	2.1	17.2	0.7	5.1
Transfers from Lottery Commission	37.9	35.9	40.8	(4.9)	-12.0%	(2.0)	-5.3
Transfers from Racing & Charitable Gaming Commission	0.7	1.9	2.4	(0.5)	-20.8%	1.2	171.4
Tobacco Settlement	-	-	-	-	-	-	-
Utility Property Tax	16.7	17.8	14.0	3.8	27.1	1.1	6.6
State Property Tax	-	-	-	-	-	-	-
Other	<u>74.6</u>	<u>72.4</u>	<u>72.4</u>	<u>-</u>	<u>0.0</u>	<u>(2.2)</u>	<u>-2.9</u>
Subtotal	943.8	957.3	947.3	10.0	1.1	13.5	1.4
Net Medicaid Enhancement Revenues	92.9	55.9	97.0	(41.1)	-42.4	(37.0)	-39.8
Recoveries	<u>14.4</u>	<u>3.8</u>	<u>1.6</u>	<u>2.2</u>	<u>137.5</u>	<u>(10.6)</u>	<u>-73.6</u>
Total	<u>\$1,051.1</u>	<u>\$1,017.0</u>	<u>\$1,045.9</u>	<u>\$(28.9)</u>	<u>-2.8%</u>	<u>\$(34.1)</u>	<u>-3.2%</u>

The following table presents a comparison of General Fund and Education Trust Fund appropriations net of estimated revenues for fiscal years 2010 through 2013. The information for fiscal years 2010 and 2011 is audited. The information for fiscal years 2012 and 2013 is based on Chapters 223 and 224, Laws of 2011, the Operating Budget for the 2012-2013 biennium, in effect as of the date of this Information Statement.

**GENERAL FUND AND EDUCATION TRUST FUND APPROPRIATIONS NET OF ESTIMATED REVENUES
ACTUAL AND BUDGET
FISCAL YEARS 2010-2013
(In Millions)**

Category	Actual Fiscal Year 2010			Actual Fiscal Year 2011			Operating Budget Fiscal Year 2012			Operating Budget Fiscal Year 2013		
	General	Education	Total	General	Education	Total	General	Education	Total	General	Education	Total
General Government	\$300.5	\$0.0	\$300.5	\$248.3	\$0.0	\$248.3	\$255.8	\$0.0	\$255.8	\$257.0	\$0.0	\$257.0
Justice and Public Protection	211.8	-	211.8	208.0	-	208.0	230.3	-	230.3	231.0	-	231.0
Resource Protection and Development	36.3	-	36.3	31.1	-	31.1	30.0	-	30.0	27.8	-	27.8
Transportation	0.6	-	0.6	1.0	-	1.0	1.0	-	1.0	1.0	-	1.0
Health and Social Services	647.7	-	647.7	647.5	-	647.5	666.6	-	666.6	662.8	-	662.8
Education	<u>201.2</u>	<u>794.7</u>	<u>995.9</u>	<u>190.0</u>	<u>933.4</u>	<u>1,123.4</u>	<u>155.9</u>	<u>955.7</u>	<u>1,111.6</u>	<u>168.3</u>	<u>956.0</u>	<u>1,124.3</u>
Total	<u>\$1,398.1</u>	<u>\$794.7</u>	<u>\$2,192.8</u>	<u>\$1,325.9</u>	<u>\$933.4</u>	<u>\$2,259.3</u>	<u>\$1,339.6</u>	<u>\$955.7</u>	<u>\$2,295.3</u>	<u>\$1,347.9</u>	<u>\$956.0</u>	<u>\$2,303.9</u>

The following table sets out the General Fund and Education Trust Fund undesignated fund balances and the amounts designated for the Revenue Stabilization Account for fiscal years 2012 and 2013. (Information for fiscal year 2011 can be found in the table on page 27.) The information for fiscal years 2012 and 2013 is based on Chapters 223 and 224, Laws of 2011, the Operating Budget for the 2012-2013 biennium and does not reflect audited results from fiscal year 2011.

**GENERAL FUND AND EDUCATION TRUST FUND BALANCES
FISCAL YEARS 2012 – 2013
(GAAP Basis - In Millions)**

	Operating Budget Fiscal Year 2012			Operating Budget Fiscal Year 2013		
	<u>General</u>	<u>Education</u>	<u>Total</u>	<u>General</u>	<u>Education</u>	<u>Total</u>
Undesignated Fund Balance, July 1	\$0.0	\$0.0	\$0.0	(\$14.1)	\$0.0	(\$14.1)
Additions:						
Unrestricted Revenue	1,369.9	819.3	2,189.2	1,404.4	825.5	2,229.9
Executive Orders & Special Session Revenues	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Additions	1,369.9	819.3	2,189.2	1,404.4	825.5	2,229.9
Deductions:						
Appropriations Net of Estimated Revenues	(1,339.6)	(955.7)	(2,295.3)	(1,347.9)	(956.0)	(2,303.9)
Appropriation Adjustments	42.8	-	42.8	48.1	-	48.1
Less Lapses	<u>43.2</u>	<u>-</u>	<u>43.2</u>	<u>44.6</u>	<u>-</u>	<u>44.6</u>
Total Net Appropriations	(1,253.6)	(955.7)	(2,209.3)	(1,255.2)	(956.0)	(2,211.2)
GAAP and Other Adjustments	<u>6.0</u>	<u>-</u>	<u>6.0</u>	<u>(4.0)</u>	<u>-</u>	<u>(4.0)</u>
Current Year Balance	122.3	(136.4)	(14.1)	145.2	(130.5)	14.7
Fund Balance Transfers (To)/From:						
Rainy Day Fund	-	-	-	(\$0.6)	-	(\$0.6)
Liquor Commission	-	-	-	-	-	-
Highway Fund	-	-	-	-	-	-
Education Trust Fund	<u>(136.4)</u>	<u>136.4</u>	<u>-</u>	<u>(130.5)</u>	<u>130.5</u>	<u>-</u>
Undesignated Fund Balance, June 30,	(\$14.1)	-	(\$14.1)	-	-	-
Reserved for Rainy Day Fund ⁽¹⁾	<u>\$0.5</u>	<u>-</u>	<u>\$0.5</u>	<u>\$11.1</u>	<u>-</u>	<u>\$11.1</u>
Total Equity	<u>(\$13.6)</u>	<u>-</u>	<u>(\$13.6)</u>	<u>\$11.1</u>	<u>-</u>	<u>\$11.1</u>

⁽¹⁾ Proceeds from the sale of the Lakes Region Facility property, estimated at approximately \$10 million in fiscal year 2013, are to be deposited directly into the Revenue Stabilization Reserve Account (Reserved for Rainy Day Fund). The property has since been appraised by the State at \$2.2 million.

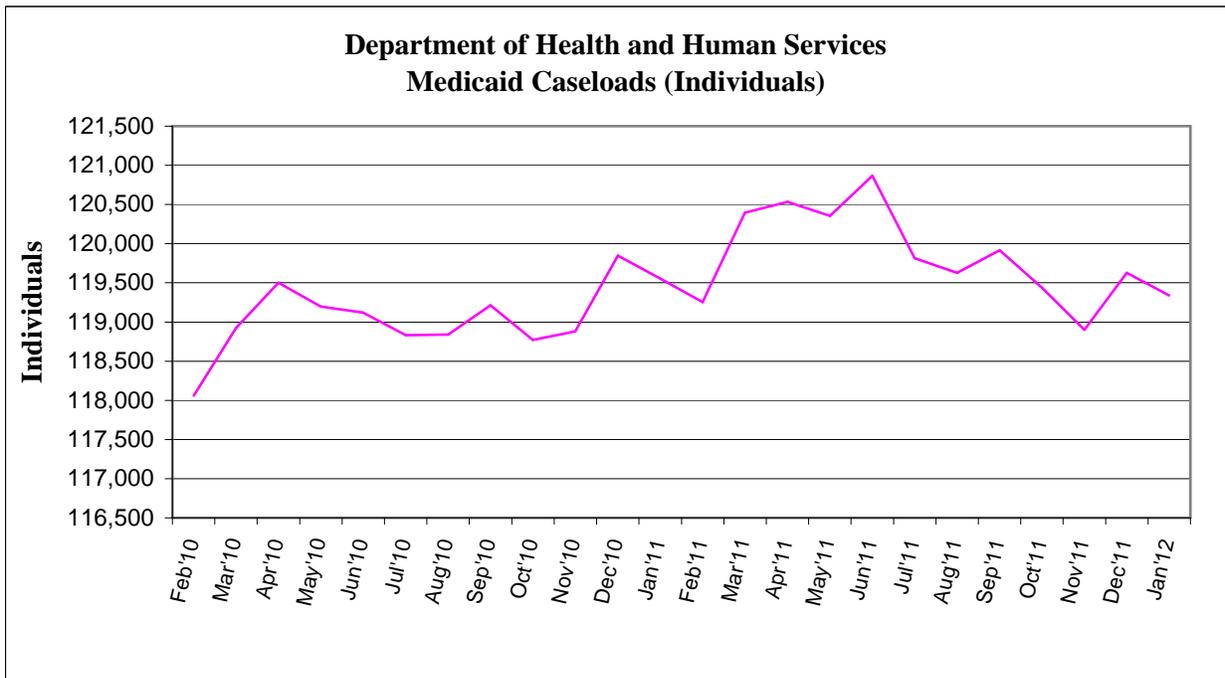
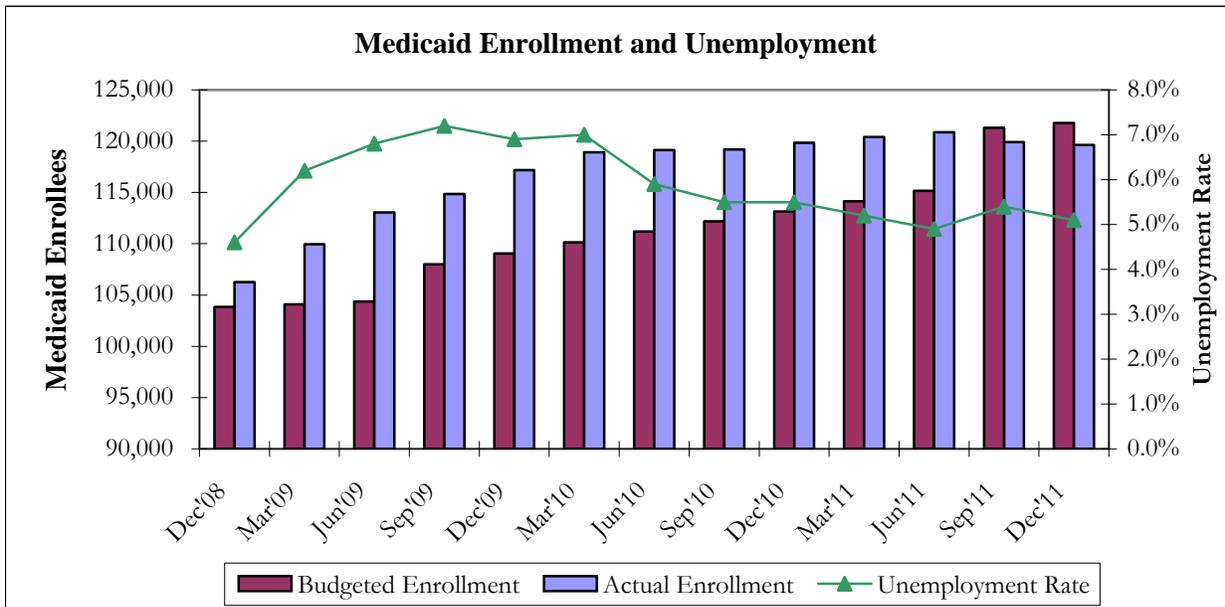
MEDICAID PROGRAM

Background. Established in 1965, Medicaid is a joint federal-state program providing health care to eligible needy persons. Each state operates its Medicaid program within broad federal guidelines, in accordance with a customized State Plan approved by the federal Centers for Medicare & Medicaid Services (CMS) reflecting that state's priorities in designing program eligibility and benefits. The federal government mandates some benefits and eligibility categories while states have a choice of which additional optional eligibility categories and benefits to offer, although the Patient Protection and Affordable Care Act of March 2010 has eliminated states' ability to reduce eligibility categories. The federal government and the states share responsibility for financing Medicaid. The federal government matches state Medicaid spending at rates that vary by state per capita income.

Overview of New Hampshire Medicaid. Administered by the New Hampshire Department of Health and Human Services (DHHS), the New Hampshire Medicaid program (New Hampshire Medicaid) is a complex network that provides health care and psychosocial support coverage to an average of 153,025 persons per month. At some point during fiscal year 2011, New Hampshire Medicaid covered all or part of the health care costs of more than 165,000 low-income children, pregnant women, parents with children, elders, and people with disabilities for medical and hospital services, nursing facility care, in-home support services and more. New Hampshire Medicaid expended a total of \$1.42 billion in fiscal year 2011, or 26.8% of all State expenditures (State, federal, and other funds combined), second only to Education at 27.9% of State spending. Of total Medicaid spending, 82.4% (\$1.17 billion) was attributable to Medicaid provider payments, 12.5% to Disproportionate Share to Hospitals (DSH) payments for uncompensated care, and 5.1% to administrative costs. Half (50.0%) of Medicaid spending during this period was covered by the federal government through matching funds, not including temporary increases in matching funds provided by the American Recovery and Reinvestment Act of 2009 (ARRA) funding. Federal financial participation rates under the ARRA provisions for fiscal year 2011 were as follows:

Quarter 1 (July 1, 2010 – September 30, 2010):	11.59%
Quarter 2 (October 1, 2010 – December 31, 2010):	11.59%
Quarter 3 (January 1, 2011 – March 31, 2011):	8.77%
Quarter 4 (April 2, 2011 – June 30, 2011):	6.88%

New Hampshire Medicaid Financial Summary. Economic forces and State and federal regulations limit options for controlling Medicaid spending. Total provider payment expenditures are a function of enrollment volume, provider rates, and service utilization. Analysis of the relationship between the New Hampshire economy and Medicaid enrollment shows a strong association between rising unemployment and increases in Medicaid enrollment. With rising unemployment, falling income, and decreased availability of job-based insurance, more people turn to Medicaid for health care coverage. In the State, unemployment rates rose from 3.4% in December 2007 to a peak of 7.1% in February 2010, declining to 5.1% in December 2011. State Medicaid enrollment tracked unemployment, increasing by 3.9% in fiscal year 2008 then rising an additional 10.1% in fiscal year 2009. The subsequent growth rate in Medicaid enrollment tracked again to a decline in the unemployment rate, from a year-over-year rate of 8.9% for fiscal year 2010 to a more moderate rate of 0.2% for the most recent 12-month period ending in February 2012. The data demonstrate that enrollment stabilizes as the unemployment rate decreases, but enrollment doesn't necessarily decrease as the jobless rate decreases. With this decline in the unemployment rate, however, it is important to note the total number of enrolled individuals, currently at 119,338, has not returned to the pre-recession baseline of 103,944.



New Hampshire Medicaid deploys a robust array of financial and utilization management and quality improvement strategies to contain costs and improve member health. The 2010 annual report, *New Hampshire Medicaid Provider Reimbursement Rate Benchmarks for Key Services*,¹ found that in almost every case the State's Medicaid provider payment rates to be significantly lower than other states' Medicare and commercial insurance rates. The State's Medicaid provider payment rates also tend to be lower, with a couple of exceptions, than the rates of the other Medicaid programs in New England.

The DSH Program was significantly redesigned in fiscal year 2011, due to new federal DSH regulations and requirements of Chapter 144:212, Laws of 2009. Hospitals received payments based on the amount of uncompensated care provided to patients with no form of insurance coverage, regardless of the amount of Medicaid Enhancement Tax (MET) the individual hospital paid to the State. Previously, hospitals often received in DSH payments the amount paid in MET. No changes were made to the State's definition of net patient services revenue or to the MET of 5.5% of that revenue.

¹ Available at: <http://www.dhhs.nh.gov/ombp/documents/medicaidrates2010.pdf>

DHHS' Office of Medicaid Business and Policy (OMB) has continuously monitored private sector managed care practices as well as other state Medicaid innovations for local application. To the extent that Medicaid program constraints and internal resources allow, New Hampshire Medicaid has further attempted to maximize cost efficiencies by adapting numerous managed care strategies – a robust Pharmacy Benefit Management Program (PBM), utilization management (e.g., prior authorization, service limits, concurrent inpatient review, discharge planning and care management), State-wide distribution of incontinence supplies, and volume-based purchasing for vision care and eyeglass frames/lenses – to the current fee-for-service model.

The table below depicts monthly expenditures for Medicaid covered medical services. Included in these expenditures are the acute care, primary care, and preventive care services delivered by hospitals, physicians, and specialty care providers. Not included in these figures are Medicaid long-term care expenditures, primarily consisting of nursing home costs.

**Medicaid Provider Payments Medical Costs (Unaudited)
(Provider Payments, Outpatient Hospital, Prescription Drugs)**

	Budgeted	Expended	Under/(Over) Budget
Jul-10	\$39,993,309	\$33,128,193	\$6,865,117
Aug-10	31,366,522	27,217,205	4,149,317
Sep-10	29,767,312	28,937,820	829,492
Oct-10	45,296,463	38,835,121	6,461,342
Nov-10	31,396,117	31,660,754	(264,637)
Dec-10	39,832,091	38,109,677	1,722,414
Jan-11	30,221,733	25,909,860	4,311,873
Feb-11	35,699,421	31,800,569	3,898,852
Mar-11	32,362,819	32,196,324	166,495
Apr-11	43,010,330	47,019,610	(4,009,280)
May-11	30,533,082	30,963,995	(430,913)
Jun-11	<u>34,602,473</u>	<u>33,503,531</u>	<u>1,098,942</u>
Total	\$424,081,671	\$399,282,658	\$24,799,013

**Medicaid Provider Payments Medical Cost (Unaudited)
(Provider Payments, Outpatient Hospital, Prescription Drugs)**

	Budgeted	Expended	Under/(Over) Budget
Jul-11	\$38,938,103	\$34,383,910	\$4,554,193
Aug-11	\$31,150,483	\$28,247,272	\$2,903,211
Sep-11	\$38,938,103	\$40,217,563	(\$1,279,459)
Oct-11	\$31,150,483	\$28,037,106	\$3,113,377
Nov-11	\$31,150,483	\$31,346,777	(\$196,294)
Dec-11	\$38,938,103	\$37,718,138	\$1,219,965
Jan-12	<u>\$31,150,483</u>	<u>\$32,891,266</u>	<u>(\$1,740,783)</u>
Total YTD Actuals	\$241,416,241	\$232,842,031	\$8,574,210

Office of Inspector General Audit of New Hampshire's DSH Program. DHHS has been engaged in an ongoing dispute with the Centers for Medicare & Medicaid Services (CMS) regarding findings of whether the DSH payments that the State claimed for Federal Fiscal Year (FFY) 2004 complied with the hospital-specific DSH limits imposed by Federal requirements and the State plan. A report from the Office of the Inspector General (OIG) contends the State claimed DSH payments for FFY 2004 that did not comply with the hospital-specific disproportionate share hospital limits using Medicare cost principles of reimbursement. The OIG auditors recommended that the State refund \$35 million to the federal government, work with the CMS to review payments claimed after the audit period, and establish policies and procedures to ensure future compliance with calculating hospital-specific limits. To date, CMS has made no further claims arising after the audit period. On October 25, 2010, the State entered the appeal process with the United States Department of Health & Human Services

Departmental Appeals Board (DAB) and all appeal avenues were followed. The State received a copy of DAB's order denying the motion on October 18, 2011. In December 2011, an Agreement between the State of New Hampshire and the U.S. Department of Health and Human Services, Centers for Medicare & Medicaid Services (CMS) was executed regarding the recovery process for the \$35 million DSH disallowance. The total amount of the disallowance will be recovered by the Federal government in eight quarterly installments beginning with the second quarter of FFY 2012 and ending with the first quarter of FFY 2014. Each installment will be processed as a negative grant award issued by CMS. The schedule of quarterly installments is as follows:

<u>Quarter ending</u>	<u>Negative grant</u>
March 31,2012	\$4,501,746
June 30, 2012	4,503,322
September 30, 2012	4,493,015
December 31, 2012	4,481,859
March 31,2013	4,470,218
June 30, 2013	4,458,819
September 30, 2013	4,448,390
December 31, 2013	4,437,231
TOTAL	<u>\$35,794,600</u>

The State expects to absorb the lost revenues attributable to the DSH disallowance in fiscal year 2012 through other savings achieved in the overall Medicaid budget. The State has not yet determined how it will absorb the larger impact in fiscal years 2013 and 2014.

The 2012-2013 Biennial Operating Budget. Significant changes were made to New Hampshire Medicaid during the 2011 legislative session. Notably, Chapter 125, Laws of 2011 directs the current fee-for-service program be converted to a formal managed care model effective July 2012 with Medicaid and Children's Health Insurance Program (CHIP) combined into one Medicaid managed care program. The estimated budgeted cost savings for the biennium are \$16 million for the current fee-for-service program and an additional \$4.7 million for the transition of the CHIP program into the combined Medicaid managed care program. DHHS issued a Request for Proposals for Medicaid Care Management Services in October 2011 and recently concluded negotiations with the selected vendors. Contracts are expected to be approved in time to commence the managed care program on July 1, 2012.

The 2012-2013 operating budget also made significant reductions to New Hampshire's Uncompensated Care Payment Program. The budget funds payments to the State's critical access hospitals, but discontinues payments made to the rehabilitation specialty hospitals and the larger, non-critical access hospitals. Below is a table depicting aggregate Uncompensated Care Payments, including both federal and State funding sources, over the last several years.

<u>State Fiscal Year</u>	<u>Uncompensated Care Payments</u>
2007 paid	\$163,063,566
2008 paid	180,643,958
2009 paid	178,040,743
2010 paid	195,457,290
2011 paid	207,698,608
2012 (budgeted)	48,735,473
2013 (budgeted)	52,889,190

Particularly following the changes made to the DSH Program in fiscal year 2011, some of the hospitals have become increasingly concerned about their MET liability compared to the DSH payment received. The DSH Program also sustained deep cuts pursuant to the 2012-2013 operating budget. With the reduction in DSH payments for the non-critical access hospitals, hospitals are seeking ways to offset their MET liability or to eliminate the tax entirely. This is being carried out through various means, including challenges to previous interpretations of net patient service revenue, prior year tax credits, constitutional challenges, and litigation against DHHS. As noted above, many hospitals applied for refunds and/or credits of MET payments made in previous years totaling

approximately \$89 million, which refunds/credits may necessitate adjustment to uncompensated care payments made to hospitals. The State cannot now predict the outcome of this matter or the amount, if any, of any refunds or adjustments that might be required. See “STATE FINANCES-State Revenues”

Future Outlook. In the coming years, anticipated declining rates of employer-based health insurance, increasing numbers of uninsured, aging of the baby boomers, growing incidence of chronic disease in younger age groups, rising health care costs, and the implementation of Medicaid Managed Care will continue to affect the Medicaid program. Recent federal activity has presented new opportunities and challenges for states. The Medicare Modernization Act of 2003, the Deficit Reduction Act of 2005, and the Patient Protection and Affordable Care Act of 2010 (PPACA) imposed new requirements for states along with options in the areas of benefits, cost sharing, and long-term care. DHHS estimated the impact of the Medicaid reforms in PPACA, including various costs and savings arising from, among others, adult Medicaid expansion, changes in CHIP federal funding and increases to primary care rates. DHHS estimates that in calendar year 2014 PPACA could add almost 30,000 new Medicaid enrollees which could increase to over 62,000 by calendar year 2019. Federal funding for many PPACA reforms begins at 100% and reduces over time. Accordingly, DHHS estimates that PPACA will initially decrease New Hampshire Medicaid costs by \$3 million in calendar year 2014 and will eventually increase costs by \$8 million in calendar year 2019, as compared to program costs absent these reforms. DHHS’ estimates were based on the current fee-for-service model and have not been adjusted to account for the planned transition, by July 2012, to a managed care model.

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. In December, 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. Since that time, the Legislature has considered various plans to establish a new educational funding system.

In September, 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 then current school funding system declared unconstitutional. In December, 2001, the Supreme Court dismissed all of the plaintiffs’ claims except one alleging that the State’s definition of an adequate education was insufficient. The Court subsequently decided to invoke its continuing jurisdiction, and in April, 2002, the Supreme Court declared that accountability is an essential component of the State’s duty to provide an adequate education and that the then existing statutory scheme had deficiencies that were inconsistent with the State’s duty. 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. The Court administratively closed the *Claremont* case in September, 2006.

Two lawsuits challenged the constitutionality of the State’s education funding law in 2005. The first was *City of Nashua v. State*, Docket No. 05-E-257, and the second was *Londonderry School District, et al. v. State*, Docket No. 05-E-406. In 2006, the Superior Court issued orders in both cases declaring the law unconstitutional due to the State’s failure to reasonably determine the cost of an adequate education. The Superior Court also found that the State has not defined an adequate education and has not enacted a constitutional accountability system. The State filed timely appeals of these orders with the New Hampshire Supreme Court on April 7, 2006. On September 8, 2006, the Supreme Court held that the State failed to define an adequate education and stayed all remaining issues. The Court noted in its decision that any definition of constitutional adequacy must allow for an “objective determination of costs” and that “[w]hatever the State identifies as constitutional adequacy it must pay for. None of that financial obligation can be shifted to local school districts, regardless of their relative wealth or need.” The Court gave the Legislature until the end of fiscal year 2007 to enact a definition. In 2007, the Legislature passed 2007 New Hampshire Laws Chapter 270, defining an adequate education. On October 15, 2008, the Supreme Court dismissed the case without prejudice, but petitioners’ request for attorneys’ fees remained. In January, 2009, the State settled the *Londonderry* attorneys’ fees request with a payment of \$83,457.

Senate Bill 180 (“SB 180”), enacted into law as 2009 New Hampshire Laws Chapter 198, provided for an input-based school accountability system, beginning in the 2009-2010 school year, that ensures that the State’s schools are providing a constitutionally adequate education. SB 180 established a task group to work on developing a performance-based school accountability system that will begin in the 2011-2012 school year as an alternative to the input-based accountability system. Schools will be allowed to choose which accountability system they use. The Legislature also enacted additional responsibilities for the legislative oversight committee established under RSA 198:3 to evaluate the progress and results from the two accountability systems. A constitutionally sound accountability process is the fourth mandate of the *Claremont II* decision for an adequate education system.

2011 New Hampshire Laws Chapter 258 (“HB 337”) amended the formula for the calculation and distribution of adequate education funds for fiscal year 2012. HB 337, following the basic formula of SB 180 from 2009, established a base cost per pupil with additional funds provided based on each school’s student population. HB 337 repealed fiscal capacity disparity aid, instead establishing stabilization grants for certain school districts ensuring that no school district receives less than it would have received for the fiscal year 2011 total education grant. HB 337 also provides an additional \$2,000 per year grant for charter public school students. The Statewide Education Property Tax remains in place raising approximately \$363 million annually.

Recent Legislative Action. On March 16, 2011 the House of Representatives achieved the required three-fifths vote for Constitutional Amendment Concurrent Resolution 12. If adopted, the amendment would provide the General Court with the authority to define standards for public education, establish standards of accountability, mitigate local disparities in educational opportunity and fiscal capacity, and have full discretion to determine the amount of state funding for education. A three-fifths vote of the Senate, also required for the resolution, was not achieved in 2011. This matter was retained for further consideration during the 2012 legislative session. The Senate achieved a three-fifths vote on an amended version of the resolution. The House did not concur with the amendments, but agreed to a committee of conference which was named by the Speaker on March 14, 2012.

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.) The State’s debt management program is designed to hold long-term tax-supported debt to relatively low levels in the future and to coordinate the issuance of debt 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 therefore, 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 and federal highway grant anticipation (“GARVEE”) 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. 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 long-term debt of the State outstanding as of June 30, 2011.

Debt Statement as of June 30, 2011 (In Thousands)

General Obligation Bonds:	
General Improvement	\$653,334
Highway.....	97,596
University System of New Hampshire.....	<u>188,069</u>
Total Direct General Obligation Debt.....	\$938,998
Revenue Bonds:	
Turnpike System ⁽¹⁾	360,695
Highway ⁽⁴⁾	80,000
Contingent (Guaranteed) Debt:	
Business Finance Authority	\$66,873
School Building Authority Bonds.....	39,479
Water Pollution and Waste Disposal Bonds issued by Political Subdivisions	4,190
Solid Waste Management Bonds	<u>115</u>
Total Contingent Debt.....	<u>\$ 110,657</u>
Total Debt.....	<u>\$1,490,351</u>
Less: Self-Supporting and Contingent Debt:	
School Building Aid	\$131,035
Community College System	17,423
Department of Safety	10,980
Department of Resources and Economic Development	8,022
Planetarium	3,561
Other	<u>7,636</u>
General Fund Self-Supporting Debt ⁽²⁾	\$178,657
Turnpike System Revenue Bonds	360,695
Highway.....	97,596
Highway Federal Grant Anticipation Bonds.....	80,000
Pease Development Authority General Obligation Bonds.....	5,986
Fish & Game.....	3,332
Business Finance Authority	66,873
School Building Authority Bonds.....	39,479
Water Pollution and Waste Disposal Bonds issued by Political Subdivisions	4,190
Solid Waste Management Bonds	<u>115</u>
Total Self-Supporting and Contingent Debt.....	<u>\$836,923</u>
Total Net General Fund Debt ⁽³⁾	<u>\$653,428</u>

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

⁽¹⁾ 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.

⁽²⁾ Includes bonds paid from General Fund restricted revenues (primarily user fees and other revenues statutorily earmarked to fund debt service payments on specific projects). School building aid debt service is funded from a portion of the meals and rooms tax revenue.

⁽³⁾ 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. Also included is \$1.9 million general obligation bonds paid by the State on behalf of the Pease Development Authority. If the Authority has sufficient funds, these bonds will be paid by the Authority.

⁽⁴⁾ Federal Highway Grant Anticipation Bonds. These bonds are special limited obligations of the State payable from federal grant funding.

In addition to the debt presented above, at June 30, 2011, the State had short and long-term capital leases outstanding of \$835,000 and \$3,008,000, respectively, 88% of which relate to building space.

The State's debt management program has resulted in the State maintaining relatively low debt levels in recent years. 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,				
	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Direct General Obligation Debt	\$654,170	\$688,598	\$768,160	\$823,074	\$938,998
Contingent (Guaranteed) Debt	87,455	80,855	74,048	100,362	110,657
Less: Self-Supporting Debt	<u>(186,076)</u>	<u>(216,221)</u>	<u>(237,926)</u>	<u>(298,393)</u>	<u>(396,227)</u>
Total Net General Fund Debt	<u>\$555,549</u>	<u>\$553,232</u>	<u>\$604,282</u>	<u>\$625,043</u>	<u>\$653,428</u>
Per Capita Debt ⁽¹⁾ :					
Direct General Obligation Bonds	\$497	\$521	\$580	\$625	\$713
Net General Fund Debt	422	418	456	475	497
Ratio of Debt to Personal Income ⁽¹⁾					
Direct General Obligation Bonds	1.16%	1.20%	1.35%	1.42%	1.62%
Net General Fund Debt	0.99	0.96	1.07	1.08	1.13
Ratio of Debt to Estimated Full Value:					
Direct General Obligation Bonds	0.38%	0.40%	0.48%	0.51%	0.60%
Net General Fund Debt	0.32	0.33	0.38	0.39	0.42
General Fund Unrestricted Revenues	\$1,421,700	\$1,483,934	\$1,375,300	\$1,426,310	\$1,387,300
Debt Service Expenditures ⁽²⁾	82,906	85,020	90,314	93,471	74,456
Debt Service as a Percent of General Fund Unrestricted Revenues	5.83%	5.73%	6.57%	6.59%	5.37%
Population (in thousands)	1,317	1,322	1,325	1,316	1,316
Total Personal Income (in millions)	\$56,368	\$57,617	\$56,408	\$58,036	\$58,036
Estimated Full Value (in thousands)	\$173,624,015	\$170,079,381	\$160,571,630	\$156,933,999	\$156,933,999

⁽¹⁾ Based on U.S. Department of Commerce and U.S. Bureau of the Census estimates for population and personal income.

⁽²⁾ Debt service on Net General Fund Debt. Does not include interest paid on revenue or bond anticipation notes.

**Rate of Debt Retirement⁽¹⁾
as of June 30, 2011**

	<u>General Obligation Debt</u>	<u>Net General Fund Debt</u>
5 years.....	38%	42%
10 years.....	69	77
15 years.....	94	95
20 years.....	100	100

⁽¹⁾ Does not include refunding of bond anticipation notes.

Recent Debt Issuances

In recent years, the State has issued bonds and bond anticipation notes for a variety of authorized purposes. The following table compares the amount of issuances and retirements of long-term direct State general obligation indebtedness for each of the past five fiscal years. See also "Temporary Loans" below.

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

	Fiscal Year Ended June 30,				
	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Beginning Debt	\$ 644,715	\$654,170	\$688,598	\$768,160	\$823,074
Bonds Issued	196,885	161,320	179,380	282,600	195,035
Total Net Debt	<u>841,600</u>	<u>815,490</u>	<u>867,978</u>	<u>1,050,760</u>	<u>1,018,109</u>
Less: Bonds Paid	64,866	66,892	70,648	74,296	30,746
Defeasance	<u>122,564</u>	<u>60,000</u>	<u>29,170</u>	<u>153,390</u>	<u>48,365</u>
Ending Debt	<u>\$654,170</u>	<u>\$688,598</u>	<u>\$768,160</u>	<u>\$823,074</u>	<u>\$938,998</u>

The State issued its \$1,295,000 General Obligation Capital Improvement Bond, 2011 Series A (the “2011 Series A Bond”) on July 21, 2011. The 2011 Series A Bond was issued to the New Hampshire Municipal Bond Bank (the “Bond Bank”) to finance various capital projects of the State.

The State issued its \$100,000,000 General Obligation Capital Improvement Bonds, 2011 Series B (the “2011 Series B Bonds”) on October 27, 2011. The 2011 Series B Bonds were issued to finance various capital projects of the State.

The State issued its \$2,225,000 General Obligation Capital Improvement Bond, 2011 Series C (the “2011 Series C Bond”) on December 15, 2011. The 2011 Series C Bond was issued to the Bond Bank to finance various capital projects of the State.

The State issued its \$42,115,000 Turnpike System Revenue Bonds, 2012 Refunding Series (Delayed Delivery) (the “2012 Refunding Series Bonds”) on January 5, 2012. The 2012 Refunding Series Bonds were issued to refund a portion of the outstanding Turnpike System Revenue Bonds, 2002 Refunding Series in order to provide debt service savings to the New Hampshire Turnpike System.

The State sold its \$65,355,000 Turnpike System Revenue Bonds, 2012 Refunding Series B (Delayed Delivery) (the “2012 Refunding Series B Bonds”) on February 23, 2012. The 2012 Refunding Series B Bonds are expected to be issued on November 5, 2012 to refund a portion of the outstanding Turnpike System Revenue Bonds, 2003 Refunding Series in order to provide debt service savings to the New Hampshire Turnpike System.

Schedule of Debt Service Payments

The following table sets forth the projected principal and interest requirements of all general obligation bonds of the State outstanding at June 30, 2011. The amounts shown for interest include the gross interest payable by the State with respect to its outstanding general obligation “Build America Bonds,” which were outstanding as of June 30, 2011 in the amount of \$135,000,000. Other than one minor withheld amount, which has since been rectified, to date the State has received, and expects to continue to receive, interest subsidy payments from the federal government equal to 35% (or 45% in the case of a portion of the 2010 GARVEE Bonds) of the actual interest payable on such “Build America Bonds.”

Direct General Obligation Debt as of June 30, 2011⁽¹⁾ (In Thousands)

<u>Fiscal Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$82,206	\$47,670	\$129,876
2013	82,534	40,996	123,530
2014	76,319	36,721	113,040
2015	72,366	38,320	110,686
2016	70,646	32,373	103,019
2017	69,844	27,122	96,966
2018	68,375	21,499	89,874
2019	66,890	18,092	84,982
2020	62,735	15,021	77,756
2021	50,605	12,314	62,919
2022	43,725	10,432	54,157
2023	37,315	8,516	45,831
2024	36,945	6,839	43,784
2025	33,695	5,238	38,933
2026	24,185	3,997	28,182
2027	21,180	2,881	24,061
2028	18,180	1,882	20,062
2029	11,000	996	11,996
2030	10,255	412	10,667
Total	<u>\$939,000</u>	<u>\$331,321</u>	<u>\$1,270,321</u>

⁽¹⁾ 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. At June 30, 2010, the state had \$50 million in bond anticipation notes (BANs) outstanding. On July 1, 2010 the \$50 million in BANs were rolled over with a maturity date of September 9, 2010. They were repaid on September 9, 2010 with proceeds of the September 1, 2010 bond issue. As of June 30, 2011, the State had no short term notes outstanding.

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. The maximum amount of commercial paper to be outstanding at any time is currently \$50 million. The State issued \$50 million of commercial paper bond anticipation notes in August 2009. Such amount was paid with a portion of the proceeds of the general obligation bonds of the State issued in December 2009. The State also issued \$50 million of commercial paper bond anticipation notes on March 1, 2010 to fund fiscal year 2010 school building aid payments and various other capital projects. The outstanding commercial paper was paid with proceeds of general obligation bonds of the State issued September 2, 2010.

The State recently entered into a new line of credit with a bank for the State's commercial paper program. The State has no plans at this time to issue new commercial paper, but will likely do a \$50 million interfund cash flow borrowing from its Clean Water State Revolving Fund in late March 2012. It is expected the borrowing will be paid back from operating cash before June 30, 2012.

See "STATE FINANCES – Proprietary (Enterprise) Funds" and "– *Unemployment Trust Fund*" for a discussion of repayable advances that the State has been approved for under Section 1201 of the Social Security Act.

Authorized But Unissued Debt

As of June 30, 2011 the State had statutorily authorized but unissued direct general obligation debt in the total principal amount of \$136 million, under various laws. This amount does not include the bonds authorized by the Capital Budget for fiscal years 2012-2013, as discussed below. 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.

Chapter 58 of the Laws of 2005, the "Federal Highway Anticipation Bond Act," authorized the State to issue GARVEE bonds in an amount not to exceed \$195 million with the approval of the Governor and Council. GARVEE bonds are special obligations of the State secured by revenues consisting of federal aid for highways and other grants, loans and contributions from any governmental unit relating to projects to be financed under the statute. The statute authorized GARVEE bonds for the purpose of financing project costs related to the widening of Interstate 93 from Manchester to the Massachusetts border and any other federally aided highway project which the legislature may subsequently authorize to be funded under the statute. On November 18, 2010 the State issued GARVEE bonds in the amount of \$80 million for financing projects related to such highway widening. The State currently anticipates issuing up to the remaining \$115 million for such purpose in 2012. Additionally, Chapter 231 of the Laws of 2010 authorized the issuance of \$45 million of GARVEE bonds for the purpose of financing a portion of the State's share of the replacement or repair of the Memorial Bridge and Sarah Mildred Long Bridge, each in Portsmouth, New Hampshire. The State currently anticipates sharing the costs of these two bridge projects equally with the State of Maine and has no plans to issue the \$45 million in GARVEE bonds for the bridge projects.

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. See also material related to the Pease Development Authority under the headings “Capital Budget” and “Agencies, Authorities and Bonded or Guaranteed Indebtedness” below.

<u>Purpose</u>	<u>Guarantee Limit as of June 30, 2011</u>	<u>Remaining Guarantee Capacity as of June 30, 2011</u>
Local Water Pollution Control Bonds	\$50.0 million ⁽¹⁾⁽²⁾	\$45.3 million
Local School Bonds	95.0 million ⁽¹⁾⁽²⁾	37.0 million
Local Superfund Site Bonds	20.0 million ⁽¹⁾⁽²⁾	20.0 million ⁽³⁾
Local Landfill and Waste Site Bonds	10.0 million ⁽¹⁾⁽²⁾⁽³⁾	9.9 million
Business Finance Authority Bonds, Loans	95.0 million ⁽¹⁾	28.1 million
Pease Development Authority	105.0 million ⁽³⁾	48.9 million
Housing Finance Authority Child Care Loans	0.3 million ⁽⁴⁾	0.3 million

⁽¹⁾ Revolving limit.

⁽²⁾ Limit applies to total principal and interest.

⁽³⁾ Plus interest.

⁽⁴⁾ Limit applies to principal only.

Capital Budget and Bonds Authorized

Capital budgets are adopted biennially during the odd-numbered legislative sessions in conjunction with the biennial operating budget schedule. Additionally, bond authorizations are periodically legislated outside the capital budget process. The following table sets out the State’s capital budget appropriations and bonds authorized for the 2012-2013 biennium.

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Capital Appropriations and Bonds Authorized

	Biennium Ending <u>June 30, 2013</u>
Adjutant General	\$ 3,500,000
Administrative Services	15,464,185
Community-Technical College System	24,815,000
Education ⁽¹⁾	18,800,000
Employment security	22,500,000
Environmental Services	31,476,172
Fish & Game	450,000
Health & Human Services	33,959,000
Information Technology	8,540,437
Judicial Branch	2,549,585
Liquor Commission	12,715,000
McAuliffe-Shepard Discovery Center	149,000
Resources & Economic Development	3,800,000
Corrections	1,300,000
Safety	6,477,000
Transportation	37,250,366
Pease Development Authority/Ports	2,879,310
Veteran's Home	840,000
University System of New Hampshire ⁽²⁾	<u>35,000,000</u>
Gross Appropriations	262,465,055
Less-Federal, Local & Other Funds	<u>50,089,092</u>
Net Bonds Authorized	<u>\$212,375,963</u>
 Funding of Bonds	
Highway Funded	9,423,187
Other Funded	75,887,482
General Funded-USNH ⁽²⁾	35,000,000
General Funded	<u>92,065,294</u>
Net Bonds Authorized	<u>\$212,375,963</u>

⁽¹⁾ Includes \$3.7 million appropriated for kindergarten construction with bonds authorized by Chapter 224:328 Laws of 2011.

⁽²⁾ \$35 million appropriation was made in the capital budget adopted in 2005 for the 2012-2013 biennium.

In addition to the capital budget for fiscal years 2010 and 2011 (Chapter 145 of the Laws of 2009), legal authority to bond for the school building aid program is set forth in Chapter 144 of the Laws of 2009. School building aid for fiscal years 2010 and 2011 was bonded in the amounts of \$44.9 million and \$46.3 million, respectively. The law specifies that the debt service payments for school building aid bonding will be paid from meals and rooms tax revenues, although the bonds will be general obligations of the State. The General Fund unrestricted revenue estimate for meals and rooms tax is net of the amounts expected to be required for school building aid debt service payments. The Treasury operating budget includes a designation of a portion of meals and rooms tax revenues as restricted revenues sufficient to cover school building aid debt service.

In addition to the 2012-2013 capital budget, Section 2 of Chapter 259 of the Laws of 2005 appropriates a total of \$109.5 million to the University System of New Hampshire over an eight-year period. This appropriation is non-lapsing and shall not exceed \$35 million for the biennium ending June 30, 2013 (which are included in the table above).

Chapter 1 of the Laws of 2008 Special Legislative Session appropriated \$10.0 million for the renovation of the new Pease Community College System campus location which will be funded through bond proceeds, if necessary. The first \$3.0 million appropriated is to be funded from the sale of the former community college campus location in Stratham. The next \$5.0 million is to be funded \$2.5 million from the sale of the Stratham campus and \$2.5 million from college tuition and fees. The last \$2.0 million is to be funded by the General Fund. It is anticipated that the State will use the proceeds from the sale to fund construction renovation at the Pease Campus and issue bonds for the remaining \$4.5 million. As of June 30, 2011, \$10 million has been expended toward this

renovation project. A portion of this has been financed with State general obligation bonds. The Stratham campus is currently for sale, but the State cannot predict when or if it will be sold and at what price.

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. Except as noted below, guarantee limits and remaining guarantee capacity provided in the narrative below are as of July 1, 2011.

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 \$766.05 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 \$360.7 million of such bonds were outstanding as of June 30, 2011.

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 by General Fund revenues. Approximately \$188 million of such bonds were outstanding June 30, 2011. 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 \$50 million. As of June 30, 2011, \$4.7 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 such bonds shall not constitute a debt of the State but are payable solely from the revenues of the projects.

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 \$95 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, 2011, \$58.0 million of principal and interest was guaranteed under this program. Effective July 1, 2008, Chapter 49 of the Laws of 2008 reduced the State's total statutory guaranteed debt limit for this purpose to \$30 million. However, Chapter 144 of the Laws of 2009 returned the State's total statutory guaranteed debt limit for this purpose to \$95 million effective July 1, 2009 in order to aid school districts in taking advantage of the newly enacted federal Qualified School Construction Bond program. On September 23, 2009, the Governor and Council approved State guarantees for two school districts totaling \$17.7 million. One school district with \$15 million of that approved guarantee chose to issue bonds through the New Hampshire Municipal Bond Bank and did not use the State guarantee; therefore \$15 million of the \$17.7 million approved guarantee lapsed. The second school district with the remaining \$2.7 million issued its debt using the State guarantee on June 29, 2010. On May 12, 2010, the Governor and Council approved State guarantees for seven school districts totaling \$36.6 million in principal. The statute provides that interest is also guaranteed under this program. Five school districts issued \$35.1 million of the total \$51.4 million guarantee on June 29, 2010.

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 \$20 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 \$10 million at any one time. As of June 30, 2011, \$0.1 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 \$20 million State guaranteed bonds in November, 1992. In April, 2002, the Authority issued an additional \$10 million of State guaranteed bonds, half of which were used to refund then outstanding 1992 bonds. The Authority issued an additional \$10 million of State guaranteed bonds in December 2002 to refund an

equal amount of then outstanding 1992 bonds. The last \$1.3 million of then outstanding 1992 bonds was redeemed on November 1, 2003, leaving the Authority with a total balance of \$20 million of outstanding bonds as of June 30, 2011.

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 could be guaranteed by the State with the approval of the Governor and Council; \$1.0 million of such guaranteed revenue bonds are currently outstanding.

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, 2011, \$22.0 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 current outstanding 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. Pease Air Force Base in the Portsmouth area closed in October 1991. Under State legislation, the Pease Development Authority ("PDA") was established in 1990 to prepare a comprehensive plan and to implement all aspects of the plan including taking title to the property, marketing, and developing the property. As of October, 2009, the Pease International Tradeport had 4.4 million square feet of new or renovated office/R&D/manufacturing space with over 245 companies employing more than 7,000 people. As of June 30, 2011, PDA 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 \$105 million in principal amount plus interest on those bonds. The remaining guarantee capacity at June 30, 2011 was \$48.9 million. The \$105 million unconditional State guarantee is made up of two separate statutory provisions, one of which is \$35 million that may be awarded by the Governor and Council after the approval of a comprehensive development plan submitted by the PDA. Bonds have never been issued under these statutory provisions.

The second guarantee provision authorizes the State to issue up to \$70 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 PDA with respect to its operations. Pursuant to Chapter 1 of the Special Session Laws of 2008, the PDA was required to repay \$10 million to the State by December 1, 2008. On November 25, 2008 the PDA issued \$5.0 million State guaranteed bond anticipation notes and established a \$2.5 million State guaranteed line of credit. The PDA made the required \$10 million payment to the State on November 26, 2008. The PDA recently renewed the \$2.5 million state guaranteed line of credit. It will mature not later than June 30, 2017, unless extended by agreement of the State, the PDA and the bank that provided the line.

With the passage of Chapter 112 of the Laws of 2009, enacted on June 22, 2009, the New Hampshire Department of Transportation was directed to convey ownership of the SkyHaven Airport to the PDA. The PDA accepted this transfer of ownership, from and after July 1, 2009 with no liability relative to any regulatory matters or causes of action arising prior to November 1, 2008. As a component of this transfer, the Authority assumed approximately \$0.3 million in debt outstanding which has since been paid off.

In addition to the \$105 million State guarantee discussed above, the State is authorized to issue up to \$10 million general obligation bonds, the proceeds of which may be loaned to provide matching funds to private grants for development of a research district at the PDA. No debt has ever been issued under this provision. Finally, the State was authorized and did borrow \$5 million on behalf of the PDA to make economic development loans. The principal and interest on that debt was repaid by the PDA as part of the \$10 million payment to the State on November 26, 2008.

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 \$2 billion. Such bonds or notes are special obligations of the Authority, and do not constitute a debt or obligation of the State. By law, the Authority is authorized to issue up to \$600 million in bonds supported by 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. For bonds issued under this provision, 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. The Authority has not issued bonds under this provision since 1982 and there are currently no bonds outstanding subject to such a reserve fund.

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, 2011, 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.

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 separate divisions 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.

New Hampshire Rail Transit Authority. The New Hampshire Rail Transit Authority ("NHRTA") was established under RSA 238-A effective July 1, 2007 as a body corporate and politic in the State for the general purpose of developing and providing intercity rail or other similar forms of passenger rail service. The NHRTA is authorized to issue bonds to carry out its purposes. RSA 238-A provides that all obligations of the NHRTA shall be paid solely from funds provided to or obtained by it and will not be deemed a debt of the State nor a pledge of the full faith and credit of the State. The NHRTA held its organizational meeting on September 30, 2007 and continues to meet on a monthly basis. The NHRTA is currently developing plans and operating agreements for proposed passenger rail service from Concord, New Hampshire to Boston, Massachusetts through the cities of Manchester and Nashua in New Hampshire. There are no specific plans for debt issuance at this time. House Bill 218 of the 2011 legislative session would have repealed RSA 238-A. The bill passed both the House and Senate, was vetoed by the

Governor and the veto was sustained on January 4, 2012, when the legislature failed to muster the required two-thirds vote to override.

STATE RETIREMENT SYSTEM

Overview

The State maintains a defined benefit pension plan, which is administered by the New Hampshire Retirement System (“NHRS” or “System”). The System administers one cost-sharing multiple-employer pension plan (the “Pension Plan”) and four separate cost-sharing multiple-employer postemployment medical subsidy healthcare plans (the “Medical Subsidy Plans” and collectively, with the Pension Plan, the “Plans”). The Pension Plan covers effectively all State employees and all public primary and secondary teachers, law enforcement and fire service employees. Full-time employment is required to join the Plan. In addition, New Hampshire political subdivisions may elect to join the NHRS to cover their other employees. At June 30, 2011, there were approximately 49,738 active, 1,496 inactive vested, 6,272 inactive non-vested, and 27,130 retired members of the System. The System provides service, disability, death and vested deferred pension retirement benefits to its members and their beneficiaries.

The State and participating political subdivisions appropriate funding for the Plans based on percentage rates for each member’s annual earnable compensation. These rates include a “normal contribution” rate and an “accrued liability contribution” rate and are based on biennial actuarial valuations. The Plan’s unfunded liabilities are currently amortized over a 30-year period beginning July 1, 2009. The thirty year amortization period began with the actuarial valuation performed as of June 30, 2007 as required by law, however because of the lag between valuation results and effective date of corresponding employer rates, the actual amortization of the liability began on July 1, 2009. The System also provides postemployment health benefit plans through the Medical Subsidy Plans. The Medical Subsidy Plans are effectively functioning on a pay-as-you-go basis. Medical subsidy payments are made by the System from a 401(h) subtrust on behalf of a closed group of eligible participants. Medical subsidy payments are made directly to former employers (State and local governments), insurance companies, and third party health insurance administrators to offset the cost of health insurance for the eligible retirees. The balance of the insurance premium is paid by either the retiree or the former employer, depending on the employer’s policy.

Additional information pertaining to the Pension Plan is contained in the State’s audited financial statements for the year ended June 30, 2011 at note 10, which financial statements are incorporated by reference in this Information Statement and included as Exhibit A hereto. The System’s audited financial statements are also included in the State’s Comprehensive Annual Financial Report for the year ended June 30, 2011 (the “2011 CAFR”), which report is also incorporated herein by reference and may be accessed at <http://admin.state.nh.us/accounting/>. The 2011 CAFR has also been filed with the Municipal Securities Rulemaking Board through its Electronic Municipal Market Access (“EMMA”) system, which may be accessed at <http://emma.msrb.org>.

The System issues publicly available financial reports that may be obtained by requesting them in writing at 54 Regional Drive, Concord, NH 03301-8507 or from their web site at www.nhrs.org. Currently available reports include the System’s Comprehensive Annual Financial Report for the year ended June 30, 2011 (the “2011 System CAFR”), which may be accessed at www.nhrs.org/Investments/Reports.aspx and the Actuarial Valuation Report-Revised Draft as of June 30, 2011 (the “Draft 2011 Actuarial Valuation”), which may be accessed at www.nhrs.org/Investments/Valuations.aspx. The 2011 System CAFR and the Draft 2011 Actuarial Valuation are incorporated herein by reference. Similar reports for prior years are also available from the System at the addresses set forth above or at www.nhrs.org.

The Board of Trustees (the “Board”) has not yet accepted the Draft 2011 Actuarial Valuation and accordingly it is subject to change. The Board will use the final actuarial valuation report as of June 30, 2011 (as it may be further modified as compared to the current Draft 2011 Actuarial Valuation) to set contribution rates for the 2014-2015 biennium. By law, the Board must certify those rates by October 1, 2012. See *Results of Actuarial Valuations* below.

In March 2011, the System received an actuarial experience study (the “2005-2010 Experience Study”) of the System for the period July 1, 2005 through June 30, 2010. The 2005-2010 Experience Study is incorporated herein by reference and may be accessed at www.nhrs.org/Investments/Valuations.aspx. See “2005- 2010

Experience Study” below for a description of the recommendations and the impact of the recommendations on the aggregate estimates of the Plans and contributions due from the State and participants.

On March 18, 2011, the NHRS Independent Investment Committee voted to recommend to the NHRS Board of Trustees that the assumed investment rate of return be lowered from the current 8.5% to 7.75%. While not binding on the Board, the actuary recommended in the 2005-2010 Experience Study that the assumed investment rate of return be reduced to within a range of 7.5% to 8.0% for the biennial valuation to be performed as of June 30, 2011 which will be used to set contribution rates for fiscal years 2014 and 2015.

On May 10, 2011, the Board of Trustees voted to adopt actuarial assumptions to be used by the actuary when performing the actuarial valuation as of June 30, 2011, which will be used to set the employer contribution rates for fiscal years 2014 and 2015. In addition to the demographic and economic assumptions recommended by the System’s actuary, the most significant assumption changes adopted by the Board lowered the assumed rate of return from 8.5% to 7.75% and lowered the wage growth assumption from 4.5% to 3.75%. See “2005-2010 Experience Study” below for information regarding the impact of these changes. Pursuant to Chapter 224:188, Laws of 2011, on August 4, 2011, the Board of Trustees recertified the employer rates for fiscal years 2012 and 2013, effective August 1, 2011. In the recertification, as required by law, the Board took into consideration all the pension changes from Chapter 224 Laws of 2011 and used the actuarial assumptions adopted by the Board when originally setting the fiscal year 2012 and 2013 rates (8.5% assumed rate of return and 4.5% assumed wage growth) in September 2010.

Effective July 1, 2011, the membership of the NHRS Board of Trustees was substantially changed. Under prior law, the 14 member Board included two active members from each of the four member groups, one senator, one representative, two public members appointed by the Governor and Council, an employer member from the NH municipal association and the state treasurer. The new 13 member Board is now made up of one active member from each of the four member groups, four public members appointed by the Governor and Council, the state treasurer and four employer members one each from the municipal association, school boards association, association of counties and a member to represent management of the State.

Financing

The financing of the System is provided through both member and employer contributions from the State and political subdivisions. The member contribution is set by State statute and prior to July 1, 2011 equaled 5% of payroll for State and political subdivision employees and teachers and 9.3% for police and firefighters. Effective for all State employees hired after June 30, 2009, the member rate is 7%. Effective July 1, 2011, the statutory member contributions equal 7% for all State and political subdivision employees and teachers, 11.55% for police members and 11.80% for fire service members. The member rate increase is projected to result in additional contributions of \$54 million and \$56 million in fiscal years 2012 and 2013, respectively, over what would have been collected from members without the rate increase. The employer contribution rate is based on a biennial actuarial valuation performed by an independent actuary and then certified by the NHRS Board of Trustees. The State Constitution provides that the employer contributions certified as payable to the System to fund the System’s liabilities, as determined by “sound actuarial valuation and practice,” shall be appropriated each fiscal year in the amount so certified.

The NHRS interpreted the effective date for the increase in member rates to be applicable to paychecks issued on or after July 1, 2011. All employers, with the exception of the State, collected and remitted the higher member contributions for paychecks dated on or after July 1, 2011. The State has interpreted the law to be effective for service rendered on or after July 1, 2011. Therefore State employees did not pay the higher member contribution rate until the paycheck dated July 29, 2011. The member contributions not remitted by the State in July 2011 approximate \$825,000. State administrative rules authorize the Board of Trustees to suspend requirements when a member will be harmed through no fault of the member and further states the party determined to be at fault will reimburse the NHRS. Under this authority, the Board of Trustees voted at its October 11, 2011 meeting to waive the pending contribution adjustment to its State members so that full service credit can be provided to those members. Further, the Board of Trustees will proceed to act under its administrative and statutory authority to adjust for the \$825,000 as reflected in the Draft 2011 Actuarial Valuation, subject to final Board approval.

On June 29, 2011, the Professional Firefighters of New Hampshire, New Hampshire Police Association, National Education Association – New Hampshire and State Employees Association of New Hampshire filed a Motion of Temporary Restraining Order in Merrimack County Superior Court seeking status quo on member contribution rates and recertification of fiscal year 2012 and 2013 employer contribution rates until such time as the

Court can rule on the Petition for Declaratory and Injunctive Relief filed by the same Petitioners the same day. The Court declined to issue an immediate injunction but set a hearing for September 12, 2011. That hearing was continued until November 17, 2011. On January 6, 2012, the Court issued an Order dismissing both claims but offered the petitioners 30 days to amend their complaint to allow them to identify who is vested as the Court found there was a substantial impairment of a vested contract right due to the increase in member contribution rates. On February 24, 2012, the petitioners filed an amended complaint but it is unknown when the Court will issue a ruling on it. See LITIGATION.

The Pension Plan is divided into two membership groups. Group I consists of State and local employees and teachers. Group II consists of firefighters and police officers. The Medical Subsidy Plans consists of four groups: 1) State employees, 2) political subdivision employees, 3) teachers, and 4) police officers and firefighters. The State funds 100% of the employer cost for the Plans for all State employees and, prior to fiscal year 2010, the State funded 35% of the employer cost for teachers, firefighters and police officers employed by political subdivisions. Due to changes made in the 2009 legislative session, the State funded 30% of the employer cost for these three employee classes in fiscal year 2010 and 25% of the employer cost for such employees in fiscal year 2011. Pursuant to Chapter 224, Laws of 2011, effective July 1, 2011, the State will no longer share in the funding of local employer contributions, with the exception of \$3.5 million in fiscal year 2012.

In March 2010, a lawsuit was filed by the City of Concord, NH, Belknap County and Mascenic Regional School District, with backing from approximately 294 other New Hampshire municipalities, counties, school districts and school administrative units, challenging the constitutionality of the reduction in the State's share of funding for local employer costs for teachers, firefighters and police officers in fiscal years 2010 and 2011. The lawsuit alleges that the reduction for those two fiscal years violates the State Constitution as an unfunded mandate imposed by the State on the local employers. On May 13, 2011, the Superior Court found that the reduction of the State's share of employer contributions did not create an unfunded mandate in violation of the constitution. On May 26, 2011, the municipalities filed a motion for reconsideration; the motion was denied by the Superior Court on June 10, 2011. The Petitioners filed a notice of appeal to the New Hampshire Supreme Court on June 29, 2011. The Supreme Court accepted the appeal on July 19, 2011. On September 19, 2011, the Petitioners filed their brief with the Court. The State and the NHRS filed their respective briefs in early November and oral argument was held on March 13, 2012. See LITIGATION.

The reduced percentage contribution for the State's share of local employers in fiscal years 2010 and 2011 reduced the State's aggregate contributions to the Plans in those years by \$8.59 million and \$18.73 million, respectively. The budget adopted for fiscal years 2012 and 2013 removes State funding for local employer contributions with the exception of \$3.5 million in fiscal year 2012 noted above. With the significant legislative changes made to pension eligibility coupled with increased member contributions, the State will pay approximately \$96.1 million less in fiscal year 2012 and \$106.9 million less in fiscal year 2013 than would have been the case with no change in law and resumption of 35% State sharing of local employer contributions. See *Total Employer Contributions to NHRS* tables below.

Chapter 224, Laws of 2011 includes many changes to eligibility and pension benefits, primarily for new members and members that are not vested as of January 1, 2012. These changes are intended to reduce the future pension liability and include, but are not limited to:

- Increasing the retirement age for employees and teachers from 60 to 65.
- Increasing the minimum retirement age for police and fire from 45 with 20 years of service to 50 with 25 years of service.
- Average final compensation (AFC) used to calculate pension benefits will be calculated using the highest five years' salary rather than the current highest three years' salary. In addition, compensation in excess of base pay in the final years of service will not be included. Caps have been defined for maximum retirement benefits.

Chapter 224:188, Laws of 2011 also required the Board of Trustees to recertify the employer rates for fiscal years 2012 and 2013 taking into consideration all the recent legislative changes and using the actuarial assumptions used by the Board when originally setting the fiscal year 2012 and 2013 rates (8.5% assumed rate of return and 4.5% assumed wage growth). The Board voted on June 14, 2011 that if rates for fiscal years 2012 and 2013 were to be recertified, it would use the new actuarial assumptions that it recently adopted to set the rates for fiscal years 2014 and 2015 (7.75% assumed rate of return and 3.75% assumed wage growth). The Board voted in a Special Meeting on

June 28, 2011 to seek an injunction to bar this section of law from taking effect, believing it unconstitutional for the legislature to require the Board to use certain actuarial assumptions. A Petition for Injunctive Relief was filed with the Merrimack County Superior Court on July 12, 2011. The Court denied the request and effective August 1, 2011, the Board recertified employer rates for fiscal years 2012 and 2013 as mandated by Chapter 244:188, Laws of 2011. In late September 2011, the Board decided not to pursue the recertification lawsuit following the assent of the NH Attorney General's office to file a particular type of withdrawal – referred to as neither party docket markings.

The State's Annual Required Contribution ("ARC") shown below represents both Pension Plan and Medical Subsidy Plans contributions currently required by statute for both State employees and the State's share of employer contributions for local government employees. The contribution amounts are determined as a percentage of the payroll for eligible employees. Accordingly, the actual dollar amount of contributions in any year will vary from estimates to the extent the actual payroll varies. The amounts shown in the table below for fiscal years 2012 and 2013 are estimated, as described in the footnotes to the table and are subject to change. The actual contribution by the State and local participants will likely differ from the amounts shown.

**Total Employer Contributions to NHRS (Pension and Medical Subsidy)
(in millions)**

Fiscal Year	Total Employer	% of ARC	State Share			State Share % of Total	Local Share	Local Share % of Total
			For State Employees	On Behalf of Local	Total			
2013 (est) ¹	\$336.3	100%	\$77.1	\$0.0	\$77.1	23%	\$259.2	77%
2012 (est) ¹	335.5	100%	76.7	3.5	80.2	24%	255.3	76%
2011	307.5	100%	73.6	44.3	117.9	38%	189.6	62%
2010	302.2	100%	74.5	51.5	126.0	42%	176.2	58%
2009	261.5	75%	60.5	51.0	111.5	43%	150.0	57%
2008	249.9	75%	56.6	50.2	106.8	43%	143.1	57%
2007	178.6	100%	42.0	36.1	78.1	44%	100.5	56%
2006	170.8	100%	39.1	33.6	72.7	43%	98.1	57%
2005	133.1	100%	34.1	25.6	59.7	45%	73.4	55%
2004	123.6	100%	32.6	22.8	55.4	45%	68.2	55%
2003	88.5	100%	21.5	17.6	39.1	44%	49.4	56%

¹ The amounts shown for fiscal years 2012 and 2013 are estimates based on the Board's recertification of rates in accordance with Chapter 224, Laws of 2011.

The Draft 2011 Actuarial Valuation includes certain projections through fiscal year 2019. See *Section A – Discussion and Comments – Projections* on pages 21-22 of the Draft 2011 Actuarial Valuation. For comparison to the Total Employer Contributions shown in the table above, the Draft 2011 Actuarial Valuation projects those amounts to increase from an estimated \$336.3 million in fiscal year 2013 to a projected \$409.8 million in fiscal year 2014 and to a projected \$462.3 million by fiscal year 2019. In addition, the funded ratios are projected to increase from 57.4% as of June 30, 2011 to 70.5% by June 30, 2019.

As noted in the Draft 2011 Actuarial Valuation, the projections are not predictions of actual future results and the actual experiences will differ from the projections.

As discussed below under "Medical Subsidy Plans," starting in fiscal year 2007, changes were made to the way the Medical Subsidy Plans were accounted for and funded. For years prior to fiscal year 2008, and in accordance with State statute, 25% of employer contributions were credited to the 401(h) Medical Subsidy Plans when received; the Pension Plan was then made whole by transferring assets from a Medical Special Account to the Pension Plan. On the advice of NHRS counsel, the NHRS stopped this practice effective for fiscal year 2008.

As a result of this changed practice and as reported in the June 30, 2008 interim actuarial valuation discussed below, only 75% of the ARC was contributed in fiscal years 2008 and 2009. While the State and all other employers had consistently paid 100% of the rates certified by the NHRS Board of Trustees, the rates certified by the NHRS Board of Trustees in 2005 with respect to fiscal years 2008 and 2009 did not include a separate component for the funding of the Medical Subsidy Plans. At the time such rates were certified in 2005, the NHRS Board of Trustees was not aware that the Pension Plan would only be credited with 75% of the ARC for fiscal years

2008 and 2009, as a result of the change in practice with respect to Medical Subsidy Plans described above, which first took effect in fiscal year 2008.

The difference between the State's ARC and the actual State contributions for fiscal years 2008 and 2009, approximately \$27 million and \$28 million, respectively, have been accrued as a liability in the State's government-wide financial statements as a net pension obligation and will be funded through future employer contributions.

State law establishes a Special Account to fund or partially fund additional benefits, such as cost of living adjustments and any other additional benefits that may be approved by the Legislature from time to time. The Special Account is credited annually with all of the earnings on an actuarial basis of the Special Account assets plus, under prior law, the earnings on the remaining assets of the Pension Plan in excess of the assumed rate of return plus ½ of 1%. However, legislation was enacted in fiscal year 2007 that restricts any funds from being credited to the Special Account until the funded ratio of the consolidated retirement system as of June 30th of any given year is equal to or greater than 85%. Upon achievement of the 85% funded ratio, only returns in excess of ten and one-half percent will be allocated to the Special Account. As required by Chapter 224, Laws of 2011 any amounts in the Special Account as of June 30, 2011 are transferred to the main pension trust, except for a holdback of approximately \$20 million to fund legislatively approved temporary supplemental benefit allowances for political subdivision employees receiving medical subsidy benefits.

2005-2010 Experience Study

On March 8, 2011 the Board of Trustees accepted the 2005-2010 Experience Study for the period July 1, 2005 through June 30, 2010. The 2005-2010 Experience Study contains related information regarding the System and can be accessed in its entirety at http://nhrs.org/documents/NHRS_5_Year_Experience_Study_March_2011.pdf. In addition to demographic and economic assumptions recommended by the System's actuary, significant recommendations included reducing the current 8.5% investment rate of return to within a range of 7.5% to 8.0% and reducing the current 4.5% assumed wage growth to within a range of 3.5% to 4.0%. The Board of Trustees voted on May 10, 2011 to adopt 7.75% as the assumed rate of return and 3.75% as the assumed wage growth for use in the Draft 2011 Actuarial Valuation.

Results of Actuarial Valuations

The NHRS has actuarial valuations performed biennially in each odd-numbered year, the results of which are used to determine the employer contribution rate for the next succeeding biennium. The actuarial valuation dated as of June 30, 2009 was used to determine the required contributions for fiscal years 2012 and 2013 and the final June 30, 2011 actuarial valuation will determine the required contributions for fiscal years 2014 and 2015. The Draft 2011 Actuarial Valuation was issued in November 2011 and revised in January 2012. The actuarial valuations as of June 30, 2007 and June 30, 2009, and the Draft 2011 Actuarial Valuation can be viewed in their entirety at www.nhrs.org/Investments/Valuations.aspx. Based on the results of the Draft 2011 Actuarial Valuation, the net assets available to pay benefits, at actuarial value, were reported to be \$5,740.5 million. The market value of assets as of June 30, 2011 was approximately \$92.9 million more than the actuarial value. The total pension liability at June 30, 2011 was \$9,998.3 million, resulting in an unfunded pension liability at June 30, 2011 of \$4,257.7 million and a funded ratio of 57.4%. Effective July 1, 2007 the System's actuarial cost method changed from the open group aggregate cost method to the more widely used entry age normal cost method. The total liabilities since that date have been determined using the entry age normal actuarial cost method and a 30-year closed amortization of the unfunded accrued actuarial liability. Due to the fact that contributions for any particular fiscal year are determined by actuarial valuation performed up to four years prior to a particular year, the contributions that reflect the 30 year amortization began with fiscal year 2010.

The actuary for the Plans uses several actuarial assumptions including the investment return rate at 7.75% (and 3.75% for Medical Subsidy Plans for GASB reporting purposes) as of the Draft 2011 Actuarial Valuation and the wage inflation rate at 3.75%. The actuary also uses so-called "smoothing," whereby the difference between the market value of assets and the actuarial value of assets is smoothed over the previous five years to offset the effects of volatility of market values in any single year. In addition, the NHRS uses a 20% "corridor" in order to prevent the smoothed value from varying too far from market. The use of the 20% corridor means that very large gains and losses (i.e., ones that would produce a smoothed value that is more than 20% higher or lower than the actual market value) will not be presumed to be completely transitory and will be reflected immediately in funding. The use of the corridor in the 2009 actuarial valuations for the Plans lowered the actuarial value of assets that would have been established in its absence and thus raised the ARC in fiscal years 2012 and 2013.

The Draft 2011 Actuarial Valuation includes detailed information concerning the calculation of the unfunded actuarial accrued liability (“UAAL”) of the System. *Section B – Funding Results* of the Draft 2011 Actuarial Valuation includes an analysis of the factors that caused the UAAL to increase by approximately \$537.6 million as of June 30, 2011, as compared to the UAAL as of June 30, 2010. In particular, changes due to legislative changes are estimated to have reduced the UAAL by approximately \$430.1 million, while changes due to the revised actuarial assumptions described in the Draft 2011 Actuarial Valuation are estimated to have increased the UAAL by about \$756.7 million. See *Experience Gain/(Loss) – June 30, 2011* on page 29 of the Draft 2011 Actuarial Valuation for additional information.

As of June 30, 2011, the net assets available to pay post employment health benefits, at actuarial value, were reported to be \$33.2 million, with a corresponding liability of \$777.6 million, resulting in an unfunded post employment health benefit liability at June 30, 2011 of \$744.4 million and an overall funded ratio of 4.3%. This liability is separate and in addition to the State OPEB liability discussed under “HEALTH CARE COVERAGE FOR RETIRED EMPLOYEES.”

Employer contribution rates depend on all of the actuarial assumptions used in determining the contribution rates. The following table sets forth a summary of certain assumptions used in the Draft 2011 Actuarial Valuation, which contains detailed information regarding the System’s funding progress, employer contribution rates and actuarial information to be used for certain accounting reporting purposes. The assumptions for the investment rate of return and rate of payroll growth were changed following the acceptance of the five year experience study to 7.75% and 3.75%, respectively. The assumptions for the investment rate of return and payroll growth used in the two prior valuations were 8.50% and 4.50%, respectively and were the assumptions used to determine the contributions required for fiscal years 2010 through 2013.

Pursuant to Chapter 224:188, Laws of 2011, on August 4, 2011, the Board of Trustees recertified the employer rates for fiscal years 2012 and 2013, effective August 1, 2011. In the recertification, as required by law, the Board took into consideration all the pension changes from Chapter 224 and used the actuarial assumptions adopted by the Board when originally setting the fiscal year 2012 and 2013 rates (8.5% assumed rate of return and 4.5% assumed wage growth) in September 2010.

**New Hampshire Retirement System
Pension and Medical Subsidy Plans Assumptions**

	<u>Pension Plan</u>	<u>Medical Subsidy Plans</u>
Actuarial Cost Method	Entry age normal	Entry age normal
Amortization Method	Level percentage of payroll, closed	Level percentage of payroll, closed
Equivalent single amortization period	30 years From 7/1/2009	*
Asset valuation method	5-year smoothed market	5-year smoothed market
Actuarial Assumptions:		
Investment rate of return*	7.75%	3.75%
Projected salary increases*	4.15% to 24.55%	4.15% to 24.55%
<i>*Includes Price Inflation at</i>	3.0%	3.0%
Rate of Payroll Growth	3.75%	3.75%
Valuation Health Care Trend Rate	N/A	N/A-The Medical Subsidy Plans provides a specific dollar subsidy to be used for health care. The subsidy increased 8.0% for fiscal year 2007 by statute. Effective July 1, 2008, the annual increase will be 0.0%.

* Because the Medical Subsidy Plan is effectively a pay-as-you-go benefit provided to a closed group of eligible participants, the contribution needed to fund the benefits on a pay-as-you-go basis are intended to meet or exceed the contribution that would be otherwise necessary to amortize the liability under a 30 year amortization period.

Based on the results of the June 30, 2009 actuarial valuation, the employer contribution rates to be paid by the State for fiscal years 2012 and 2013 increased by approximately 11.0%-11.5% over fiscal year 2010-2011 rates. As discussed previously, Chapter 224, Laws of 2011, required the Board of Trustees to recertify the employer rates

for fiscal years 2012 and 2013 applying changes adopted during the 2011 legislative session and using actuarial assumptions used by the Board when originally setting the rates in September 2010 for fiscal years 2012 and 2013. The Board recertified the employer rates effective August 1, 2011, and those recertified rates are shown below, as are the rates originally certified (presented for comparative purposes). The rates for fiscal years 2014 and 2015 will be certified by the Board upon acceptance of the Draft 2011 Actuarial Valuation (as it may be modified by the time of such acceptance) prior to October 1, 2012.

**Combined Employer Contribution Rates for Pension Plan and Medical Subsidy Plans For
Fiscal Years 2011-2014 Recertified by Board Applying New Law**

	<u>Certified</u>			<u>Preliminary</u>
	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
Employees				
State	11.05%	10.08%	10.08%	12.13%
Political Subdivisions	9.16	8.80	8.80	10.77
Teachers	10.70	11.30	11.30	14.16
Police				
State	19.51	19.95	19.95	25.40
Political Subdivisions	19.51	19.95	19.95	25.30
Fire				
State	24.69	22.89	22.89	27.85
Political Subdivisions	24.69	22.89	22.89	27.74

The following tables provide a ten year history of funded ratios based on actuarial value of assets separated for the Pension Plan and the Medical Subsidy Plans. It is important to note that assets in the Special Account are not included in these asset values. The purpose of the Special Account is to fund additional benefits, such as cost of living adjustments (COLAs).

**NEW HAMPSHIRE RETIREMENT SYSTEM
TEN YEAR HISTORY OF PENSION PLAN FUNDING STATUS
FISCAL YEARS 2002-2011
(All Dollar Amounts in Thousands)**

Actuarial Valuation Date (June 30)	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio
2011	\$5,740,516	\$9,998,251	\$4,257,735	57.4%
2010	5,233,838	8,953,932	3,720,094	58.5
2009	4,937,320	8,475,052	3,537,732	58.3
2008	5,302,034	7,821,316	2,519,282	67.8
2007	4,862,256	7,259,715	2,397,459	67.0
2006	3,928,270	6,402,875	2,474,605	61.4
2005	3,610,800	5,991,026	2,380,226	60.3
2004	3,575,641	5,029,877	1,454,236	71.1
2003	3,500,037	4,669,192	1,169,155	75.0
2002	3,443,395	4,196,314	752,919	82.1

Note: Liabilities for fiscal years 2007-2011 were determined under the entry age normal actuarial cost method. Liabilities for fiscal year 2006 and prior fiscal years were determined under the open group aggregate actuarial cost method. Comparisons between fiscal years 2007-2011 and prior years are not comparable.

Source: Information for fiscal years 2007 through 2011 is derived from the System's fiscal years 2010 and 2011 CAFR; information for years prior to 2007 is derived from the System's actuarial valuation for each respective year.

**NEW HAMPSHIRE RETIREMENT SYSTEM
TEN YEAR HISTORY OF MEDICAL SUBSIDY PLANS FUNDING STATUS
FISCAL YEARS 2002-2011
(All Dollar Amounts in Thousands)**

Actuarial Valuation Date (June 30)	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio
2011	\$33,218	\$777,572	\$744,354	4.3%
2010	57,818	1,033,863	976,045	5.6
2009	176,800	673,390	496,590	26.3
2008	175,187	669,874	494,687	26.2
2007	156,976	638,410	481,434	24.6
2006	445,860	986,502	540,642	45.2
2005	445,918	930,675	484,757	47.9
2004	441,936	731,021	289,085	60.5
2003	415,046	701,408	286,362	59.2
2002	437,478	576,770	139,292	75.8

Note: \$89.5 million of the asset change from fiscal year 2009 to fiscal year 2010 represents the transfer to the Special Account as part of the Plan's participation in the Voluntary Correction Program (VCP) with the IRS discussed below.

Note: Liabilities for fiscal year 2007-2011 were determined under the entry age normal actuarial cost method. Liabilities for fiscal year 2006 and prior fiscal years were determined under the open group aggregate actuarial cost method. Comparisons between fiscal years 2007-2011 and prior years are not comparable.

Source: Information for fiscal years 2007 through 2011 is derived from the System's fiscal years 2010 and 2011 CAFR; information for years prior to 2007 is derived from the System's actuarial valuation for each respective year.

Investments

RSA 100-A:15, I, provides separate and specific authorities to the Board of Trustees and the Independent Investment Committee for the management of the funds of the Plans and charges them with exercising the judgment and care under the circumstances then prevailing, which persons of prudence, discretion and intelligence, acting in a like capacity and familiar with such matters, would use in the conduct of a pension plan of like character and with like aims of the Plans.

Fiscal year 2010 marked the first full reporting period for which the Independent Investment Committee conducted oversight and management of the investment program. Prior to January 1, 2009, the Board of Trustees served as the NHRS Investment Committee. On that date, the Independent Investment Committee assumed its responsibilities in accordance with the provisions of RSA 100-A:14-b. The Committee is responsible for investing in accordance with policies established by the Board; making recommendations to the Board regarding investment consultants, asset allocation, and other policy matters; selecting investment managers, agents, and custodial banks; and reviewing performance. The Committee, which meets monthly, is comprised of five members: three independent members appointed by the Governor and Executive Council, and two members of the Board of Trustees appointed by the Chair of the Board. All are expected to have significant experience in institutional investment or finance.

State law requires that the Independent Investment Committee provide a comprehensive annual investment report. The report for the fiscal year ended June 30, 2011 was unanimously approved and accepted by the NHRS Board of Trustees at its December 13, 2011 regular meeting and may be accessed at http://nhrs.org/documents/NHRS_Annual_Investment_Report_FY2011.pdf or may be obtained, upon request, from the System at the address set forth above in "Overview."

The target allocation and range for each asset class, as adopted by the Board of Trustees on July 13, 2010, are as follows:

<u>Asset-Class</u>	<u>Target Allocation</u>	<u>Allocation Range</u>
Domestic Equity	30%	20 – 50%
Non-U.S. Equity	20	15 – 25
Fixed Income	30	25 – 35
Real Estate	10	0 – 15
Alternative Investments	10	0 – 15

Performance returns shown below are calculated on a net-of-fees time-weighted rate of return basis.

<u>Asset Class</u>	<u>Percent of Assets</u>	<u>Annualized Investment Returns</u>			
		<u>Periods Ending June 30, 2011</u>			
		<u>1-Year</u>	<u>3-Years</u>	<u>5-Years</u>	<u>10-Years</u>
Total Fund	100.0%	23.0%	4.4%	4.7%	5.2%
<i>Total Fund Custom Index</i>		22.1%	4.1%	4.7%	5.5%
Domestic Equity	42.9%	31.2%	2.9%	2.1%	2.6%
<i>Domestic Equity Blended Benchmark ⁽¹⁾</i>		32.4%	4.0%	3.4%	3.3%
Non-US Equity	21.4%	34.2%	1.2%	4.5%	6.9%
<i>Non-US Equity Blended Benchmark ⁽¹⁾</i>		29.7%	-0.3%	3.7%	7.1%
Fixed Income	26.8%	7.9%	8.8%	8.1%	7.8%
<i>Fixed Income Blended Benchmark ⁽¹⁾</i>		4.8%	6.7%	6.5%	6.2%
Real Estate	5.6%	14.9%	-7.0%	0.7%	8.2%
<i>Real Estate Blended Benchmark ⁽¹⁾</i>		17.3%	-2.2%	3.7%	7.8%
Alternative Investments	2.1%	9.7%	-6.5%	-3.0%	-4.5%
<i>Consumer Price Index + 5% Adjusted ⁽¹⁾</i>		8.6%	6.1%	7.2%	7.4%
Cash	1.2%	0.2%	0.5%	2.2%	2.3%
<i>90 Day Treasury Bills</i>		0.2%	0.4%	2.0%	2.1%

¹ In a dynamic market, strategies and objectives evolve over time. Consequently, these benchmarks are blended due to historical investment strategy decisions. Detailed descriptions of the benchmarks above are available by contacting NHRS.

Ten Year History Actuarial Value vs. Market Value of Assets

The Actuarial (Funding) Value of Assets recognizes assumed investment income fully each year. Differences between actual and assumed investment income are phased in over a closed five-year period. During periods when investment performance exceeds the assumed rate, Funding Value of Assets will tend to be less than market value. During periods when investment performance is less than the assumed rate, Funding Value of Assets will tend to be greater than market value. The Funding Value of Assets is unbiased with respect to Market Value. At any time it may be either greater or less than Market Value. If assumed rates are exactly realized for four consecutive years, it will become equal to Market Value. Final Funding Value of Assets may not be less than 80% nor more than 120% of Market Value of Assets.

The table below presents a ten year history of actuarial rates of return and asset values to the market rates of return and asset values. The actuarial rate of return for each of the fiscal years prior to 2007 was calculated looking at the initial asset value, which is determined using a five year moving average method. Each year's initial value was then compared to the book value and market value for that year and the middle value was used to compute rates, provided that the middle value was not less than the five year average. For fiscal years after 2006, assets were valued on a market-related basis that recognizes each year's difference between actual and assumed investment return over a closed five year period.

The asset values presented below include all assets in the NHRS Plan Trust, including the Special Account assets that are available pursuant to RSA 100-A:16, II(h) to provide additional benefits such as cost-of-living adjustments. The Special Account assets are used in determining actuarial and market rates of return and the Special Account is appropriately credited with earnings. However, the Special Account assets are not used in calculating the

funded ratios of the Pension and Medical Subsidy Plans because those assets are not available to pay the corresponding liabilities. According, Special Account assets are not included in the Ten-Year Funding Status tables found in the “Results of Actuarial Valuation” section.

**New Hampshire Retirement System
Actuarial Value vs. Market Value
Fiscal Years 2002 to 2011**

<u>Fiscal Year</u>	<u>Actuarial Rate of Return</u> (Per Actuarial Valuation Reports)	<u>Actuarial Value of Assets</u> (in thousands)	<u>Market Value Rate of Return</u> (NHRS CAFRs)	<u>Market Value of Assets</u> (in thousands)
2011	6.90%	\$5,798,249	23.0%	\$5,891,179
2010	6.48%	\$5,569,341	12.90%	\$4,898,339
2009	-3.87	5,353,453	-18.10	4,461,211
2008	9.52	5,701,579	-4.60	5,597,047
2007	12.85	5,272,358	16.00	5,967,916
2006	9.27	4,647,973	10.00	5,112,256
2005	1.25	4,322,614	10.10	4,728,590
2004	1.85	4,339,537	14.90	4,391,286
2003	1.92	4,323,936	2.50	3,901,681
2002	4.80	4,323,997	-6.40	3,936,475

Current Market Conditions

Since June 30, 2008, the liquidity crisis in the credit, housing and mortgage markets blossomed into a global economic crisis of significant proportions. Both U.S. and global investment markets experienced significant declines since June 30, 2008. For the fiscal year ended June 30, 2009, the System’s total fund investment return declined 18.1% and net assets available for benefits declined \$1,135.8 million to \$4,461.2 million. Investment results since June 30, 2009 have improved, and as a result of that improvement, the market value of net assets available for benefits have recovered to \$5.9 billion as of June 30, 2011. (It should be noted that future contributions to the System will be based upon the actuarial value of the System’s assets, not market value, and such actuarial values will differ from market value.) The System’s investments returned 12.9% for the year ended June 30, 2010. Based on the System’s current asset allocations and market index returns over the same period, the System’s investment returns are consistent with investment market returns. For the twelve months ending June 30, 2011, the System’s total fund investment return (at market) was 23%. The actuarial rate of return for the year ended June 30, 2011 was 6.9%, which resulted in recognition of an actuarial loss. For the eight months ending February 29, 2012, the investment return for total marketable assets, approximately 90% of System assets, was 1.9%. The System is a long-term investor. No prediction can be made of the short-term or long-term investment prospects for the System’s investment portfolio. The System’s total marketable assets were valued at \$5.248 billion as of February 29, 2012.

Medical Subsidy Plans

The four Medical Subsidy Plans provide an offset or subsidy for retiree health premiums for a closed group of eligible participants. By law, all retirees must be provided the option to obtain retiree health benefits through their former employer’s medical plan. However, the employer is not required to provide any funding for that benefit. For those eligible retirees who elect to receive health benefits through a former employer, the subsidy offsets the cost of the health benefits for the retiree, the employer or both. The State, as an employer, funds the vast majority of costs related to retiree health, therefore the medical subsidy from the Retirement System flows back to the State. (See HEALTH CARE COVERAGE FOR RETIRED EMPLOYEES). The Medical Subsidy Plans are effectively pay-as-you-go plans and will remain so. Under current law, the cash outflow necessary to make benefit payments will continue until all benefits are paid. Effective July 1, 2011, Chapter 224, Laws of 2011 caps the maximum benefit payable and states that the subsidy amount not be increased, however all legislative provisions are subject to amendment or modification, within constitutional limits.

As required for its fiscal year 2007 implementation of GASB Statement No. 43, the System conducted an actuarial valuation dated June 30, 2007 of its Medical Subsidy Plans. As part of implementing GASB Statement

No. 43, the System underwent a compliance review of its medical subsidy program. The compliance review made multiple recommendations that were unanimously adopted by the System's Board of Trustees in November 2007. These recommendations included: (1) seeking IRS approval to correct a series of transfers that occurred from fiscal years 1990 through 2000 by participating in the IRS Voluntary Correction Program (VCP) (if approved, by the IRS a transfer of at least \$26.4 million would be made from the 401(h) medical subtrust to the pension reserve); (2) seeking ratification by corrective State legislation of the 33-1/3% employer contributions that were made and prospectively abide by the 25% statutory limitation; (3) eliminating the financial reporting of the \$295 million Medical Special Account as part of the postemployment health benefit plans and reporting the \$295 million as Pension Plan assets; and (4) establishing the appropriate subtrusts in the 401(h) account and reconstructing the accounting for those subtrusts as determined by legal counsel to be the Medical Subsidy Plans administered by the System. In addition, correcting a \$17.7 million shortfall in the State Employee Group Medical Subsidy Plans that has been subsidized by contributions from the Political Subdivision Medical Subsidy Plans as more fully described in the next paragraph. All four of these items have been appropriately corrected.

On September 1, 2010, the System received a Compliance Statement from the Internal Revenue Service (IRS) in regards to its VCP filing of April 2, 2008. In that filing, the System identified plan document or operational failures that the System recommended needed to be corrected to ensure compliance with New Hampshire RSA 100-A and IRS regulations. The IRS Compliance Statement agreed with the corrective steps recommended by the System. Those failures and the corrective steps that have been taken are as follows:

- Correct a series of seven plan document failures where the System failed to timely adopt provisions to comply with certain requirements of the IRS code. The affected provisions covered minimum vesting standards, treatment of forfeitures, required minimum distributions, specified factors for actuarial equivalence, eligible rollover distributions, updated requirements for annual benefit limitations and updated requirements for annual addition limitations and definition of compensation. At its June 2011 meeting, the Board adopted policies correcting the plan document failure.
- From fiscal year 1990 through fiscal year 2000, \$26.4 million was transferred from Special Account pension assets to the System's 401(h) medical subtrust. Pursuant to RSA 100-A:16, II(h), the Special Account is established to provide funding for additional benefits such as cost-of living adjustments. The funding for the Special Account was provided from earnings over a target rate that exceeded the assumed rate of return. When the Medical Subsidy Plans were originally enacted, the intent was to ultimately fund the benefit from the Special Account using a series of transfers. Specific transfers were made to fund a health subsidy for certain pre-July 1, 1988 police officer and firefighter retirees. This transfer was not permissible under Internal Revenue Code Sections 401(h) and 420. The System has corrected this operational failure and that correction is reflected in the System's fiscal year 2010 financial statements. A total transfer of \$89.5 million is reflected in the fiscal year 2010 financial statements as a net asset transfer from the Police Officer and Firefighter 401(h) subtrust to the Special Account. The \$89.5 million transfer consists of the original \$26.4 million transfer plus interest of \$63.1 million from July 1, 1989 to June 30, 2010. The Special Account had a balance of \$239.1 million at June 30, 2010. Additional information pertaining to the Special Account can be found in Note 6 of the 2010 System CAFR. Pursuant to Chapter 224, Laws of 2011, effective June 30, 2011, all assets in the Special Account are transferred to the main account of the pension trust, except for a holdback of approximately \$20 million to fund legislatively approved temporary supplemental benefit allowances for political subdivision employees receiving medical subsidy benefits. Although State statutes provided that 25% of employer contributions be credited to the 401(h) subtrust, for the time period fiscal year 2001 through fiscal year 2007, 33 1/3% of employer contributions were actually credited to the 401(h) subtrust. Failure to follow the terms of the plan document (in this case the State statutes) was considered to be an "operational failure" under IRS Revenue Procedure 2006-27. This operational failure was corrected in fiscal year 2007 through legislation that ratified the 33 1/3% contributed during fiscal years 2001-2007.
- The System will amend the plan documents to affirmatively state that effective as of July 1, 1989, the System will determine the amount of any benefit that is determined on the basis of actuarial assumptions by using the assumptions adopted by the Board of Trustees and also state that such benefits will not be subject to employer discretion. For benefits on or after July 1, 2007, the actuarial assumptions used will be those included in the proposed plan amendments. At its June 2011 meeting, the Board adopted policies correcting the plan document failure.

- The System received a favorable tax determination letter from the IRS dated March 9, 2011 in response to the Voluntary Correction Program filing from April 2008. To comply with GASB Statement No. 43, the System received opinions from its legal counsel about the statutory construction of the Medical Subsidy Plans. Counsel concluded the System administers four such plans: (1) Group II covering law enforcement and fire safety employees, (2) Teachers, (3) Employees of Political Subdivisions and (4) Employees of the State. These opinions resulted in a shift in the way the Medical Subsidy Plans have been defined, accounted for and valued since inception. In the course of restructuring the accounting in accordance with GASB Statement No. 43, it became apparent that contributions to the Political Subdivision Employee Group plan have subsidized medical benefits paid for the State Employee Group by approximately \$17.5 million, including interest, since inception.

In fiscal year 2009, legislation was enacted that required the System, beginning July 1, 2009, to certify employer contribution rates, due and payable by the State, based upon a State Employee Medical Subsidy Plan balance of \$0.00. Furthermore, the legislation stated that the Board of Trustees could not certify State employer contributions rates in any subsequent fiscal year based on any payments made from the State Employee Medical Subsidy Plans prior to July 1, 2009.

Based on the 2009 legislation, and upon advice of legal counsel, the Board voted on September 14, 2010 to write off the State Employee Medical Subsidy Plans fund balance of \$17.5 million effective June 30, 2010 and to disclose that action in the fiscal year 2010 annual financial report. On that same date, the Board also voted to rescind its April 8, 2008 vote to seek repayment from the State.

As a result of these actions, the System has written off the State Employee Medical Subsidy Plans deficit as of June 30, 2010 of \$17.5 million and established a balance as of that same date of \$0.00. The fund balance for the Political Subdivision Employee Medical Subsidy Plans was also reduced by \$17.5 million to \$34 million as of June 30, 2010.

The significant changes to the System's financial statements resulting from the medical subsidy compliance review delayed issuance of the System's fiscal 2007 audited financial statements until September 2008. The System issued timely financial statements for fiscal years 2008 through 2011 with unqualified auditor's opinions. Such financial statements and the report of the System's independent auditors with respect thereto can be found at <http://nhrs.org/investments/reports.aspx>.

Legislative Activity

The State has enacted various legislative changes in recent years in order to address certain issues pertaining to the System, including, among other matters, the level of benefits to be received by retirees and the contributions required to be made by employers and employees.

Certain of the legislative changes are being challenged in court, as described above, and it is possible that additional litigation will be brought in the future. The State cannot now predict the outcome of any of these matters.

A detailed discussion of legislative activity for the 2010 and 2011 legislative sessions can be found in Note 5 of the 2011 System CAFR.

Significant legislative changes were enacted during the 2011 legislative session. Sections 160 through 191 of Chapter 224, Laws of 2011 make significant changes to the System as discussed previously in this document. These changes include, but are not limited to:

- Elimination of the State sharing in funding local employee contributions
- Increases to member contribution requirements
- Changes to the definition of earnable compensation including changes to which members are affected
- Changes to average final compensation including changes to which members are affected
- Changes to retirement eligibility including changes to which members are affected
- Changes to medical subsidy provided under current statute

- A change in the transfer from the Special Account to the main trust
- A change to temporary supplemental allowances
- Changes to the maximum benefit
- Changes to interest on member contributions
- Substantially changes the makeup of the NHRS Board of Trustees
- Establishes two legislative committees to study 1) the establishment of a defined contribution plan and 2) disability benefits, medical subsidies and cost of living adjustments. Findings and recommendations of the committees were due by November 1, 2011.
- Extended the effective date to July 1, 2012 for “anti-spiking” provision (see below)

Legislation enacted in the 2010 legislative session is summarized below:

- Extended the effective date from July 1, 2010 to July 1, 2011 of 2008 legislation (Chapter 300, Laws of 2008) which created a so-called “anti-spiking” provision through the enactment of a special 125% employer assessment from July 1, 2010 to July 1, 2011. A legislative study commission will continue to evaluate proposals for the assessment methodology.¹ The effective date of this legislation was extended to July 1, 2012 during the 2011 legislative session (Chapter 230, Laws of 2011).
- Effective July 1, 2010, granted a 1.5% COLA to be added to the base pension, on the first \$30,000 of pension benefits to all retirees and beneficiaries who had been retired for at least 12 months by July 1, 2010. In addition, two additional lump sum temporary allowances were provided as follows:²
 - Only for the fiscal year beginning July 1, 2010, a supplemental allowance of \$1,000 for any retired member or beneficiary who had been retired at least 12 months whose annual retirement is based on at least 15 years of service and is \$20,000 or less annually;
 - Only for the fiscal year beginning July 1, 2010, a supplemental allowance of \$500 for any retired member or beneficiary who retired prior to January 1, 1993.

Additional legislative changes are under consideration during the current legislative session but to date no proposals have yet been enacted by both the House and the Senate. The State cannot now predict what changes, if any, may be enacted into law.

HEALTH CARE COVERAGE FOR RETIRED EMPLOYEES

In addition to pensions, many state and local governmental employers provide other postemployment benefits (“OPEB”) as part of the total benefit component of compensation offered to attract and retain the services of qualified employees. OPEB includes postemployment healthcare, as well as other forms of postemployment benefits (for example, life insurance) when provided separately from a pension plan. From an accrual accounting perspective, the cost of OPEB, like the cost of pension benefits, generally should be associated with the periods in which the exchange occurs (matching principle), rather than with the periods (often many years later) when benefits are paid or provided. However, in current practice, most OPEB plans are financed on a pay-as-you-go basis.

The Governmental Accounting Standards Board (“GASB”) promulgated Statement Nos. 43 and 45 to address the reporting and disclosure requirements for OPEB. GASB Statement No. 43, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, was effective for the retirement plan’s financial statements for fiscal year 2007. This Statement required the NHRS to change its financial reporting and enhance disclosure of its postemployment health benefit medical subsidy program. (GASB Statement No. 43 is not applicable to the financial reporting of the State.) GASB Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, was implemented in the State’s CAFR during fiscal

¹ Will have no impact on the normal employer contribution rates.

² Will have no impact on the normal employer contribution rates determined using the entry age normal funding method because, as required by the legislation, the costs are terminally funded from the Special Account at a cost of \$65.9 million.

year 2008, and requires that the long-term cost of retirement health care and obligations for OPEB be determined on an actuarial basis, and reported similar to pension plans.

In addition to providing pension benefits, State law provides health care benefits for certain retired State employees within the limits of the funds appropriated. In the past, eligible retirees did not contribute toward the cost of health care. However, effective July 1, 2009, retirees under the age of sixty-five contribute \$65 per month and additional \$65 per month for spousal coverage. Starting on July 1, 2011, the premium contribution changes from this flat fee amount to twelve and half percent (12.5%) of the total monthly premium for each retiree, or twelve and half percent (12.5%) of the total monthly premium for a two-person plan if coverage includes a spouse. The current premium contribution is \$110.56 per covered person per month.

Substantially all of the State’s Group I employees hired on or before June 30, 2003 may become eligible for these benefits at normal retirement age after attainment of ten years of State creditable service if they elect to receive pension payments on a periodic basis rather than as a lump sum. Group I employees hired on or after July 1, 2003 must attain 20 years of State creditable service in order to qualify for retiree health benefits. Group II employees are subject to slightly different age and creditable service requirements. Similar benefits for active employees are authorized by RSA 21-I:30 and are provided through the Employee and Retiree Benefit Risk Management Fund (the “Fund”), established in October 2003, which finances the State’s self-funded employee and retiree health benefit program (“State OPEB Plan”).

State retiree health benefits paid from the Fund, totaled \$75.9 million to cover 11,127 retirees and dependents in fiscal year 2011 on a pay-as-you-go (cash) basis. The source of this funding included \$30.3 million from the State General Fund, \$13.7 million from State self-supporting agencies, \$14.2 million from the NHRS medical subsidy plan, \$9.4 million in pharmaceutical rebates and Medicare Part D Retiree Drug Subsidy (RDS Program) payments combined, and \$3 million in retiree premium contributions and self-pay. For fiscal year 2011, total revenue received was less than total expenditures, because the Fund conducted a premium working rate holiday to spend down accumulated surplus in the internal service fund which supports the benefit program. The budget for the 2012–2013 biennium does not pre-fund any OPEB costs. However, it does contain an account for all resources accumulated for purposes of funding retiree health benefits.

In 2011, following a procurement process, the Department of Administrative Services retained The Segal Company (“Segal”) to assist, among other matters, in the determination and valuation of the State OPEB Plan liability under GASB Statement No. 45. Segal provides to the State benefits consulting, claims auditing and actuarial services for the purposes of setting rates for its self-funded health and dental plans. The current State OPEB Plan liability actuarial valuation as of December 31, 2010, dated October 20, 2011, is posted to the State’s website at <http://admin.state.nh.us>. GASB Statement No. 45 does not mandate the prefunding of postemployment benefit liabilities. The State currently plans to only partially fund (on a pay-as-you-go basis) the annual required contribution (“ARC”), at an actuarially determined rate in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed thirty years. The following table presents the State OPEB Plan cost, the amount contributed and the change in the net State OPEB Plan obligation as reported in the State’s CAFR for fiscal year 2011 (dollar amounts in thousands):

Annual Required Contribution/OPEB Cost	\$156,863
Interest on net OPEB obligation	20,277
Adjustment to annual required contribution	<u>(15,020)</u>
Annual OPEB cost	162,120
Contributions made (pay-as-you-go)	<u>(55,778)</u>
Increase in Net OPEB Obligation	<u>106,342</u>
Net OPEB Obligation - Beginning of Year	450,602
Net OPEB Obligation - End of Year	<u>\$556,944</u>

The \$106.3 million increase in net State OPEB Plan obligation is reflected in the State’s fiscal year 2011 government-wide financial statements as claims and compensated absences payable.

The ARC for fiscal year 2011 is \$162.1 million and the pay-as-you-go contributions made in fiscal year 2011 were \$55.8 million on an accrual basis. Those contributions do not include NHRS medical subsidy and other sources as presented in the table below. NHRS medical subsidy payments are not included because the related obligation is excluded from the calculation above. In addition, Retiree Drug Subsidies (RDS) subsidies are excluded

pursuant to guidance promulgated by GASB Statement No. 45. Other small differences will exist because of timing between cash and accrual basis of accounting. plans discussed below. The valuation can be viewed at http://admin.state.nh.us/comm/GASB%20OPEB%2043_45%20as%20of%2012_30_2010.PDF.

As of December 31, 2010, the most recent actuarial valuation date, the actuarial accrued liability (“AAL”) for benefits was \$2,257.8 million, with no actuarial value of assets, resulting in UAAL of \$2,257.8 million. The decrease in the AAL and UAAL from the June 30, 2008 valuation is attributable to specific changes made to pricing of the prescription drug program, changes in plan design and premium contributions, and overall favorable health claim experience. The new valuation report was performed using updated data, but maintained the same assumptions, demographics and methodology as was used in the June 30, 2008 valuation. This amount does not include the State’s share of the UAAL from the NHRS Medical Subsidy plans discussed below.

As described above under “STATE RETIREMENT SYSTEM,” the NHRS currently provides medical subsidy payments on behalf of a closed group of retirees. Funding for the medical subsidy payments is included as a percentage of the employer contribution rate and is applied to active employee payroll similar to employer pension contributions. The NHRS then makes subsidy payments to the medical subsidy plans on behalf of eligible State retirees to offset the cost of retiree health. The Draft 2011 Actuarial Valuation includes valuation of the NHRS Medical Subsidy Plan as of June 30, 2011. At that date, the NHRS Medical Subsidy Plan was unfunded; amounts paid by the State to the NHRS Medical Subsidy Plan are paid back to the State by the NHRS in the form of subsidy payments. The UAAL at June 30, 2011 for the State employee group was \$95.3 million. Additionally, based on current payroll data, approximately twenty percent of the Police and Fire Group of the NHRS Medical Subsidy Plan relates to State police. Accordingly, the State’s portion of the UAAL of the Police and Fire Group at June 30, 2011 would approximate \$66.4 million. The Draft 2011 Actuarial Valuation can be viewed in its entirety at www.nhrs.org/documents/NHRS_June_30_2011_Pension_Valuation_DRAFT.pdf.

The State’s total UAAL for all groups related to retiree health at December 31, 2010 using the most current data available approximated \$2,465.5 million from the State OPEB plan and the NHRS Medical Subsidy Plans combined. Past and future estimated annual payments are shown below.

**State Retiree Health Benefits – Cash Basis
(in millions)**

<u>Fiscal Year</u>	<u>General Fund</u>	<u>Self-Supporting Agencies</u>	<u>NHRS Medical Subsidy</u>	<u>Other Sources (i.e. Rebates, RDS Subsidy, Contrib.)</u>	<u>Total Revenue</u>	<u>Total Costs</u>
2013 (est.)	\$35.0	\$18.2	\$13.5	\$13.8	\$80.5	\$80.5
2012 (est.)	33.3	16.6	13.9	13.2	77.0	77.0
2011	30.3	13.7	14.2	12.4	70.6	75.9
2010	34.7	15.2	14.4	10.5	74.8	72.4

STATE RETIREE HEALTH PLAN COMMISSION

Effective July 1, 2007, the State Retiree Health Plan Commission was established pursuant to RSA 100-A:56 to determine the actuarial assumptions to be used in the valuation of liabilities relative to State employee health benefits. The Commission membership includes one representative appointed by the Speaker of the House, one Senator appointed by the Senate President, one member appointed by the Governor, the State Treasurer and the Commissioner of Administrative Services. A new chairman of the Commission was named in 2011. The Commission had its organizational meeting on March 29, 2011 and a further Committee meeting was held on October 27, 2011.

JUDICIAL RETIREMENT PLAN

The New Hampshire Judicial Retirement Plan (the “Judicial Plan”) was established on January 1, 2005 pursuant to RSA 100-C:2. The Judicial Plan is a defined benefit plan providing disability, death, and retirement protection for full-time Supreme Court, Superior Court, district court or probate court judges employed within the State.

Additional information pertaining to the Judicial Plan is contained in the State's audited financial statements for the year ended June 30, 2011 at note 10, which financial statements are incorporated by reference in this Information Statement and included as Exhibit A hereto. The Judicial Plan's audited financial statements are also included in the State's Comprehensive Annual Financial Report for the year ended June 30, 2011 (the "2011 CAFR"), which report is also incorporated herein by reference and may be accessed at <http://admin.state.nh.us/accounting/>. The 2011 CAFR has also been filed with the Municipal Securities Rulemaking Board through its Electronic Municipal Market Access ("EMMA") system, which may be accessed at www.msrb.org.

The Judicial Plan issues publicly available financial reports that may be obtained upon written request addressed to Charles G. Douglas, III, Esq.; Douglas, Leonard & Garvey, P.C., 6 London Road, Suite 502, Concord, NH 03301. Currently available reports include the Judicial Plan's Financial Statements and Required Supplementary Information as of December 31, 2010 and 2009 (the "2010 Financial Statements"), and the most recent Actuarial Valuation Report dated as of January 1, 2010 (the "2010 Judicial Actuarial Valuation"). The 2010 Financial Statements and the 2010 Judicial Actuarial Valuation are incorporated herein by reference. Similar reports for prior years are also available from the Judicial Plan at the address set forth above.

Biennial actuarial valuations performed for the Judicial Plan as of January 1 of the years indicated have reported the following results:

**NH Judicial Retirement Plan
Selected Actuarial Valuation Results**

Valuation Date January 1	Actuarial Value of Assets	Unfunded Accrued Liability	Funded Ratio	State Contribution Rates for Fiscal Years	
2006	\$44,980,407	\$2,173,046	98%	19.68%	FY 08-09
2008	50,600,791	4,330,338	92	27.42	FY 10-11
2010	44,013,949	15,811,816	74	41.00	FY 12-13

The State contributions expected to be paid in the 2012-2013 biennium total \$3.2 million, which is a \$1.2 million increase over the contributions made in the 2010-2011 biennium. It was projected that contributions would increase by approximately \$1.9 million. Chapter 257, Laws of 2011, extended the amortization period for the unfunded accrued liability from 15 to 30 years, resulting in a reduction of the employer contribution rate from 46.31% to 41.0% for the 2012 - 2013 biennium. A revised actuarial valuation using January 1, 2010 data was issued in August, 2011 to reflect the effect of Chapter 257, Laws of 2011.

The market value of assets as of the two most recent valuation dates is shown below. The June 30, 2011 value is unaudited, preliminary and subject to change.

January 1, 2008	\$51,857,186
January 1, 2010	\$36,678,291
June 30, 2011 (unaudited)	\$38,823,010

The actuary for the Judicial Plan uses several actuarial assumptions in the 2010 Judicial Actuarial Valuation including the investment return rate at 8.0% and the wage inflation rate of zero for the next two years and 3.0% annually thereafter commencing in calendar year 2012. The actuary also uses so-called "smoothing," whereby the difference between the market value of assets and the actuarial value of assets is smoothed over the previous five years to offset the effects of volatility of market values in any single year. In addition, the Judicial Plan uses a 20% "corridor" in order to prevent the smoothed value from varying too far from market, similar to the System's methodology. The use of the corridor in the January 1, 2010 actuarial valuation for the Judicial Plan lowered the actuarial value of assets that would have been established in its absence and thus raised the ARC in fiscal years 2012 and 2013.

Employer contribution rates depend on all of the actuarial assumptions used in determining the contribution rates. The assumptions used in the 2010 Judicial Actuarial Valuation are set forth in Appendix B thereto. The following table sets forth a summary of certain assumptions used in the 2010 Judicial Actuarial Valuation. Except

where noted, the same assumptions were used in the two prior valuations used to determine the contributions required for fiscal years 2011 through 2013.

**New Hampshire Judicial Retirement System
Actuarial Assumptions**

Actuarial Cost Method	Entry age normal
Amortization Method	Level percentage of payroll, closed
Equivalent single amortization period	20 years From 01/01/2005 to 12/31/2009
Equivalent single amortization period	30 years From 01/01/2010 to present
Asset valuation method	5-year smoothed market
Actuarial Assumptions:	
Investment rate of return	8.0%
Projected salary increases	0% to 3.0%

See “LITIGATION - *Cloutier v. State and Judicial Retirement System*” below for information pertaining to pending litigation regarding the Judicial Plan.

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, a group of approximately 10,000 employees. The employees of the University System, the Community College System of New Hampshire and the NH Retirement System are not classified state employees and are not included in any of these bargaining units. The sworn non-commissioned employees of the Division of State Police have been represented by the New Hampshire Troopers Association (the “NHTA”) since 1997. In October, 2006 two additional law enforcement groups represented by the SEA, the Highway Patrol Officers and Fish & Game Conservation Officers filed a certification petition and voted to be represented by a new union, the New England Police Benevolent Association (the “NEPBA”). The Highway Patrol Officers were subsequently absorbed into the NHTA when the Department of Safety merged the Highway Enforcement Bureau with the Division of State Police. In addition, one SEA bargaining unit of approximately 60 employees, the Public Utilities Commission, filed a decertification petition and voted to decertify from the SEA. The SEA appealed the PUC election results to the New Hampshire Supreme Court and in November, 2007, the Court remanded the case to the Public Employee Labor Relations Board (“PELRB”) for a new election. The new election for the PUC bargaining unit resulted in the decertification of the SEA.

In July, 2007, approximately 600 employees in the Department of Corrections who were represented by the SEA filed two modification petitions requesting that they be allowed to vote to determine whether they should be represented by a new union, the NEPBA, or whether they would continue to be represented by their current union, the SEA. The PELRB granted these petitions and the Corrections bargaining unit elections resulted in the decertification of the SEA and the certification of the NEPBA as the exclusive representative of the uniformed Corrections Officers and the uniformed Corrections Supervisors of the Department of Corrections. In January 2009, the New Hampshire Supreme Court overruled the decision of the Public Employee Labor Relations Board (“PELRB”) to grant the petitions of approximately 600 employees of the Department of Corrections to be allowed to vote to determine whether they should be represented by a new union, the New England Police Benevolent Association (the “NEPBA”) or whether they would continue to be represented by their current union, the State Employees’ Association of New Hampshire Inc.-SEIU Local 1984 (the “SEA”). The Supreme Court based the decision upon the “contract bar” rule and remanded the case to the PELRB. The PELRB vacated the certifications of the Corrections units and both units were again represented by the SEA. In a subsequent election, the uniformed Corrections Officers again voted to be represented by the NEPBA and the uniformed Corrections Supervisors voted to remain with the SEA. Three other units formerly represented by the SEA voted to decertify the SEA and certify the NEPBA as their exclusive representative. Those units are Probation Parole Officers, Probation Parole Supervisors and Liquor Enforcement Officers.

The State continued to negotiate with all three unions and has successfully concluded negotiations. New collective bargaining agreements, that will remain in effect through June 30, 2013, were ratified by each of the unions. There are no wage increases or any changes that required additional appropriation by the legislature in any of the new contracts. Chapter 224, Laws of 2011 requires \$50 million in savings to come from State employees compensation and benefits. Union agreements provided over half of the savings required by this section, with additional savings achieved by spending down a surplus in the State's health self-insurance fund and lowering monthly employee health plan rates due to lower-than-anticipated growth in State health care spending.

The next round of collective bargaining with the State's three unions will begin during the month of October, 2012. Any agreements reached through these negotiations will be effective from July 1, 2013 through June 30, 2015.

LITIGATION

The State and certain of its agencies and employees are defendants in numerous other lawsuits that 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, 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.

Except as otherwise noted below, the following matters are currently pending and at this time, it is not possible to predict the outcome of these matters:

Chase Home et al v. Division of Children, Youth and Families. In November 2007, seven residential childcare providers, which had previously sued the State to enforce administrative awards of higher rates but had lost that suit on procedural grounds, initiated a new suit in Merrimack County Superior Court against the Division of Children, Youth and Families ("DCYF"). The claims included (1) breach of contract, (2) breach of implied covenant of good faith and fair dealing, (3) unconstitutional taking, and (4) deprivation of rights under 42 U.S.C. §1983. Petitioners sought retroactive payment of more than \$3 million as well as costs and attorneys' fees. The State filed a motion for summary judgment on the grounds that DCYF does not have a contractual relationship with the providers, and that it has not engaged in any unconstitutional taking of property. On December 5, 2008, Petitioners filed a motion to amend their complaint to state a separate claim based on statutory violations created by DCYF's statutory obligation to pay for residential childcare services provided under certain provisions of State law. A hearing on the parties' motions for summary judgment was heard on July 31, 2009. The Court denied the State's motion for summary judgment and granted in part the petitioner's motion giving collateral estoppel effect to the 2006 hearing officer's finding that there was sufficient money in the State budget to pay the three petitioners that had appealed in that year. In May 2010, the Court ruled in favor of Petitioners and found that the State had breached its contracts and that there was sufficient money appropriated in the years in question to pay the petitioners. The damages were found to be \$3.5 million. Attorney's fees were denied as was a motion for reconsideration filed by the State. This matter was appealed by the State and the State's brief was filed on February 11, 2011. Oral argument was held on September 13, 2011. The Supreme Court issued a decision upholding the trial court's determination that there were valid contracts and holding DHHS liable for a judgment of \$3,553,479.55 regarding the claims related to fiscal years 2004 through 2006. Calculation of allowable interest will add approximately \$320,000 to the judgment. There are similar claims for some of the same providers pending in DHHS administrative appeals unit for fiscal years 2007 through 2010. DHHS is in the process of trying to calculate the potential liability for the outstanding additional years, which is likely to be more than the total outstanding judgment. DHHS has determined that it does not have an appropriation from which the judgment can be paid. On February 3, 2012, the judgment was submitted to the legislature in accordance with RSA 491:8.

Holliday, et al v. Stephen Curry, Commissioner, New Hampshire Department of Corrections, et al. This matter was filed as a class action in state court against the New Hampshire Department of Corrections ("DOC"). The Plaintiffs' class, made up of all inmates of the New Hampshire State Prison, brought an equity petition to enforce various settlement agreements related to a comprehensive "conditions of confinement" suit dating back to 1976. The Plaintiffs' class alleged, and the Court found, that DOC materially breached certain elements of the settlement agreements relating to the provision of mental health care to inmates. In brief, Plaintiffs asserted that DOC lacked a number of mental health programs and the staff to implement those programs. The matter was tried and the Court ruled against DOC ordering it to develop an implementation plan and that the plan be executed. In particular, the Court ordered the creation of a residential treatment unit to house and treat a sub-set of the class. Full

implementation requires capital improvements, the hiring of correctional and mental health staff and operating expenses to sustain the program. DOC has submitted its plan for the court to review and that plan has been approved by the Court. On December 28, 2011, the Court entered a final order terminating jurisdiction of the Court over the matter. No further action is anticipated, and the matter is closed.

Bel Air Associates v. DHHS. This matter was decided by the Supreme Court in September 2006 and involved certain restrictions on the rates paid by the DHHS to nursing home providers. The Supreme Court held that DHHS' capital costs cap and its budget neutrality factor should have been created by administrative rule. The Supreme Court further held that because the cap and neutrality factor were not created as rules, they could not be applied against Bel Air Associates. The Supreme Court did not order any damages against DHHS, as it did not allow a late attempt by Bel Air Associates ("Bel Air") to add a breach of contract claim. Bel Air, however, filed a separate breach of contract claim in Merrimack County Superior Court in late November 2006 alleging approximately \$2.6 million in damages. Following cross-motions for summary judgment, the Supreme Court reversed the decision of the trial court in November 2008 and remanded the case for further proceedings. The Supreme Court held that the Medicaid provider agreement constituted a contract, but remanded the case for the Superior Court to consider whether Bel Air's claim is nevertheless barred by *res judicata* and the statute of limitations. The parties attempted to mediate the case in April 2009, but mediation was unsuccessful. The State filed a motion to dismiss on the grounds that Bel Air's claim is barred by *res judicata*. On September 10, 2009, the Court denied the State's motion to dismiss and trial occurred over a six day period ending in January, 2011. On May 10, 2011, the Court issued an order finding in favor of Bel Air, and requested the parties file post-trial memoranda on the issue of damages. Bel Air calculated damages in the amount of \$448,048.87 plus \$77.53 in daily, continuing interest. DHHS calculated damages in the amount of \$187,675.43. In September 2011, the Court issued an order finding that Bel Air is entitled to damages in the amount of \$205,908.07. Bel Air filed a motion for reconsideration. On January 25, 2012, the court denied Bel Air's motion for reconsideration. No appeal was filed and this matter is now concluded.

State of New Hampshire v. Phillip Morris USA, RJ Reynolds, Inc. and Lorillard Tobacco Company. This matter is a petition for a declaratory order. Defendants are signatories to the Tobacco Master Settlement Agreement under which Defendants are required to make annual payments to all of the states, including the State of New Hampshire. The annual payments received since 2006 have been approximately \$5 million below the required amount. On June 5, 2006, the Superior Court ordered the case to arbitration under the terms of the Master Settlement Agreement. A notice of appeal was filed to the New Hampshire Supreme Court on August 11, 2006. Briefs were filed and oral argument occurred in March, 2007. The Supreme Court affirmed the ruling of the Superior Court on June 22, 2007. The arbitration process for all states began on July 1, 2010, and is expected to last at least two years. The tobacco companies are seeking recovery of up to the entire annual payment of approximately \$50 million made to the State under the MSA. The tobacco companies have identified thirty-five states they claim failed to "diligent enforce" their obligations under the MSA, including New Hampshire. The arbitration will begin April 23, 2012 with a presentation of facts and issues common to all the individual state cases. Individual state hearings are scheduled to begin May 21, 2012 and will continue at least through 2012. New Hampshire's hearing is scheduled for the week of November 5, 2012. It is not possible to predict the outcome of the case at this time.

Cassandra Hawkins v. Commissioner of DHHS. This matter was filed as a class action lawsuit brought under 42 U.S.C. §1983 challenging the provision of dental services to Medicaid recipients under the age of 21. The named plaintiffs, parents of children who are eligible for Medicaid, alleged that the State had violated their rights under the federal Medicaid Act, 42 U.S.C. §1396a, the United States Constitution, and state law by failing to provide their children with access to adequate dental care. Plaintiffs sought declaratory or injunctive relief requiring the State to increase the rate at which it reimbursed dental care providers and to revise its policies and procedures with regard to providing Medicaid dental benefits.

On August 28, 2003, a Consent Decree was filed with the Federal District Court for preliminary review. The class was certified and the Decree approved and entered as a Court Order on January 26, 2004. In brief, the terms of the Consent Decree provide that, during fiscal year 2004 and 2005, DHHS shall allocate \$1.2 million per year in additional state funds to the Early and Periodic Screening, Diagnosis and Treatment dental program (*i.e.* in addition to state funds allocated in fiscal year 2002). DHHS shall invest those funds in, among other things, developing a dental safety net and in raising the dental rates. DHHS also agreed to pay Plaintiffs' attorneys' fees, which was resolved in June 2005.

Since then Plaintiffs have sought to enforce the consent decree in various ways, claiming that DHHS was not in compliance with the terms of the decree. In particular, Plaintiffs allege that insufficient numbers of eligible

children are receiving dental services. The motion does not specify any particular form of relief, but requests that the Court order the State do more to ensure that children receive dental services under Medicaid and to extend the Consent Decree for an additional three years.

DHHS continues to work with Plaintiffs to resolve the issues identified in the most recent motion for contempt. Because the Decree expired in January 2009, Plaintiffs requested that the State assent to an extension. The parties entered into a Consent Decree Extension to extend the Decree for an additional six months. The Court also retained jurisdiction for six months following the expiration of the Consent Decree to address any motion for contempt filed by Plaintiffs regarding whether DHHS was in compliance with the Consent Decree during the years prior to its expiration, and if not, what remedy or remedies were appropriate. Plaintiffs requested a meeting to discuss the perceived areas of non-compliance, and mediation with a neutral party was held on December 3, 2009. DHHS was unable to reach any further agreement with Plaintiffs, and on January 21, 2010, they filed a renewed motion for show cause to which DHHS objected. In May 2010, the Court denied the Plaintiffs' motion and closed the Consent Decree. Plaintiffs appealed to the First Circuit Court of Appeals. Both sides filed briefs and oral argument was held on May 4, 2011. On January 14, 2012, the First Circuit affirmed the District Court's decision.

Federal Audit Findings of State Implemented Federal Programs. By letter dated July 22, 2008, DHHS received a confidential draft report from the Office of Inspector General ("OIG") regarding an audit of DHHS's Medicaid payments for skilled professional medical personnel at the enhanced rate for the period from October 1, 2004 through September 30, 2006. The draft report found that \$1,091,343 was unallowable on grounds that the State should have claimed these costs at the standard 50-percent rate rather than at the enhanced 75-percent rate. The draft report recommended that this amount be refunded to the federal government and that DHHS develop an approved methodology to allocate costs for personnel whose time and effort are split between different functions. DHHS responded to the confidential draft report on September 24, 2008 stating its disagreement with the draft findings and recommendation. OIG issued a final report reiterating its findings and recommendations from the draft report. OIG recommended that the State refund personnel costs claimed at the enhanced rate in the amount of \$1,091,343. At this time, it is not possible to predict whether or to what extent the Centers for Medicare and Medicaid Services ("CMS") will take action with regard to disallowance of any federal financial participation. DHHS is currently working with CMS to resolve CMS' concerns and reduce any potential disallowance.

By letter dated July 9, 2007, DHHS received a final report from OIG regarding an audit of DHHS' disproportionate share hospital ("DSH") payments during federal fiscal year 2004. See MEDICAID PROGRAM. The report found that the \$35,325,468 federal share for federal fiscal year 2004 was unallowable on the grounds that the State's cost to charge ratio was inflated. The report recommended that the federal share be refunded and that the State work with CMS to review DSH payments claimed after the audit period and refund any overpayments. DHHS responded to CMS regarding the report on August 8, 2007. Based on DHHS's response to a previously transmitted draft report, the OIG reduced the amount it recommended for repayment in the July 9, 2007 final report by approximately \$9 million. The draft report had recommended repayment of \$44,418,237.00. In October 2009, DHHS received a Notice of Disallowance from CMS indicating that it concurred with the OIG findings. The notice indicated that CMS was disallowing \$35,325,468 in federal funds for FFY 2004. The notice also confirmed that the State could appeal the disallowance to the Federal Departmental Appeals Board ("DAB") and elect to retain the funds pending appeal. DHHS filed a formal Notice of Appeal on December 18, 2009 with the DAB. DHHS submitted a request for discovery of documents on January 14, 2010, and discovery is ongoing. Both sides filed briefs with the DAB. DHHS elected to retain the funds pending the appeal. A decision in the appeal was temporarily stayed to provide the parties an opportunity to explore the possibility of resolution of the appeal through settlement. On or before May 16, 2011, the parties were required to report to the DAB as to the status of any settlement discussions before the DAB will consider issuing an additional stay. DHHS filed a motion for reconsideration, which was denied by the DAB on October 14, 2011. CMS will recover the disallowance from the State in eight quarterly installments over a two-year period, beginning with the quarter that commences on January 1, 2012. The installments will be effectuated through reductions in the State's quarterly Medicaid grant awards. No further substantive action is expected on this matter.

The Community College System of New Hampshire ("CCSNH") negotiated with the United States Department of Education ("USDOE") regarding its use of financial aid program funds. The USDOE requested that the CCSNH perform a self-assessment of the 2004-2005 single audit of federal financial assistance programs. The CCSNH self-assessment revealed \$191,341 in questioned costs and approximately \$1.5 million in incorrect federal financial aid awards. CCSNH reached an agreement with the USDOE in September 2010 regarding its use of federal financial aid program funds for the 2004-2005 year. The September 2010 Final Decision directed the CCSNH to pay the sum of \$759,662 to the USDOE. In November 2010, the CCSNH negotiated a repayment

agreement, including 1% interest, with five annual installments of \$123,623.88, commencing on April 1, 2011, and ending April 1, 2015. Additionally, CCSNH remitted a down payment of \$115,562 in December 2010. The CCSNH will also remit \$31,785 to Federal Family Education Loan Program (FFELP) lenders and \$12,316 to the Federal Perkins Revolving Loan Fund by June 30, 2011. The negotiated settlement resolves this matter. It is now concluded.

Cloutier v. State and Judicial Retirement System. In this matter, former Judge Cloutier challenges RSA 100-C, Judicial Retirement Plan, enacted in 2003. The Judicial Retirement Plan created by RSA 100-C limits a judge's retirement to 75% of the salary earned in the judge's last year of service, instead of 75% of the current salary level that was in effect prior to July 1, 2003 when RSA 100-C took effect. Plaintiff argued that he was a permanent employee when the statutory change was made and therefore he had a vested right in the retirement benefits that existed prior to July 1, 2003. The parties agreed to submit the case on pleadings with an agreed-to statement of facts. Six more retired judges intervened as plaintiffs in the case. The parties filed cross motions for summary judgment. On September 14, 2010, the Superior Court granted summary judgment for Plaintiffs, and found that RSA 100-C is unconstitutional as applied to the judges who accepted their positions before the statutory change to the retirement system. The State appealed and it, the Board of Trustees for the Judicial Retirement Plan, and Plaintiffs filed their briefs. The case was argued before a substitute panel of the Supreme Court on August 26, 2011. No decision has been issued. It is not possible to predict the outcome of the case at this time.

American Federation of Teachers - New Hampshire, et al v. State, Retirement System and Lisa Shapiro, Individually. In this matter, a group of 12 plaintiffs, seeking class certification for all of the other New Hampshire retirees, filed suit on August 7, 2009, challenging the changes to the retirement system made pursuant to 2008 N.H. Laws Chapter 300, that affect (1) earnable compensation; (2) COLA payments; and (3) medical subsidies. Plaintiffs also sought class certification for all other New Hampshire retirees eligible for State retirement benefits. In July 2010, Plaintiffs were allowed to amend their petition. The parties filed cross motions for summary judgment on December 5, 2010. In January 2011, the Court issued an order indicating that it would defer ruling on the parties' summary judgment motions until the class certification process was complete. It is anticipated that the issue of class certification will be resolved by pleadings to be filed in early 2012. It is not possible to predict the outcome of the case at this time.

Woodland Management Associates, LLC and The Lyme Timber Co. v. State of New Hampshire. This matter is an appeal pursuant to RSA 21-J:28-b, IV. Petitioners allege that the Department of Revenue Administration ("DRA") improperly assessed an additional \$4,559,772.64 in business profits taxes, interest, and penalties against Woodland and Lyme for the tax year ending December 31, 2003, and improperly denied a request for refund filed by Woodland. The total amount in controversy for the tax year ending 2003 is approximately \$5,323,187.42. In May 2010, the Superior Court granted summary judgment on Count II in favor of the DRA, thereby denying Petitioners' request for a remand to the Commissioner. The parties litigated the impact of alleged concessions that were made at the hearing below through cross Motions in Limine. In September 2011, the Court granted the Motion in Limine, finding that the case was not narrowed by the statements made State employees. Trial is scheduled for February 18, 2013. It is not possible to predict the outcome of the case at this time.

City of Concord, Belknap County and Mascenic Regional School District v. State and State Retirement System. This matter, which also seeks certification as a class action, challenges the constitutionality of the reduction of the State's share of funding for local employers' cost for municipal, school, and county employees in fiscal years 2010 and 2011. The total reduction of the State's share over the biennium is estimated to be \$27 million. Petitioners allege that this reduction in the State's share results in an unfunded mandate imposed on them. Petitioners and the State filed cross motions for summary judgment. The Court granted summary judgment in favor of the State. Petitioners appealed the decision to the New Hampshire Supreme Court. Oral argument was held on March 13, 2012. It is not possible to predict the outcome of the case at this time.

Marino v. Commissioner of Banking. This matter, filed in Merrimack County Superior Court, is the first of many possible cases related to the failure of an investment company known as Financial Resources Mortgage, Inc., ("FRM"). FRM was operating a ponzi scheme related to real estate and construction loans. After investigation by the Attorney General, it was determined that three State agencies, the Banking Department, the Securities Bureau, and the Attorney General's Office, failed to appropriately handle complaints received over a 10 year period. Petitioners claim \$265,000 in damages. The State received an additional 35 notices of claim alerting the State that these individuals intend to file suit claiming that the State failed to appropriately regulate FRM. Some reports calculate the total losses to all investors at \$80 million. The State filed a motion to dismiss this matter which was granted by the Court on January 27, 2011, with the Court finding that the State is not a guarantor of individuals'

investment decisions. Petitioners appealed the decision to the New Hampshire Supreme Court and on October 17, 2011, the New Hampshire Supreme Court issued an order affirming the trial court's order. The matter is now closed.

Leighton, et al v. State of New Hampshire. This matter challenges the constitutionality of RSA 77:39, the State's 10% tax on gambling winnings. Plaintiffs brought this as a class action, but the State objected to it being certified as a class action, and the court has not yet ruled on that issue. The parties filed a joint interlocutory transfer without ruling in the Supreme Court, which was denied on February 23, 2011. The case has returned to superior court and is scheduled for a structuring conference on April 11, 2011. The parties agreed that the case can be decided on cross-motions for summary judgment. The State agreed to settle Plaintiff Leighton's claims for \$260,300, but the remaining gambler plaintiff's (Willey's) claims remain. After the State settled Plaintiff Leighton's claims, a new lottery winner joined the case as a plaintiff. The parties filed cross motions for summary judgment. In October 2011, the trial court denied the Plaintiffs' motion for summary judgment. The court granted, in part, the State's cross-motion for summary judgment with respect to the plaintiffs' facial challenge to the statute. Trial is scheduled for the week of April 30, 2012. It is not possible to predict the outcome of the case at this time.

Walker Digital, LLC v. Multi-State Lottery Assoc. This matter, filed in the United States District Court of Delaware, alleges patent infringement against the Multi-State Lottery Association ("MUSL") regarding the Power Play and Megaplier games. MUSL believes the action is without merit, has responded to the lawsuit, and is taking actions to defend itself in this matter. The New Hampshire Lottery Commission is not named as a party to this lawsuit but is a member of MUSL.

K. Frisselle v. DCYF., et al. This matter was initially filed against the DCYF, the Director of DCYF, and four other State employees by a *pro se* Plaintiff in superior court. Plaintiff alleged a number of injuries she suffered while in foster care, including an allegation of a failure to investigate an allegation of abuse and unsafe foster environment. Plaintiff retained counsel who filed an amended complaint alleging that Plaintiff suffered sexual abuse and assault during a placement with an Easter Seals foster home by the spouse of her foster parent. She alleges that DCYF was negligent, it breached a fiduciary duty owed to Plaintiff, and it was vicariously liable for the conduct of its employees and the foster parent and spouse. Plaintiff is seeking compensatory damages for past, present, and future physical and emotional harm. The parties are conducting discovery, and DCYF filed a Motion to Dismiss the fiduciary duty claim. The State's Motion to Dismiss was denied, and the parties are conducting discovery. Trial is scheduled for July 2012. It is not possible to predict the outcome of the case at this time.

Professional Firefighters, et al v. State of New Hampshire ("Fire Fighters I"). This matter is an action challenging 2011 New Hampshire Laws Chapter 224, Sections 172 and 188, also known as House Bill 2 ("HB2"). Section 172 modified the contribution rate of employee members of the New Hampshire Retirement System ("NHRS"). Section 188 required NHRS to recertify rates for employers based upon changes made to the retirement statute, RSA 100-A. NHRS issued recertified employer rates in August 2011. Petitioners allege the following claims: Section 188 violates Part I, Art. 36-a of the New Hampshire Constitution; Section 172 violates the Contract Clause of the New Hampshire Constitution and the United States Constitution; Section 172 violates Part I, Art. 12 of the New Hampshire Constitution (takings); Sections 172 and 188 violate Part I, Art. 12 of the New Hampshire Constitution (equal protection); Section 172 violates the takings clause of the United States Constitution; and Sections 172 and 188 violate Part II, Art. 5, of the New Hampshire Constitution. Petitioners also seek relief under 42 U.S.C. §1983 against the Commissioner of Administrative Services for alleged violations of Petitioners' rights under the Contract and Taking Clauses of the United States Constitution. A preliminary hearing was held on July 14, 2011, after which the Court allowed Petitioners to file an amended complaint. The State filed a Motion to Dismiss the amended complaint, and Petitioners objected. On January 6, 2012 (issued January 31, 2012), the Court ruled that the increase in employee contributions is unconstitutional as to those employees who are "vested" as that term is defined in the retirement statute (10 years in the retirement system). The Court dismissed the lawsuit, however, on the grounds that the plaintiffs did not allege they are "vested employees." The Court's dismissal was without prejudice to the plaintiffs to file an amended petition by March 1, 2012. The Court also dismissed the request to enjoin the recertification of employer contribution rates, stating that employees do not have standing to challenge the employer contribution rate. Petitioners filed a second amended petition February 24, 2012 and the trial court will likely issue an injunction regarding the increase in employee contribution for vested employees consistent with its order. That order is likely to be appealed to the New Hampshire Supreme Court.

The State has been served with a petition filed in Hillsborough County Superior Court, *Professional Fire Fighters of New Hampshire, et al v. State of New Hampshire ("Fire Fighters II")*, challenging other portions of HB2 that affect the State Retirement System. Petitioners challenge Section 161 (definition of Earnable

Compensation), Section 163 (definition of Average Final Compensation), Section 164 (Maximum Retirement Benefit), Section 166 (Age Multiplier to calculate benefit), and Section 186 (repeal of disability exception from the gainful occupation reduction provision) of HB2. Petitioners seek an order finding HB2 is unconstitutional under the Contracts and Takings Clauses of both the New Hampshire Constitution and the United States Constitution. Petitioners seek injunctive relief, payment of damages and attorneys fees. The State's Appearance is due on April 3, 2012 and an Answer is due on May 4, 2012. A preliminary injunction hearing has been scheduled for May 21, 2012.

Dartmouth Hitchcock, et al v. Toumpas. In August 2011, 10 of New Hampshire's 13 non-critical access hospitals and a "John Doe" individual Medicaid recipient filed a lawsuit in the Federal District Court for the District of New Hampshire against the Commissioner of the Department of Health and Human Services. The lawsuit challenges a number of legislative and agency actions since 2005 that have reduced the reimbursement rates for Medicaid in-patient and out-patient services and eliminated disproportionate share payments to non-critical access hospitals in the State budget for fiscal years 2012-2013. The claims are brought under the supremacy clause of the United States Constitution related to the Medicaid statute, 42 U.S.C. § 1396a(a)(30)(A) and 42 U.S.C. § 1396a(a)(13)(a), alleging that the changes are contrary to the intent of the Medicaid statute as the resulting payments are insufficient to ensure access to services to Medicaid clients, and further alleging that the changes cannot be implemented because the State did not give notice or do a state plan amendment regarding each change. A motion for preliminary injunction requesting that the Court enjoin each of the changes and require the State to revert to prior payments levels was filed at the same time. The response to the complaint and the motion for preliminary injunction were filed on September 23, 2011. The potential impact on the State's General Fund could be in excess of \$100 million. Additional pleadings have been filed answering the complaint, moving to dismiss the 42 U.S.C. § 1396a(a)(30)(A) claims (Counts I-IV) and briefing the legal and evidentiary issues raised in the plaintiffs' motion for preliminary injunction. On December 8, 2011 the court heard oral argument on the legal standing issues raised in the motion to dismiss and the preliminary injunction. There was a further evidentiary hearing on the motion for preliminary injunction held on January 10-12, 2012. On March 2, 2012, the Court issued a preliminary injunction ordering the State to provide notice of the current rates and its intention to continue those rates. The Court's order also requires the State to allow for submission of comments for no less than 30 days. All other issues are still pending with the Court. It is not possible to predict the outcome of this case at this time.

United States Department of Justice's Investigation of the State's Mental Health Services Delivery System. On April 7, 2011, the United States Department of Justice ("USDOJ") issued a letter finding that the State failed to comply with aspects of the Americans with Disabilities Act, 42 U.S.C. §§ 12131-12134 (Part A), by not providing services for individuals with mental illness that allow them to live in the most integrated community-based settlements appropriate for their needs. The USDOJ's findings were based on an investigation it performed of New Hampshire's mental health services system over a four month period. On December 6, 2011, the State issued a formal response to the USDOJ findings. The response describes the basis for the State's disagreement with the USDOJ's findings, and asks the USDOJ to withdraw its findings. In a companion matter, on February 9, 2012, six State residents who have received mental health services from either New Hampshire Hospital or Glencliff Home filed a class action lawsuit in the U.S. District Court alleging New Hampshire has failed to provide adequate community-based mental health services. USDOJ has informed the State that it intends to join the lawsuit. The State will defend the action. It is not possible to predict the outcome of this matter at this time.

K. et al v. DHHS, et al. The Complaint and many pleadings in this lawsuit have been filed under seal in federal court because the case arises from a proceeding under the Child Protection Act (RSA 169-C) and references circumstances pertaining to foster care of minors, which are confidential by statute. The plaintiffs have sued for an unspecified amount of compensatory and punitive damages for the defendants' alleged violations of federal statutes and the plaintiffs' constitutional rights. The State filed a Motion to Dismiss on June 5, 2009. The plaintiffs then amended their complaint to withdraw one count and amended another count to a 42 U.S.C. §1983 claim. The case had been stayed because the plaintiffs' attorney withdrew from representing one of the parents due to their legal separation, so the father was granted time to find counsel. The Court lifted the stay on September 20, 2010. In January 2011, the defendants reinstated their motion to dismiss. Oral argument on that motion was held on September 15, 2011. On September 30, 2011, the court dismissed three of six counts. The remaining counts are all based upon claimed violations of the First Amendment. Discovery is ongoing and trial is scheduled for October 2012. It is not possible to predict the outcome of this case at this time.

Catholic Medical Center et al v. DRA. Catholic Medical Center ("CMC"), Exeter Hospital, Northeast Rehabilitation Hospital ("Northeast Rehab") and St. Joseph's Hospital have filed three separate lawsuits challenging the constitutionality, both facially and as applied, of RSA 84-A, the Medicaid Enhancement Tax ("MET"). The

hospitals claim the MET tax is unconstitutional under both state and federal law because: (1) it taxes hospitals for net patient services revenue (NPSR) but does not tax other medical entities for the same revenue; and (2) there is an alleged different rate of taxation assessed between the hospitals and rehabilitation hospitals. Each hospital seeks full reimbursement of the tax it paid in 2011. These respective amounts are: CMC - \$12,521,429; Exeter - \$10,269,562; Northeast Rehab - \$1,480,632; and St. Joseph's Hospital - \$8,693,811. Answers have not yet been filed, and the three cases are still in their preliminary stages. It is not possible to predict the outcome of these cases at this time.

The Sunapee Difference, LLC v. State of New Hampshire. Plaintiff sued the State for mandamus, breach of contract, promissory estoppel, breach of covenant of good faith and fair dealing and inverse condemnation arising out of Plaintiff's lease with the State to operate the Mt. Sunapee ski area. Plaintiff amended its complaint to add a claim for contract reformation. Specifically Plaintiff alleged that the State breached its promises to Plaintiff by failing to amend the leasehold description and/or by failing to amend the lease and operating agreement to permit expansion of the ski area. Plaintiff claimed over \$14 million in damages.

A hearing was held on the State's Motion to Dismiss on October 10, 2008. By an order dated November 17, 2008, the Court denied the State's Motion to Dismiss with regard to Plaintiff's claims of breach of contract, estoppel, breach of implied covenant of good faith and fair dealing, and inverse condemnation. On or about December 30, 2008, the State filed a Motion for Summary Judgment on all of Plaintiff's claims. On April 17, 2009, the Court issued an order granting the State's Motion for Summary Judgment in full, and entered judgment in favor of the State. Following a denial of Plaintiff's Motion for Reconsideration, Plaintiff filed an appeal with the New Hampshire Supreme Court. The Court issued an interim order on June 25, 2010 remanding the case back to the trial court for a ruling on whether Plaintiff has standing to bring the lawsuit. A hearing was held on the issue of whether the parties intended to release Plaintiff's claims when Plaintiff assigned the lease to a third party. The trial court issued an order ruling that Plaintiff has standing to seek reformation of the lease. The State has appealed that decision to the Supreme Court. Briefs will be filed by June 11, 2012, after which the Court will schedule oral argument. The issues raised in the State's appeal will be combined with the Plaintiff's 2009 appeal. It is not possible to predict to outcome at this time.

Geovanny Delamota v. William Wrenn, et al. The plaintiff sued Corrections Commissioner William Wrenn and Corporal Dennis Dube alleging he was violently assaulted by another inmate in March 2010 and sustained injuries, including permanently impaired functioning. He alleges that the same inmate assaulted him the month before. He claims that the defendants were negligent and breached their duty to protect him from an obvious danger he had brought to their attention; that defendant Dube (and two other defendant Does) violated his Eighth and Fourteenth Amendment rights pursuant to 42 U.S.C. 1983 by being deliberately indifferent to his rights and safety; and he makes a claim of negligent policies and procedures against Commissioner Wrenn and the Department of Corrections. Discovery is ongoing. Trial is scheduled for August 2012. It is not possible to predict the outcome of this case at this time.

Estate of Michele Walker, et al v. Administrative Office of the Courts, et al. Plaintiffs have brought this wrongful death lawsuit in federal court alleging the decedent was subjected to severe and/or pervasive sexual harassment, creating a hostile work environment. As a result, the plaintiffs allege the decedent went on medical leave, she was denied reasonable accommodations to return to work, and was retaliated against by the Defendants. The Plaintiffs allege that the Defendants continued to harass her while she was on leave. Plaintiffs allege that as a result of the events described in the lawsuit, the decedent committed suicide on May 3, 2010. Plaintiffs seek damages arising out of claims of discrimination, sexual harassment, hostile work environment, retaliation and violations of the Americans with Disabilities Act. The State has filed an Answer and discovery is ongoing. Trial is scheduled for January 2013. On January 17, 2012, the State filed a motion to dismiss five of the eight counts based on the litigation bar contained in the workers' compensation law. The Court denied the State's motion. It is not possible to predict the outcome of this case at this time.

Gary Dube et al. v. State of New Hampshire. Harbor Homes, Inc. ("Harbor Homes"), a provider of Medicaid-funded community mental health services, and four individuals who had been receiving services from Harbor Homes prior to June 30, 2011 sued the State and DHHS, challenging the State's decision to consolidate delivery of community mental health services in the approved community mental health program for Region 6. The core issue is whether the State rules requiring an interagency agreement with a community mental health program is a reasonable qualification in order to qualify as a community mental health provider of Medicaid-funded services. On January 25, 2012, the Court issued an order granting, in part, the State's Motion for Summary Judgment, but left open the plaintiffs' claim whether the State violated Harbor Homes' due process rights with respect to the Greater

Nashua Mental Health Center's refusal to enter into a new interagency agreement upon expiration of the prior agreement.

Pheasant Lane Assoc. v. Dept. of Revenue Admin. Petitioner has appealed, pursuant to RSA 21-J:28-b, IV, a decision of the DRA upholding the assessment of additional tax and interest under the New Hampshire Business Profits Tax. Specifically, the DRA disallowed a deduction for interest expenses with respect to indebtedness the proceeds of which financed a distribution to the corporation's shareholders. Petitioner owes \$2,299,684.27 in taxes plus interest (with additional interest continuing to accrue). DRA filed its answer on March 9, 2012. It is not possible to predict the outcome of this litigation at this time.

FINANCIAL STATEMENTS

Fiscal Year 2007. The State's financial statements for the fiscal year ended June 30, 2007 and the report of the State's independent auditors with respect thereto have been filed with each Nationally Recognized Municipal Securities Information Repository currently recognized by the Securities and Exchange Commission.

As noted in the report of the State's independent auditors, the financial statements of the NHRS, a Fiduciary Fund – Pension Trust Fund (see "STATE RETIREMENT SYSTEM") and the Pease Development Authority ("PDA") were not presented in the State's fiscal year 2007 financial statements, as required by GAAP. Because of the omission of the NHRS financial statements, the independent auditor issued an adverse opinion with respect to the aggregate remaining fund information of the State and, due to the omission of the PDA financial statements, a qualified opinion with respect to the aggregate discretely presented component unit information.

The State's independent auditors did issue an unqualified opinion to the effect that the State's financial statements present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities and each major fund of the State as of June 30, 2007 and the respective changes in financial position for the year ended June 30, 2007.

A management letter was not issued by the independent auditors for the fiscal year 2007 audit. Audit comments resulting from the audit of the State's fiscal year 2007 financial statements were presented by the independent auditors as part of the compliance and internal control findings in the Single Audit Report issued in March 2008. Four material weaknesses were reported concerning the State's financial reporting process, accounting systems documentation, succession planning, and ineffective tracking of capital assets. The report can be viewed in its entirety at <http://admin.state.nh.us/accounting/>. The State is taking steps to address these risks and is making every effort to overcome financial staffing constraints to ensure a timely and complete CAFR which would be eligible for an unqualified opinion from the independent auditors. The State has hired or retained capable and experienced individuals to assist in financial reporting, systems documentation and workforce development, recruitment and retention efforts.

Fiscal Year 2008. The State received an unqualified auditor's opinion on its timely financial statements for the fiscal year ended June 30, 2008. The State's financial statements for the fiscal year ended June 30, 2008 and the report of the State's independent auditors with respect thereto were filed in March 2009 with each Nationally Recognized Municipal Securities Information Repository then recognized by the Securities and Exchange Commission. The audited financial statements are incorporated herein by reference as Exhibit A and can be viewed in their entirety at <http://admin.state.nh.us/accounting/reports.asp>. On March 20, 2009 the State received a management letter from KPMG detailing concerns identified during the fiscal year 2008 audit. The management letter identified as material weaknesses insufficient systems to account for non-turnpike infrastructure assets and statewide succession planning. It also noted three significant deficiencies in the area of cash accounts, preparation of accounts receivable estimates, and SAS 70 audit reports for the Medicaid program. The State has taken a number of actions to correct these weaknesses including the implementation of review procedures for reported assets and the creation of Workforce Development Initiatives. In addition, steps to improve the communication and collaboration between departments were taken to address the reporting control deficiencies noted.

Fiscal Year 2009. The State received an unqualified auditor's opinion on its financial statements for the fiscal year ended June 30, 2009. These statements were distributed on January 29, 2010 in compliance with an extension from legally mandated filing requirements, granted by the State's Legislative Fiscal Committee. The State's financial statements for the fiscal year ended June 30, 2009 and the report of the State's independent auditors with respect thereto have been filed with the Municipal Securities Rulemaking Board under Securities and Exchange

Commission Rule 15c2-12. The audited financial statements can be viewed in their entirety at <http://admin.state.nh.us/accounting/reports.asp>.

On March 12, 2010, the State received a management letter from KPMG detailing concerns identified during the fiscal year 2009 audit. The management letter identified as material weaknesses completeness of accrual compilation, Highway Fund financial reporting procedures, preparation of accounts receivable estimates, tracking of county billings and collections and procedures for compilation of Schedule of Expenditures of Federal Awards. It also noted three significant deficiencies in the area of financial reporting from the Community College System and the Unemployment Compensation Fund and cash & investment reconciliations. The State has begun taking steps to address these weaknesses and deficiencies including revising reporting procedures and identifying methods to improve communication and coordination among financial reporting personnel.

Fiscal Year 2010. The State received an unqualified auditor's opinion on its financial statements for the fiscal year ended June 30, 2010. These statements were distributed on December 30, 2010 in compliance with legally mandated filing requirements. The State's financial statements for the fiscal year ended June 30, 2010 and the report of the State's independent auditors with respect thereto have been filed with the Municipal Securities Rulemaking Board under Securities and Exchange Commission Rule 15c2-12. The audited financial statements can be viewed in their entirety at http://admin.state.nh.us/accounting/annual_financial_reports.asp.

On March 25, 2011, the State received a management letter from KPMG LLP ("KPMG"), the State's independent auditor, detailing concerns identified during the fiscal year 2010 audit. The management letter identified as material weaknesses: IT General Controls Failure; timely performance of bank and cash balance reconciliations; Turnpike financial accounting and reporting; reconciliation of DRA accounts; and preparation of tax accounts receivable estimates. It also noted four significant deficiencies in the areas of accounting for intergovernmental accounts, Highway Mainframe reconciliation, procedures for compilation of Schedule of Expenditures of Federal Awards and accounting and reporting of capital assets. The State has begun taking steps to address these weaknesses and deficiencies including revising reporting procedures and identifying methods to improve communication and coordination among financial reporting personnel.

Fiscal Year 2011. The State received an unqualified auditor's opinion on its financial statements for the fiscal year ended June 30, 2011. These statements were distributed on February 29, 2012 in compliance with an extension from legally mandated filing requirements, granted by the State's Legislative Fiscal Committee. The State's financial statements for the fiscal year ended June 30, 2011 and the report of the State's independent auditors with respect thereto have been filed with the Municipal Securities Rulemaking Board under Securities and Exchange Commission Rule 15c2-12. The audited financial statements can be viewed in their entirety at http://admin.state.nh.us/accounting/annual_financial_reports.asp. The State expects to receive a management letter from KPMG with respect to its financial statements for the fiscal year ended June 30, 2011. The State has not yet received the letter due to the delay in filing the financial statements.

KPMG has not been engaged to perform and has not performed, since the date of any report referenced herein, any procedures on the financial statements addressed in such reports. KPMG has also not performed any procedures relating to this Information Statement or with respect to the financial statements, relating to fiscal year 2011 or prior years.

MISCELLANEOUS

Any provisions of the constitution of the State, of laws and of other documents set forth or referred to in the Information Statement are only summarized, and such summaries do not purport to be complete statements of any of such provisions. Only the actual text of such provisions can be relied upon for completeness and accuracy.

The Information Statement contains certain forward-looking statements that are subject to a variety of risks and uncertainties that could cause actual results to differ from the projected results, including without limitation general economic and business conditions, conditions in the financial markets, the financial condition of the State and various state agencies and authorities, receipt of federal grants, litigation, arbitration, force majeure events and various other factors that are beyond the control of the State and its various agencies and authorities. Because of the inability to predict all factors that may affect future decisions, actions, events or financial circumstances, what actually happens may be different from what is set forth in such forward-looking statements. Forward-looking statements are indicated by use of such words as "may," "will," "should," "intends," "expects," "believes," "anticipates," "estimates" and other similar words.

All estimates and assumptions in the Information Statement have been made on the best information available and are believed to be reliable, but no representations whatsoever are made that such estimates and assumptions are correct. So far as any statements in the Information Statement involve any matters of opinion, whether or not expressly so stated, they are intended merely as such and not as representations of fact. The various tables may not add due to rounding of figures.

Neither the State's independent auditors, nor any other independent accountants, have compiled, examined, or performed any procedures with respect to the prospective financial information contained herein, nor have they expressed any opinion or any other form of assurance on such information or its achievability, and assume no responsibility for, and disclaim any association with, the prospective financial information.

The information, estimates and assumptions and expressions of opinion in the Information Statement are subject to change without notice. Neither the delivery of this Information Statement nor any sale made pursuant to any offering document of which the Information Statement are a part shall, under any circumstances, create any implication that there has been no change in the affairs of the State or its agencies, authorities or political subdivisions since the date of this Information Statement, except as expressly stated.

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 State Treasurer, Catherine A. Provencher, State House Annex, Concord, New Hampshire.

STATE OF NEW HAMPSHIRE
AUDITED FINANCIAL STATEMENTS
FOR FISCAL YEAR 2011
(Included by Reference and Filed with the
Municipal Securities Rulemaking Board)

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