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 the Office of the State Treasury, State House Annex, Concord, New Hampshire.

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This Information Statement contains certain “forward-looking statements.” Forward-looking statements are indicated by such words as “may,” “will,” “should,” “intends,” “expects,” “believes,” “anticipates,” “estimates” and other similar words. The achievement of certain results or other expectations contained in such forward-looking statements are subject to a variety of known and unknown risks and uncertainties that could cause actual results, performance or achievements attained to differ materially from any future results, performance or achievements expressed or implied by such forward-looking statements, including, without limitation, general economic and business conditions, financial market conditions, the financial condition of the State of New Hampshire and various state agencies and authorities, receipt of federal grants, litigation, arbitration, force majeure events and other factors that are beyond the control of the State and its various agencies and authorities.

A wide variety of other information concerning the State, including financial information, is available from State agencies, State agency publications and State agency and third party websites. References to web site addresses presented in this Information Statement are for informational purposes only and may be in the form of a hyperlink for convenience. Unless specified otherwise, such web sites and the information or links contained therein are not incorporated into, and are not part of, this Information Statement.

STATE OF NEW HAMPSHIRE

Monica I. Mezzapelle
State Treasurer

March 26, 2021

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Secretary of State
William M. Gardner

Attorney General
Vacant*

Commissioner of Administrative Services
Charles M. Arlinghaus

Comptroller
Dana M. Call

Budget Director
Matthew H. Mailloux

* Governor Sununu nominated John Formella to serve as Attorney General on March 3, 2021. His nomination was confirmed by the Executive Council on March 24, 2021 and he is expected to take office later in April.

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 branch departments and agencies 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 21 departments, each headed by a Commissioner, and 11 agencies and commissions, each with a unique management structure. Major departments of the executive branch include: Health and Human Services, Transportation, Education, Justice, Natural and Cultural Resources, Business and Economic Affairs, Corrections, Environmental Services, Revenue Administration, Safety, 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, the 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 chamber 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, and a Circuit Court with three divisions (probate, district, and family) with 34 sites. Administrative support is provided by staff at the Administrative Office of the Courts and at the Trial Court Center. All justices and judges are appointed by the Governor and Council and may serve until seventy years of age.

COVID-19 GLOBAL PANDEMIC

Background

On March 13, 2020, Governor Sununu declared a State of Emergency in New Hampshire due to the COVID-19 Global Pandemic (the "COVID-19 Pandemic" or 'pandemic"). The Governor issued Executive Order 2020-04 activating New Hampshire's Emergency Powers statutes RSA 21-P:43, RSA 4:45, and RSA 4:47. The Governor has continually extended the State of Emergency in 21 day intervals and it is currently still in effect.

As of March 22, 2021, the Governor has issued 86 emergency orders concerning the State's response to the COVID-19 pandemic. From March 15, 2020 through May 29, 2020 the Governor issued Emergency Orders that, among other things, (i) required public school districts to move to remote education, (ii) prohibited scheduled gatherings of 10 or more and required restaurants to transition to take out and delivery only, (iii) temporarily prohibited disconnection or discontinuance of certain services, including public utilities in the event of non-payment, (iv) temporarily prohibited evictions and foreclosures, (v) expanded eligibility to qualify for State unemployment benefits (v) closed non-essential businesses and mandated residents to stay at home with limited exceptions, (vii) expanded telehealth services, (viii) restricted hotels and providers of lodging to provision of lodging for vulnerable populations and essential workers, and (ix) created the COVID-19 Long Term Care Stabilization Program, to address workforce shortages at the State's Medicaid provider long term care facilities.

On May 1, 2020, the Governor issued an emergency order which provided for an expansion of the permissible exceptions to the instruction to stay at home and laid out the process under which the State would "flex open" the economy, further expanding the exceptions under which residents can leave their homes. Industry sectors submitted proposed re-opening plans to the Governor's Economic Re-Opening Task Force, which reviewed the plans before their finalization and approval by the State Epidemiologist Dr. Benjamin Chan. On June 15, 2020, the Governor issued an emergency order which contained universal business guidelines and additional industry specific guidelines for the safe and gradual reopening of the State's economy. By an emergency order dated August 13, 2020, New Hampshire public schools retained the flexibility to provide in-person, remote and hybrid instruction depending on individual circumstances, provided the schools adhered to all state and federal special education laws. Schools are expected to operate using in-person instruction to the extent possible as set forth in the applicable guidance. On September 9, 2020, the Governor issued an emergency order broadening eligibility for unemployment benefits in order to ensure New Hampshire citizens were able to fully participate in the Federal Lost Wages Assistance program created pursuant to the Presidential Memorandum dated August 8, 2020. On November 19, 2020, the Governor issued an emergency order requiring individuals to wear a mask or cloth face covering any time they are in public space where they are unable to maintain a physical distance of a least six feet from other persons. On January 4, 2021, the Governor issued an emergency order authorizing registered and certified pharmacy technicians to administer COVID-19 vaccines under the supervision of a licensed pharmacist. A complete list of the emergency orders issued by the Governor to date with respect to the COVID-19 Pandemic can be found on the Governor's website at https://governor.nh.gov/news-and-media/emergency-orders-2020.

As of March 22, 2021, over 328,000 individuals have received at least one dose of an approved COVID-19 vaccine and 12.2% of New Hampshire adults have been fully vaccinated against COVID-19. As of March 22, 2021, there have been 80,543 confirmed cases of COVID-19 in the State of New Hampshire, with 1,217 deaths reported. Of the total number of cases 1.47%, or 1,183, have been hospitalized. The current number of and trends in New Hampshire COVID-19 cases can be found at https://nh.gov/covid19/news/updates.htm.

Effects of the COVID-19 Pandemic on State Finances

The economic disruption of the COVID-19 Pandemic has resulted in decreased State revenues as compared to budget expectations that were enacted prior to the onset of the pandemic. For the fiscal year ended June 30, 2020, the combined General Fund, Education Trust Fund, Highway Fund, and Fish and Game Fund (the" Major Funds") were under the budget plan by $115.6 million, or approximately 4%. See "STATE FINANCES – Results of Operations – Fiscal Year 2020" herein. While much uncertainty remains regarding the global, national, and State economy, Combined General and Education Trust Fund revenues are currently estimated to be under the fiscal year 2021 budget assumed plan by $52.5 million or 2%. On April 28, 2020, the Governor issued an emergency order which formalized a prior gubernatorial directive, to freeze State hiring and out-of-state travel. This emergency was lifted on February 11, 2021 through Emergency Order 84 in light of stronger than expected revenue performance.

General and Education Trust Fund lapses were $102.7 million in fiscal year 2020, 82% higher than the budget assumed. The Governor directed State agencies to begin the process of planning for budget reductions and implemented a survey of State programs to identify areas for programmatic combinations and administrative saving. General and Education Trust Fund lapses are estimated to be $150.5 million in fiscal year 2021, which is $75.1 million or 200% of the amount the budget originally assumed. The higher than expected lapse estimates coupled with stronger than anticipated revenue performance has reduced the potential budget shortfall to a level within the current capacity of the State's Rainy Day Fund.

The State currently maintains sufficient cash reserves to continue operations and does not anticipate the need for any short-term borrowing in fiscal year 2021. The State will continue to monitor its cash position as well as the effects from revenue performance and budget adjustments to determine whether there will be a need for any short-term borrowing. However, in the event more liquidity is needed, up to $200 million has been authorized for a variety of borrowing mechanisms that would provide flexibility in order to obtain favorable borrowing terms. The State will likely consider internal resources before borrowing from external sources. No deferral of payments or obligations are being considered as of the date hereof.

On April 14, 2020, the Governor issued Executive Order 2020-06 establishing the Governor's Office for Emergency Relief and Recovery ("GOFERR") to make recommendations on, and oversee the disbursement of, the $1.25 billion in federal Coronavirus Aid, Relief, and Economic Security Act ("CARES Act") funds granted to New Hampshire from the federal Coronavirus Relief Fund. GOFERR is currently overseen by the Business and Economic Affairs Commissioner Taylor Caswell and is staffed by State employees detailed from various agencies. A legislative advisory board and a stakeholder advisory board have both been established under the order to make recommendations to GOFERR regarding the use of relief funds. The CARES Act funds are being utilized to cover emergency expenses of the State incurred due to the response to the COVID-19 Pandemic, as well as to provide economic relief to New Hampshire small businesses and non-profits that have had COVID-19 related expenses or have lost revenue as a result of the pandemic. Relief programs that were deployed during 2020 include the following:

- $400 million Main Street Relief Fund and Self Employed Livelihood Fund to provide grants to small business based on revenue loss due to the COVID-19 Pandemic;
- $100 million Healthcare Relief Fund to ensure no front-line healthcare provider closes, $60 million in grants to non-healthcare non-profits;
- $24 million in cost reimbursements for counties and municipalities to cover unbudgeted expenses incurred due to the pandemic that are not covered by grants from the Federal Emergency Management Agency (FEMA);
- $75 million for the COVID-19 Long Term Care Stabilization Program to help stabilize front line workforce for Medicaid providers that support aging seniors, people with developmental disabilities, as well as other providers of residential or community/home based care, and
- $29 million for institutions of public higher education;
- $45 million in assistance for k-12 schools, including a one-time $200/student disbursement to mitigate impacts of COVID-19 and encourage a safe return to in-person learning; and various smaller programs.

GOFERR is tasked with submitting required periodic reporting of Coronavirus Relief Fund expenditures to the United States Department of the Treasury. As of January 22, 2021, GOFERR reported expenditures of approximately $1.15 billion through Coronavirus Relief Fund proceeds. On December 27, 2020, the Coronavirus Response and Relief Supplemental Appropriations Act was signed into law, which extended the deadline for expenditure of Coronavirus Relief Funds available under the CARES Act from December 30, 2020 to December 31, 2021. The State continues to evaluate additional areas to deploy the remaining funds for additional relief programs state-wide. Additional information on the State of New Hampshire GOFERR and the awards made to date can be found on the State's website at https://goferr.nh.gov.

Federal Emergency Management Agency (FEMA) Reimbursement. The State anticipates receipt of federal revenue from FEMA as reimbursement for costs incurred as part of the State's response to the COVID-19 pandemic. Some Public Assistance (PA) grant funding has been received to date, and additional requests have been submitted to FEMA. As of January 2021, the State anticipates that FEMA will obligate approximately $110 million to New Hampshire representing recovery of state agency expenditures incurred in fiscal year 2020 as well as reimbursement for current fiscal year 2021 expenditures. The State continues to track FEMA reimbursable expenditures and will seek reimbursement throughout the duration of the COVID-19 pandemic. As of March 23, 2021, the State had received approximately $70 million of FEMA reimbursement.

Impacts from the American Rescue Plan (ARP) Act of 2021

On March 11, 2021, the President signed into law the America Rescue Plan Act (ARP). The ARP allocates hundreds of millions of dollars for a variety of programs within the State. This includes:

Coronavirus State Fiscal Recovery Funding. The State is estimated to receive $966 million in state fiscal recovery funds. Other governmental units, primarily local governments, are estimated to receive an additional $457 million in local fiscal recovery funding. Funds may be used to respond to the public health emergency, support essential workers, replace lost revenue for the provision of government services, and to invest in specified types of infrastructure specifically limited to water, sewer, or broadband infrastructure. Notably, ARP funds may not be used to offset tax cuts or delay a tax, nor can these funds be deposited into a pension fund. The ARP requires all allocated funds to be used by December 31, 2024.

Coronavirus Relief, Fiscal Recovery, and **Critical Capital Projects Funds.** New Hampshire is estimated to receive $122 million in funds for capital projects related to COVID-19. The State may use these funds to carry out critical capital projects directly enabling work, education, and health monitoring, including remote options, in response to the public health emergency with respect to COVID–19.

Homeowner Assistance Fund. New Hampshire will receive $50 million, which is the minimum amount provided to each state, to be used by September 30, 2025. Allowable uses include: mortgage payment assistance and funds to reinstate a mortgage after delinquency or default, principal reduction, facilitating interest rate reductions; utility assistance, homeowner insurance, condo fees, and any other assistance to promote housing stability for homeowners.

Elementary and Secondary School Emergency Relief. New Hampshire will also be receiving an additional $350,501,633 in federal education funds from the American Rescue Plan Elementary and Secondary School Emergency Relief (ARP ESSER) Fund. This new funding is intended to help schools take additional steps to safely reopen schools for in-person instruction, and to address the disruptions to student learning resulting from the pandemic.

Additional Funds: There are other additional funds to be allocated to the State under the ARP for which the State has not yet received award letters or estimates of the State's allocation. Additional areas to be funded include:

- Public Health – funding for COVID-19 vaccine distribution, as well as funding for COVID-19 testing, contract tracing, and mitigation;
- Housing – this includes supplemental funding for rental relief, and funding to create non-congregate sheltering;
- Child Care/Education – this includes provisions related to child care, head start, and special education funding, which includes school aged children was well as preschool and younger;
- Funds for Mental Health/Substance Use Disorders, and
- Funding for a small business credit initiative.

Except as otherwise noted, financial and operating data contained in this Information Statement are generally as of dates and for periods prior to the economic impact of the COVID-19 Pandemic. Accordingly, they are not necessarily indicative of the current financial condition or future prospects of the State as a result of the pandemic. It should also be noted that any discussion or information pertaining to fiscal year 2021 revenues or the fiscal year 2021 "plan" is referring to budgeted revenues for fiscal year 2021 as enacted in 2019 prior to the onset of the pandemic. No revised revenue estimates are yet available for fiscal year 2021. See "STATE FINANCES – State Revenues, - Fiscal Year 2020, - Operating Budget Fiscal Years 2020 and 2021, and – Fiscal Year 2021 Revenue Performance for the Eight Months Ended February 28, 2021 (Unaudited)."

The full financial impact of COVID-19 on the State, its economy, and its financial position will likely change significantly as circumstances and events continue to evolve. The State cannot at present project with any reasonable degree of certainty the impact on State revenues, expenditures, reserves, budget, or financial position nor is it possible to predict the short-term and long-term impacts of COVID-19 on the New Hampshire economy and all levels of government. No assurance can be given regarding future events or impacts because many actions and events are unpredictable, unknowable at this time, and outside the control of the State.

STATE DEMOGRAPHIC AND ECONOMIC DATA

Unless otherwise specifically noted below, the information set forth in this section does not reflect the impact of the COVID-19 pandemic on the State's economy. Most of the data presented below is historical and generally is for periods prior to the onset of the pandemic. Detailed statistical information on the COVID-19 economic impact will generally not be available until 2021.

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 inland tidal shoreline.

Population

New Hampshire experienced an increase in population between 2009 and 2019, with more rapid growth between 2016 and 2019. The State's population was 1,359,711 in 2019 according to the U.S. Census Bureau. Population has increased by 3.3% since 2009 and 2.0% since 2014. 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)

Year	New Hampshire	Change During Period	New England	Change During Period	United States	Change During Period
2009	1,316	0.0%	14,404	0.4%	306,772	0.9%
2010	1,317	0.1	14,470	0.5	309,322	0.8
2011	1,320	0.3	14,531	0.4	311,557	0.7
2012	1,324	0.3	14,590	0.4	313,831	0.7
2013	1,327	0.2	14,644	0.4	315,994	0.7
2014	1,333	0.5	14,702	0.4	318,301	0.7
2015	1,336	0.2	14,727	0.2	320,635	0.7
2016	1,342	0.4	14,756	0.2	322,941	0.7
2017	1,349	0.5	14,797	0.3	324,986	0.6
2018	1,353	0.3	14,829	0.2	326,688	0.5
2019	1,360	0.5	14,845	0.1	328,240	0.5
Percent Change:						
2009-2019		3.3%		3.1%		7.0%
2014-2019		2.0		1.0		3.1

Source: U.S. Census Bureau.

In 2019, populations of New Hampshire, New England, and the United States were distributed by age as follows:

Age Distribution 2019

Age	New Hampshire	New England	United States
Under 5 years	4.7%	5.2%	6.0%
5 through 17 years	14.1	14.9	16.3
18 to 44 years	33.3	36.1	35.9
45 to 64 years	29.2	28.1	25.4

65 years and over	18.7	15.7	16.5
	100.0%*	100.0%*	100.0%*

Source: U.S. Census Bureau.
* Totals may not add due to rounding.

Personal Income

The State's per capita personal income increased 41.5% between 2009 and 2019 (as contrasted with an increase of 43.8% in the per capita personal income for the United States and a 39.1% increase for the New England region). The State's per capita personal income ranked 8th in 2019 with $63,502 or 112.4% of the national average. The State's total personal income for 2019 was $86.3 billion. The following table sets forth information on personal income for New Hampshire, New England and the United States since 2009.

Comparisons of New Hampshire Personal Income to New England and United States, 2009-2019

		Per Capita Personal Income			Percent Change			
Year	New Hampshire Total Personal Income (In Millions)	New Hampshire	New England	United States	New Hampshire	New England	United States	New Hampshire Per Capita Personal Income Ranking(1)
2009	59,083	44,892	50,133	39,284	(1.8)	(1.8)	(4.0)	7
2010	61,605	46,785	52,094	40,547	4.2	3.9	3.2	7
2011	64,590	48,924	54,105	42,739	4.6	3.9	5.4	8
2012	67,529	50,995	55,761	44,605	4.2	3.1	4.4	9
2013	67,320	50,746	55,440	44,860	(0.5)	(0.6)	0.6	9
2014	70,225	52,669	57,892	47,071	3.8	4.4	4.9	9
2015	72,875	54,533	60,563	49,019	3.5	4.6	4.1	9
2016	75,858	56,513	62,293	50,015	3.6	2.9	2.0	7
2017	79,253	58,759	64,549	52,118	4.0	3.6	4.2	7
2018	83,199	61,471	67,507	54,606	4.6	4.6	4.8	8
2019	86,345	63,502	69,754	56,490	3.3	3.3	3.5	8

Source: U.S. Department of Commerce, Bureau of Economic Analysis.
(1) Does not include the District of Columbia.

Civilian Labor Force, Employment and Unemployment

Average annual employment growth rate in New Hampshire was lower than the national and regional growth rates from 2009 to 2019. The following table sets forth the level of employment in New Hampshire, the other New England states and the United States.

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

	Employment (In Thousands)		Average Annual Growth
	2009	**2019**	**2009-2019**
New Hampshire	695	756	0.88%
Connecticut	1,737	1,841	0.60
Maine	638	669	0.49
Massachusetts	3,193	3,704	1.60
Rhode Island	501	535	0.68
Vermont	336	335	(0.03)
New England	7,100	7,840	1.04
United States	139,877	157,538	1.26

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

In the last ten full calendar years, New Hampshire's annual unemployment rate was lower than the rates for New England and the United States. State, regional and national unemployment rates have been significantly affected by the COVID-19 Pandemic. See "COVID-19 Global Pandemic" herein. As of October 2020, the non-seasonally adjusted unemployment rate in the State was 3.8%, a large increase from 2.2% in October 2019 but significantly lower than 6.0% in the New England region and 6.6% nationally. The table below sets forth information on the civilian labor force, employment and unemployment annual statistics since 2009 and monthly data for calendar year 2020.

	Labor Force Trends (Not Seasonally Adjusted) New Hampshire Labor Force (In Thousands)			Unemployment Rate		
Year	**Civilian Labor Force**	**Employed**	**Unemployed**	**New Hampshire**	**New England**	**United States**
2009	744	698	46	6.2%	8.0%	9.3%
2010	738	695	43	5.8	8.4	9.6
2011	736	697	40	5.4	7.7	8.9
2012	741	700	41	5.5	7.2	8.1
2013	741	704	38	5.1	6.9	7.4
2014	743	712	32	4.3	5.9	6.2
2015	746	721	25	3.4	4.9	5.3
2016	752	730	21	2.9	4.1	4.9
2017	755	734	20	2.7	3.9	4.4
2018	763	743	20	2.6	3.5	3.9
2019(1)	774	754	20	2.5	3.1	3.7
Month						
January 2020	781	757	24	3.1	3.7	4.0
February 2020	780	756	24	3.1	3.6	3.8
March 2020	764	743	21	2.8	3.3	4.5
April 2020	714	591	123	17.2	13.9	14.4
May 2020	731	619	112	15.3	13.9	13.0
June 2020	732	665	67	9.1	13.5	11.2
July 2020	747	688	59	7.9	12.8	10.5
August 2020	745	697	48	6.4	9.4	8.5
September 2020	736	696	40	5.5	8.2	7.7
October 2020	724	697	27	3.8	6.0	6.6

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

Composition of Employment

The service sector was the largest employment sector in New Hampshire in 2019, accounting for 46.7% of nonagricultural employment, as compared to 42.7% in 2009. 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 46.9% of employment in 2019, up from 43.8% in 2009.

The second largest employment sector in New Hampshire during 2019 was wholesale and retail trade, accounting for 17.8% of total employment as compared to 14.3% nationally. In 2009, wholesale and retail trade accounted for 19.1% 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 2019, down from 10.9% in 2009. For the United States as a whole, manufacturing accounted for 8.5% of nonagricultural employment in 2019, versus 9.0% in 2009. The following table sets out the composition of nonagricultural employment in the State and the United States.

Composition of Nonagricultural Employment in New Hampshire and the United States

	New Hampshire		United States	
	2009	2019	2009	2019
Manufacturing	10.9%	10.5%	9.0%	8.5%
Durable Goods	8.3	7.8	5.5	5.3
Nondurable Goods	2.6	2.6	3.5	3.2
Nonmanufacturing	89.1	89.5	91.0	91.5
Construction & Mining	3.8	4.2	5.1	5.5
Wholesale and Retail Trade	19.1	17.8	15.3	14.3
Service Industries	42.7	46.7	43.8	46.9
Government	15.4	13.2	17.2	15.0
Finance, Insurance & Real Estate	5.8	5.1	6.0	5.8
Transportation & Public Utilities	2.3	2.5	3.6	4.1

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

Largest Employers

The following table lists the twenty largest employers in the State (based on number of employees) and their approximate number of employees presented in the New Hampshire Business Review Book of Lists 2020. This list does not reflect any impact of the COVID-19 pandemic.

Largest Employers
(Excluding Federal, State and Local Governments)

	Company	Employees	Primary New Hampshire Site	Principal Product
1.	Dartmouth Hitchcock	10,000	Lebanon	Acute Care Hospital
2.	DeMoulas & Market Basket	9,000	Nashua	Supermarket
3.	Wal-Mart Stores Inc.	7,305	Bedford	Retail Department Store
4.	BAE Systems Electronic Systems	6,619	Nashua	Aerospace, Defense & Information Security
5.	Hannaford (Delhaize Group)	5,300	Manchester	Supermarket
6.	Fidelity Investments	5,200	Merrimack	Financial Services
7.	Liberty Mutual - Northern N.E. Division	5,058	Bedford	Insurance
8.	Elliot Hospital	4,000	Manchester	Acute Care Hospital
9.	Dartmouth College	3,741	Hanover	Private College
10.	Concord Hospital	3,617	Concord	Acute Care Hospital
11.	Catholic Medical Center	3,050	Manchester	Acute Care Hospital
12.	Genesis HealthCare	3,000	Concord	Long-Term Health Care
13.	Southern New Hampshire Medical Center	2,674	Nashua	Acute Care Hospital
14.	Shaws Supermarkets Inc.	2,619	Stratham	Supermarket
15.	Home Depot	2,571	Manchester	Hardware Store
16.	Connection	2,513	Merrimack	Technology
17.	Wentworth-Douglass Hospital	2,500	Dover	Acute Care Hospital
18.	Southern New Hampshire University	2,093	Manchester	Private College
19.	SIG Sauer Inc.	1,800	Portsmouth	Firearms Manufacturer
20.	Cheshire Medical	1,660	Keene	Acute Care Hospital

Source: *New Hampshire Business Review*, Book of Lists 2020.

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, as local property taxes remain the single largest principal source of funding for primary and secondary education.

In general, sales and personal income taxes have been hardest hit by the COVID-19 pandemic as a result of historic job losses and steep declines in consumer spending. Given that the State does not have broad based sales and personal income taxes, the State believes that its revenues as a whole may more stable than other states'. In addition, the majority of the New Hampshire Business Profits Tax, which accounts for approximately 70% of total business taxes, is paid by relatively few taxpayers. In State tax year 2018, 613, or 0.8%, of business tax filers paid 78.3% of the total Business Profits Tax. This, coupled with the unequal impact of the COVID-19 pandemic (some industries are struggling, while others are thriving), has helped to sustain revenues for the State during the pandemic as not all businesses are being impacted in the same way. See "STATE FINANCES – State Revenues, - Fiscal Year 2020 (Unaudited), - Operating Budget Fiscal Years 2020 and 2021, and – Fiscal Year 2021 Revenue Performance for the Five Months Ended November 30, 2020 (Unaudited)."

Housing

According to the 2019 American Community Survey 1-year estimates, housing units in the State numbered 642,298. The composition of occupied housing units in the State was 75.6%% owner occupied, and 24.4% renter occupied.

According to the New Hampshire Housing Finance Authority's latest housing data release, the median purchase price of all homes sold in 2019 was $270,000, an increase of 6.3% from 2018. The median price for non-condominium homes sold in 2019 was $288,000, an increase of 5.9% from 2018.

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

	Owner-Occupied Non-Condominium Housing Unit Median Purchase Price	Percent Change	Renter-Occupied Housing Unit Median Gross Rent[1]	Percent Change	Foreclosure Deeds
2006	$265,000	(1.9)%	$928	3.0%	1,057
2007	269,900	1.8	946	1.9	2,071
2008	250,000	(7.4)	969	2.4	3,563
2009	217,000	(13.2)	969	-	3,467
2010	223,500	3.0	980	1.1	3,953
2011	214,400	(4.1)	983	0.3	3,863
2012	212,500	(0.9)	1,005	2.2	3,659
2013	227,500	7.1	1,018	1.3	2,702
2014	229,933	1.1	1,037	1.9	2,074
2015	233,500	1.6	1,069	3.1	1,724
2016	242,000	3.6	1,113	4.1	1,555
2017	255,000	5.4	1,143	2.7	1,305
2018	268,933	5.5	1,177	3.0	844
2019	288,000	7.1	1,251	6.3	731
2020	305,000[2]	5.9	1,283	2.6	N/A[3]

Source: New Hampshire Housing Finance Authority.
(1) Includes utilities.
(2) Purchase Price data January-July 2020.
(3) Foreclosure Deeds were suspended from March 15, 2020 through June 30, 2020 due to COVID-19.

According to data from the Warren Group that is compiled by the New Hampshire Housing Finance Authority, the cumulative total of foreclosure deeds for 2019 was 13.4% below the total for 2018, and the lowest annual total since 2006.

Despite the current pandemic, housing prices have continued to rise and housing demand in the State remains strong. According to data from NH Realtors, Inc., third quarter calendar year 2020 median sales prices for single family residences and condominiums increased 15.2% and 16.3%, respectively, over the same period in 2019. Third quarter calendar year 2020 sales volume for single family residences and condominiums was up 26% and 35%, respectively, over third quarter sales volume for 2019. While it is possible that some of the increased demand may be due to people from more densely populated regions seeking more open space and less density, it is too early to quantify what portion, if any, of the increases are due to the effects of the COVID-19 pandemic.

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, with some exceptions. The number of permits and dollar value in New Hampshire increased significantly from 2013 to 2016, and again in 2018 to 2019, corresponding with national figures. The New England region experienced a drop in dollar value from 2013 to 2014, yet rebounded significantly in 2015 and continued to increase slightly through 2019. In 2019, the State's building permits and value totaled $4,743 million and $1,059 million, respectively. 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)

	2013	2014	2015	2016	2017	2018	2019
New Hampshire							
Single Family	2,136	2,190	2,424	2,680	2,711	2,710	2,746
Multi-Family	652	1,215	1,339	1,116	914	1,735	1,997
Total	2,788	3,405	3,763	3,796	3,625	4,445	4,743
Value	$566	$654	$737	$760	$758	$875	$1,059
New England							
Single Family	16,670	16,754	16,412	17,935	18,106	18,159	16,883
Multi-Family	11,965	12,195	17,547	14,660	15,144	16,216	19,040
Total	28,635	28,949	33,959	32,595	33,160	34,375	35,923
Value	$6,567	$6,191	$7,228	$7,232	$7,437	$7,730	$7,730
United States							
Single Family	620,802	640,318	695,998	750,796	819,976	855,332	862,084
Multi-Family	370,020	411,806	486,584	455,846	462,001	473,495	523,964
Total	990,822	1,052,124	1,182,582	1,206,642	1,281,977	1,328,827	1,386,048
Value	$177,656	$194,349	$223,611	$237,102	$258,505	$271,120	$280,534

Source: U.S. Census Bureau.

Transportation

New Hampshire has more than 4,600 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. As of February 28, 2021, the State had issued $716 million of its Turnpike System revenue bonds to finance capital improvements to the Turnpike System, of which $281.2 million was outstanding as of such date. The State has also issued $178.25 million of Federal Highway Grant Anticipation ("GARVEE") Bonds since November 2010 to finance a portion of the costs of improvements to Interstate 93 from the Massachusetts border to Manchester. $75.8 million remains outstanding as of February 28, 2021. Effective July 1, 2014, State law authorized the use of a 4.2 cent increase in motor vehicle fuel fees (referred to as a "road toll" in New Hampshire law) to fund $200 million in general obligation bonds or revenue bonds or both to complete the I-93 Salem to Manchester widening project. The State entered into a $200 million Federal Transportation Infrastructure Finance and Innovation Act (TIFIA) loan in May, 2016. The TIFIA loan will allow the Department of Transportation to perform additional bridge repair and pavement maintenance and completion of the I-93 project within the time frame of the law. The road toll increase will expire once all debt service payments for the I-93 project have been made or 20 years after the initial issuance of such bonds, whichever is earlier. The TIFIA financing is scheduled to fully amortize by June 2034. See "STATE INDEBTEDNESS – Debt Statement." The Turnpike System has seen major operational impacts due to COVID-19. Turnpike traffic for March 2020, the first month to be affected by the pandemic, was down 25.9% over prior year. Turnpike traffic continued to be significantly down over prior year in April and in May, by 55.2% and 42.2%, respectively. The traffic in the summer months of June, July and August was down 26.4%, 19.7% and 18.9%, respectively, from the prior year. In September, October, November and December 2020 turnpike traffic was down approximately 14.4%, 17.0%, 24.2% and 24.0%, respectively, from the prior year.

There are twenty-four airports open to the public in the State, of which three have scheduled air service (Manchester, Portsmouth, and Lebanon), and twenty-one serve general aviation. Manchester-Boston Regional Airport, the State's largest commercial passenger and air cargo airport, had grown from 427,657 enplanements in fiscal year 1994 to 884,875 enplanements in fiscal year 2019. Fiscal year 2020 enplanements decreased 29% to 631,106 due to the COVID-19 pandemic. The repercussions of dealing with the pandemic created a significant negative impact on air travel and the regional, national and global economy. Manchester-Boston Regional Airport is the third largest cargo airport in New England. Air cargo activity remained strong in fiscal year 2020, with the airport processing approximately 199.3 million pounds of air cargo, as compared to 190 million pounds in 2019. Due to the pandemic, the movement of cargo became more important as people stayed home. In addition, critical cargo including the movement of medical equipment, cleaning supplies, and personal protection equipment became a priority for the nation during the pandemic.

In June 2018, Chapter 287, Laws of 2018, changed aircraft registration fees effective January 1, 2019. The aircraft registration program operates on a calendar year basis. Fiscal year 2020 was the first full year that aircraft registration fees were collected under the revised fee structure. The change in the registration fee structure has reduced General Fund revenue. For fiscal year 2020, total revenue collected was approximately $576,000, a reduction of just over $375,000 versus fiscal year 2019.

Rail freight service is provided by eight 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.

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, the University System of New Hampshire, and the Community College System of New Hampshire. The State Board and the Department of Education provide curriculum guidance and administrative support to 165 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.

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, Plymouth State University, and Granite State College. Through the Community College System of New Hampshire, the State also supports a network of seven community colleges located throughout the State. The Community Colleges offer a two-year associates degree and a variety of certificates in approximately 100 different industrial, business and health programs. In addition to the state-supported University System of New Hampshire and Community College System of New Hampshire, 20 non-profit higher educational institutions are also located in New Hampshire, including Dartmouth College in Hanover. Since 1983, over 50% of New Hampshire high school graduates have continued their education beyond the high school level.

For an overview of educational initiatives being undertaken during the 2020-2021 biennium, see "Operating Budget Fiscal Years 2020 and 2021".

As the following table indicates, as of 2019, the educational level of New Hampshire residents over the age of 25 was higher than that of the nation as a whole.

	2010 [1]		2019 [2]	
Level of Education	**New Hampshire**	**United States**	**New Hampshire**	**United States**
9-11 years	97.3%	93.8%	98.0%	95.2%
12 years	91.5	85.5	93.3	88.6
1-3 years post-secondary	61.7	57.0	65.2	61.7
4 or more years post-secondary	32.8	28.1	37.6	33.1

[1] Source: U.S. Census Bureau, 2010 American Community Survey 1-Year Estimates
[2] Source: U.S. Census Bureau, 2019 American Community Survey 1-Year Estimates

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 ("DAS") is responsible for managing statewide administrative and financial reporting functions including general budget oversight, maintaining the State's accounting system, and issuing the State's Comprehensive Annual Financial Report ("Annual Financial Report").

The Department of Administrative Services prepares the State's Annual Financial Report 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 an audit contract that extends through completion of the fiscal year 2022 audit with two additional option years. The audited financial statements for fiscal year 2020, together with the unqualified report thereon of KPMG LLP, are incorporated herein by reference, copies of which have been provided to the Municipal Securities Rulemaking Board, though its Electronic Municipal Market Access ("EMMA") system, as directed by SEC Rule 15c2-12, and which are available at *https://emma.msrb.org/ER1290992-ER1006643-ER1410979.pdf*. See "FINANCIAL STATEMENTS." The audited financial statements for fiscal year 2020 are also available as part of the State's fiscal year 2020 Annual Financial Report (pages 15 through 100 of the Annual Financial Report) at the website of the State's Department of Administrative Services, Bureau of Financial Reporting at *https://das.nh.gov/accounting/reports.asp.*

For information relating to management letters and federal single audit results delivered to the State for fiscal years 2014 through 2019, see "FINANCIAL STATEMENTS." The management letter for fiscal year 2020 is expected to be completed by March 31, 2021. The federal single audit report results for the fiscal year ended June 30, 2020 is currently expected to be completed by June 30, 2021.

The Annual Financial Report 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 Annual Financial Report.

The State budget (the overall financial plan for the two years of the biennium) is enacted through 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). In general, 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 the unassigned 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 unassigned 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 unassigned 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, motor vehicle fuel fees 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. Although 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. Adequate education grants to school districts are appropriated from this fund, as is kindergarten and charter school aid and low and moderate income homeowner property tax relief. For the biennium ending June 30, 2021, Chapter 346, Laws of 2019, appropriates payments to school districts for building aid and tuition and transportation aid from the Education Trust Fund. 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. All alcohol sold in New Hampshire must be through a sales and distribution system operated or regulated by the State Liquor Commission. Gross revenue derived by the Liquor Commission liquor sales and license fees, is credited to a special fund, known as the Liquor Commission Fund. The balance remaining in the Liquor Commission Fund after paying expenses is deposited into the General Fund.

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, 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.

State Revolving Fund. Under a program with the U.S. Environmental Protection Agency to improve cleanliness and potability of the State's water supplies, the State Revolving Loan Fund lends funds to municipalities and qualified private water organizations for the purpose of constructing and upgrading wastewater and drinking water treatment facilities. The loans are repaid by the debtors on fixed terms, and, based on specific federal criteria, may allow for forgiveness of portions of the loans. Loans are repaid with fixed rates of interest that include an administrative fee paid to the State. Repayments are credited to special accounts and then used to lend additional funds to communities and qualified private water organizations.

Unemployment Trust Fund. This fund is used to account for contributions from employers and to pay benefits to eligible claimants. When necessary, in accordance with the provisions of Section 1201 of the Social Security Act, the State has applied for, received and repaid advances from the Federal Unemployment Account to the State's Unemployment Trust Fund. For example, these advances were required on an intermittent basis in both calendar years 2010 and 2011. The interest-free advances were necessary in order to continue the payment of unemployment compensation to eligible individuals. No advances are currently outstanding.

Prior to the COVID-19 pandemic (see "COVID-19 Global Pandemic" herein), the State had been experiencing a lengthy period of economic growth with record low unemployment levels. The growing balance in the trust fund was sufficient to trigger statutory solvency reductions to employer tax rates. New Hampshire employers were experiencing the full fund balance reduction rate of 1.5% with wages paid in the quarter starting October 1, 2018 through January 1, 2020. The trust fund balance as of January 1, 2020 was $307.3 million. However, the trust fund balance fell below $250 million during the second calendar quarter of 2020 as a result of the COVID-19 global pandemic and the need to temporarily shut down certain sectors of the State's economy. Therefore, pursuant to RSA 282-A:82, the fund balance reductions were not available for the third calendar quarter of 2020. Rather, due to the declining balance in the trust fund and the forecasted balance, the solvency of the fund was determined to be in jeopardy and pursuant to RSA 282-A:84, a 0.5% surcharge was added to every employer's rate starting with the third calendar quarter of 2020. In order to stabilize the trust fund going forward through calendar year 2021 and avoid further tax rate increases on employers while also removing recent tax increases, the Governor authorized $50 million of CARES Act relief funds to be deposited into the trust fund. As a result of the cash infusion from CARES Act relief funds, the 0.5% surcharge was removed for the first quarter of 2021 and is not expected to be reinstated in the second quarter of 2021.

Despite the unprecedented levels of unemployment claims resulting from the COVID-19 global pandemic, as a result of the $50 million of CARES Act funds deposited into the trust fund by the Governor, the State does not currently anticipate the need to engage in borrowing from the Federal Unemployment Account through calendar year 2021. The State remains eligible for interest-free borrowing. As of February 28, 2021, the trust fund balance was approximately $114 million.

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 including medical, pharmacy, and dental (active employees) and medical and pharmacy (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 State Treasury is entrusted with the fiduciary responsibility of managing State funds to ensure cash is available when required to ensure the efficient financial operation of the State while employing prudent and statutorily-compliant investment policies and procedures. The State Treasury has in place investment policies and procedures for the safekeeping and prudent management of various State assets. Certain trust and custodial funds are subject to very specific investment guidelines in order to meet objectives 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 at least annually to ensure best practices are followed and to incorporate strategies to reduce risk that may arise or become magnified due to current events. Additional information is available at *http://www.nh.gov/treasury/cash-investment-management/operating-funds.htm.*

Budget and Appropriation Process

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

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

Operating budget requests and revenue estimates for each fiscal year of the ensuing biennium submitted by State agencies are also summarized and submitted to the Governor. Following public hearings, analysis of the requested 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. Using the Governor's budgets as a starting point, the House prepares and approves its own budgets, which are then submitted to the Senate. The Senate prepares and approves its budgets based on the House proposals. A legislative Conference Committee comprised of members from both chambers forges the final budget drafts to be approved by both chambers. After final budget bills are approved by the Legislature, they are presented to the Governor to be signed into law, allowed to pass into law after 5 days without signature, 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 operating and capital appropriation spending for each State department during each of the next two fiscal years.

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 biennium. 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 eliminated.

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 (RSA 6:10).

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. The Comptroller issues statement of appropriation reports daily that comply with the monthly reporting requirements; instances of spending that may deplete appropriations are rare.

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 has post-audit responsibility for all entities that expend State funds as well as review of the budgetary process on behalf of the Legislature. This responsibility involves conducting selected departmental audits and program result audits including, but not limited to, examinations as to whether the results contemplated by the authorizing body are being achieved by the department and whether such results could be obtained more effectively through other means. The Joint Legislative Capital Budget Overview Committee reviews the status of capital budget projects, and each State agency with capital budget projects is required to submit to the committee a status report on projects every sixty days.

Revenue Stabilization Reserve Account

Legislation was enacted in 1986 to establish a Revenue Stabilization Reserve Account (the "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 operating budget deficit at the close of a fiscal biennium resulting from 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. The maximum amount permitted in the account is equal to 10% of General Fund unrestricted revenue for the most recently completed fiscal year. Chapter 237 of the 2016 legislative session repealed a law which had capped the transfer in a single year to one half of the total potential maximum balance allowable for the Revenue Stabilization Reserve Account.

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 until the budget for fiscal years 2016-2017, which projected an unassigned fund balance of $72.8 million as of June 30, 2015. The Legislature set forth in Chapter 276:43, Laws of 2015 that the then-projected unassigned General Fund equity balance of approximately $49 million was to be carried forward in the General Fund to be used in fiscal year 2016. In addition, the Revenue Stabilization Reserve Account balance was projected to be increased to $23.8 million by a $14.5 million transfer into the fund. The actual total General Fund unassigned fund balance at June 30, 2015 was $71.3 million, comprised of a Revenue Stabilization Reserve Account balance of $22.3 million and an unassigned fund balance of $49 million.

In May 2016 the United State Supreme Court issued a final decision upholding a $236 million verdict in favor of the State related to the *State v. Exxon* for MtBE water contamination. The total award was approximately $307.2 million, including interest. As required by RSA 7:6-e,I, 10% of the award, or $30.7 million, was credited to the State’s Rainy Day Fund.

Additionally, Chapter 264, Laws of 2016 established that to the extent the audited, combined unrestricted general and education trust fund revenues for the fiscal year ending June 30, 2016 exceeded the official estimates, an amount not to exceed $40 million of said excess would be transferred to the Revenue Stabilization Reserve Account. The State’s audited financial statements for fiscal year 2016 issued on January 31, 2017 reported revenues approximately $151 million in excess of plan; therefore the full $40 million authorized by law was transferred at the conclusion of the audit, bringing the total Rainy Day Fund balance to $93 million at June 30, 2016.

As noted above, the statutory capacity of the Rainy Day Fund is set at 10% of General Fund unrestricted revenue for the June 30, 2016 audited fiscal year, which was $153 million. However, this statutory limit was revised by Chapter 156, Laws of 2017. To the extent the audited, combined unrestricted general and education trust fund revenues for the fiscal year ending June 30, 2017 exceeded the official estimates, less any amounts deposited pursuant to RSA 7:6-e,I, the excess was to be transferred to the Revenue Stabilization Reserve Account, up to $100 million. Any excess, after the transfer of sufficient funds to bring the Revenue Stabilization Reserve Account to $100 million, was to be transferred to the Public School Infrastructure Fund established pursuant to RSA 198:15-y.

The General Fund unassigned fund balance at the close of fiscal year 2017 was $118.7 million, consisting of $24.7 million of unassigned fund balance and $94.0 million in the Rainy Day Fund, which includes a $1.0 million transfer from the consumer protection escrow account that is designated for the Rainy Day Fund. As a result of legislative designations, the remaining operating surplus was transferred as follows: $6.0 million to the Revenue Stabilization Reserve Account balance and the remainder of $18.7 million to the public school infrastructure fund. This brought the Revenue Stabilization Reserve Account balance to $100.0 million for fiscal year 2017, as compared to $93.0 million in the prior fiscal year.

The General Fund unassigned fund balance at the close of fiscal year 2018 was $184.4 million, consisting of $74.4 million of unassigned fund balance and $110.0 million in the Rainy Day Fund which includes $10.0 million transferred from unrestricted General Fund excess revenues over plan as required by Chapter 162, Laws of 2018. This brought the Revenue Stabilization Reserve Account balance to $110.0 million for fiscal year 2018, as compared to $100.0 million in the prior fiscal year. In addition, the $18.7 million transferred to the public school infrastructure fund in the prior fiscal year was completely committed to various State public schools during fiscal year 2018.

The General Fund unassigned fund balance at the close of fiscal year 2019 was $307.8 million, consisting of $192.5 million of unassigned fund balance and $115.3 million in the Revenue Stabilization Reserve Account, which includes $5.0 million transferred from unrestricted General Fund surplus as required by Chapter 346, Laws of 2019, and a transfer of $0.3 million from the consumer protection escrow account that is designated for the Revenue

Stabilization Reserve Account. This brought the Revenue Stabilization Reserve Account balance to $115.3 million for fiscal year 2019, as compared to $110 million in the prior fiscal year.

The General Fund unassigned fund balance at the close of fiscal year 2020 was $64.3 million, consisting of $(51.2) million of unassigned fund balance and $115.5 million in the Revenue Stabilization Reserve Account which includes a transfer of $0.2 million from the consumer protection escrow account that is designated for the Revenue Stabilization Reserve Account. This brought the Revenue Stabilization Reserve Account balance to $115.5 million for fiscal year 2020, as compared to $115.3 million in the prior fiscal year. See "Results of Operations – Fiscal Year 2020 and COVID-19 Global Pandemic" below.

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 the charges for (i) hotel, motel and other public accommodations, (ii) meals served in restaurants, cafes and other eating establishments, and (iii) rental cars. Prior to July 1, 2009, the meals and rooms tax rate was 8%. The portion taxed on rental cars is designated as revenue to the Education Trust Fund.

Prior to July 1, 2019, 3.15% of net meals and rooms tax collections was designated for travel and tourism development. The distribution of meals and rooms taxes to the Division of Resources and Economic Development for travel and tourism development was suspended for the biennium ending June 30, 2013 and again for the biennium ending June 30, 2017. Chapter 156, Laws of 2017 transferred the functions of the Division of Travel and Tourism from the former Department of Resources and Economic Development to the Department of Business and Economic Affairs. Chapter 156, Laws of 2017 also suspended the distribution of meals and rooms taxes to the Department of Business and Economic Affairs for the biennium ending June 30, 2019. The reorganization is intended to refocus the divisions of Economic Development and Travel and Tourism Development into the Department of Business and Economic Affairs to better coordinate the State's economic development efforts. For the biennium beginning July 1, 2019, the provision designating 3.15% of net meals and rooms tax collections for travel and tourism development has been repealed, and instead the budget for travel and tourism shall be funded from the General Fund in an amount no less than 3.15% of net meals and rooms tax revenue. However, this new provision is again suspended for the biennium ending June 30, 2021.

Beginning with fiscal year 1995, a portion of the revenue derived from the meals and rooms tax was 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 must be 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. However, since 2009 various chapter laws have capped the distribution to cities and towns as shown in the table below, presenting the percentage of the previous year's tax collections for fiscal years 2009 through 2019. Most recently, Chapter 346, Laws of 2019, capped the fiscal years 2020 and 2021 distribution at the 2019 level.

Meals and Rooms Tax revenue ended fiscal year 2020 at $315.4 million which was $34.7 million or 9.9% below prior year and $53.1 million or 14.4% below plan.

Fiscal Year	Amount Distributed	% of Previous Year's Total Meals and Rooms Tax Collection
2009	$58,805,057	28.5%
2010	58,805,057	28.9
2011	58,805,057	25.8
2012	58,805,057	25.7
2013	58,805,057	23.2
2014	58,805,057	22.4
2015	63,805,057	23.2
2016	63,805,057	21.8
2017	68,805,057	22.0
2018	68,805,057	21.0
2019	68,805,057	20.0
2020	68,805,057	19.1
2021	68,805,057	21.2

Business Profits Tax ("BPT"). Chapter 274, Laws of 2015, reduced the rate of the business profits tax to 8.2% for taxable periods ending on or after December 31, 2016. For taxable periods ending before December 31, 2016, the business profits tax rate was 8.5%. 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. Chapter 346, Laws of 2019, modifies the State's apportionment formula in two ways. First, for taxable periods ending on or after December 31, 2021, the State will apportion sales of intangibles and services utilizing a method commonly referred to as "market-based sourcing." The State currently utilizes the income-producing activity/cost of performance method of apportioning sales and services. Second, for taxable periods ending on or after December 31, 2022, the State will apportion gross business profits utilizing only the sales factor. Currently, the State apportions gross business profits utilizing three factors: property, payroll, and sales (with sales being double-weighted). The transition to a system of market-based sourcing and the use of a single sales factor for apportionment in New Hampshire mirrors the national trend among states. The revenue impact of both changes is uncertain because determining how sales would be sourced under this new method requires a comprehensive review by each taxpayer of its books and records. Additionally, as a result of this new apportionment method there would likely be new filers for which the State has no data, as well as the loss of some current filers.

For taxable periods ending on or after December 31, 2018, the business profits tax rate was reduced to 7.9%. Chapter 156, Laws of 2017, further reduced the rate of the business profits tax to 7.7% for taxable periods ending on or after December 31, 2019. Chapter 346, Laws of 2019 provided that the rate would be further reduced to 7.5% for taxable periods ending on or after December 31, 2021 if the combined amount of General and Education Trust Fund revenue collected for the fiscal year ending June 30, 2020 was 6% or $157 million, or more above the official revenue estimates for said fiscal year. If the combined amount of General and Education Trust Fund revenue collected for the fiscal year ending June 30, 2020 was 6% or $157 million, or more below the official revenue estimates for said fiscal year, the rate would rise to 7.9% for taxable periods ending on or after December 31, 2021. Fiscal year 2020 revenues were $106 million below plan, and therefore no change in the Business Profits Tax rate was triggered, and it rate will remain at 7.7%.

Chapter 300, Laws of 2016, repealed and reenacted RSA 77-A:4, XIV relative to how a business organization treats the sale or exchange of an ownership interest which results in an increase in basis of assets under Federal law. Under previous law, when an interest in a business organization is sold or exchanged, the business must make an addition to gross business profits of an amount equal to the net increase in the basis of all underlying assets transferred or sold. Chapter 300 eliminated the requirement to make an addition to gross business profits, but also established an election whereby a business organization may choose to recognize the increase in basis and make an addition to gross business profits. If an election is made, the business organization may then deduct against gross business profits any annual depreciation or amortization attributable to the increased basis. If an election is not made, the business organization must add back to gross business profits any depreciation or amortization attributable to the increase in basis that is recognized federally. The fiscal impact of this change is indeterminable.

Business Enterprise Tax ("BET"). Chapter 274, Laws of 2015, also reduced the rate of the business enterprise tax to 0.72% for taxable periods ending on or after December 31, 2016. For taxable periods ending before December 31, 2016, the business enterprise tax rate was 0.75%. The tax is assessed on wages paid to employees, interest paid on debt and dividends paid to shareholders. For taxable periods beginning on or after January 1, 2021, businesses with less than $222,000 in gross receipts and an enterprise value base of less than $111,000 are exempt from the business enterprise tax. Every business enterprise is required to make 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 ten (10) taxable periods from the taxable period in which the business enterprise tax was paid.

For taxable periods ending on or after December 31, 2018, the business enterprise tax rate was reduced to 0.675%. Chapter 156, Laws of 2017, further reduced the business enterprise tax rate to 0.6% for taxable periods ending on or after December 31, 2019. Chapter 346, Laws of 2019, provides that the rate will be further reduced to 0.5% for taxable periods ending on or after December 31, 2021 if the combined amount of General and Education Trust Fund revenue collected for the fiscal year ending June 30, 2020 is 6%, or $157 million, or more above the official revenue estimates for said fiscal year. If the combined amount of General and Education Trust Fund revenue collected for the fiscal year ending June 30, 2020 is 6%, or $157 million, or more below the official revenue estimates for said fiscal year, the rate will rise to 0.675% for taxable periods ending on or after December 31, 2021. Fiscal year 2020 revenues were $106 million below plan, and therefore no change in the Business Enterprise Tax rate was triggered, and it will remain at 0.6%.

Several pieces of legislation adopted since 2011 were projected to significantly reduce business tax revenue beginning in fiscal year 2014. In performing its work for the 2014-2015 operating budget, the Consensus Revenue Estimating Panel ("CREP"), created by Executive Order, reconsidered each of the legislative changes. The DRA worked with the CREP to refine the estimated impacts from worst case to what were believed to be more realistic impacts in developing budgeted revenue for the 2014-2015 biennium. More recently, to assist with revenue estimating for the 2018-2019 biennium, the DRA analyzed the actual impact of the tax law changes on fiscal year 2015 revenues in order to attribute what changes may be driving trends in revenues. Through fiscal year 2019, the predicted revenue declines due to recent legislative changes have been more than offset by overall growth in Business Tax revenues.

- Chapter 287, Laws of 2012 established the Education Tax Credit (ETC), effective June 27, 2012 with the first program year beginning January 1, 2013. The ETC allows a business organization or enterprise to make a donation of up to $600,000 to an approved scholarship organization for which the business will receive a credit against the BPT and/or BET or Interest and Dividends Tax of up to 85% of the donation. The total amount of ETCs available in 2013 was $3.4 million and the total amount of ETCs available each program year in 2014 and after was $5.1 million. However, the total amount of ETCs awarded by the scholarship organization was significantly less than the available amounts for tax years 2013 through 2017, and the amount used in each such tax year was $203,153, $49,449, $156,842, $327,060 and $688,467, respectively. Chapter 357, Laws of 2018, made various changes to the administration of the ETC program, including the definition of "program year" from a calendar year to a fiscal year beginning July 1 and ending June 30, and its application procedures. The 2018 program year was extended through June 30, 2019 as part of this change. The total amount of ETCs awarded over the 18-month transition period from a calendar year to a fiscal year was $2,287,282. The 2019 program year ran from July 1, 2019 through June 30, 2020 and awarded $1,272,810 in ETCs. As of October 20, 2020, $1,311,675 had been used in tax year 2018 and $1,328,451 had been used in tax year 2019. Additional changes include allowing a business organization or business enterprise to carry forward any unused portion of the ETC amount granted by the DRA for five succeeding years, but not more than $1.0 million in any given tax year.

- Chapter 116, Laws of 2012, changed the prospective repeal date for the Research and Development Tax Credit from July 1, 2013 to July 1, 2015 and was estimated to result in $1 million annual revenue reduction in fiscal years 2014 and 2015. Chapter 5, Laws of 2013, increased the Research and Development Tax Credit from $1 million per year to $2 million per year, and made the credit permanent. Chapter 276, Laws of 2015, increased the Research and Development Tax Credit to $7 million effective July 1, 2017. This change is expected to reduce revenue by $5 million per year beginning in fiscal year 2018.

- Chapter 279:1, Laws of 2012, increased the Internal Revenue Code §179 expense deduction from $20,000 to $25,000, effective June 21, 2012 and applicable for equipment placed in service on or after January 1, 2012. Chapter 295:4, Laws of 2016 increased the Internal Revenue Code §179 expense deduction from $25,000 to $100,000, effective January 1, 2017 and applicable for property placed in service on or after January 1, 2017. In analyzing tax year 2013 data, the DRA estimated a minimum reduction of BPT revenue for fiscal year 2015 of $7.6 million, which would occur starting in fiscal year 2017, with the bulk of the impact occurring in fiscal year 2018. Chapter 156, Laws of 2017, increased the Internal Revenue Code §179 expense deduction from $100,000 to $500,000 for property placed in service on or after January 1, 2018. In analyzing tax year 2014 data, the DRA estimated a reduction of BPT revenue beginning in fiscal year 2018 of $9.7 million per year.

The federal Tax Cuts and Jobs Act ("TCJA") signed on December 22, 2017, represents the most expansive package of federal tax law changes enacted since the 1986 overhaul of the Internal Revenue Code ("IRC"). Most states, including New Hampshire, use federally reported income as a starting point for the calculation of taxable income at the State level. As a result, federal tax law changes may materially impact State revenues depending on the version of the IRC to which the State conforms. New Hampshire BPT is tied to the IRC as of December 31, 2016 for tax periods beginning on or after January 1, 2018, and thus for those tax periods, State law does not conform to the current IRC. For practical purposes, this means that NH BPT returns starting with Line 28 from the federal return, will calculate Line 28 using the IRC that was in effect on December 31, 2016, thus the TCJA will not apply and will therefore not impact State BPT revenues directly. However, the TCJA has and will continue to alter the various costs and incentives impacting business decisions in a way that will impact that State tax landscape regardless of whether or not New Hampshire is tied to the IRC as amended by the TCJA. This is evidenced by a significant increase in revenue in fiscal year 2018 as compared to fiscal year 2017. Business Tax revenues (BPT and BET combined) for fiscal year 2018 were $776.6 million as compared to $634.3 million in fiscal year 2017. The additional revenue in fiscal year 2018 is likely attributable to a combination of strong underlying economic growth as well as an increase in taxable transactions for New Hampshire purposes resulting from the TCJA. The DRA believes that a portion of the additional revenue in fiscal year 2018 was due to one-time or temporary impacts from the TCJA, and therefore, similar increases are not expected in subsequent fiscal years. The DRA has not definitively determined how much of the 2018 increase is attributable to the TCJA. Chapter 346, Laws of 2019 provides that for taxable periods beginning on or after January 1, 2020 the New Hampshire BPT will tie to the IRC (subject to decoupling as detailed in RSA 77-A:3-b) as of December 31, 2018, thereby adopting numerous provisions of the TCJA for NH BPT purposes, including the taxation of Global Intangible Low-Taxed Income (GILTI). GILTI is a new category of foreign earnings included in federal taxable income but subject to a special deduction under the IRC. New Hampshire will similarly include GILTI in the taxpayer's BPT tax base. Conformity to the IRC as of December 31, 2018 was expected to increase revenue in fiscal year 2020. The State anticipated that IRC conformity would result in $17.2 million in additional revenue in fiscal year 2020 and fiscal year 2021, and that GILTI would result in $4.0 million in additional revenue in fiscal year 2020 and $8.1 million in fiscal year 2021.

Business Tax revenues ended fiscal year 2019 at $805.6 million, which exceeded fiscal year 2018 by $24.5 million or 3.1%, and which was in excess of fiscal year 2019 plan by $151.6 million or 23.2% based on the Annual Financial Report. Much of the additional revenue received in fiscal year 2019 is likely attributable to a combination of strong underlying economic growth as well as one-time revenue from the TCJA for transactions occurring during the 2018 tax year. The DRA has estimated that approximately $100 million or more of the additional revenue is attributable to one-time or anomalous payments based upon returns received thus far for the 2018 tax year. Business Tax revenues ended fiscal year 2020 at $709.7 million, which was $95.9 million or 11.9% below prior year and which was $85.4 million or 10.7% below the fiscal year 2020 plan. As adopted in the fiscal years 2020-21 budget (which occurred prior to the onset of the COVID-19 pandemic), the Business Tax revenue plan for fiscal year 2021 is $786 million.

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. Beginning with the budget for the 2014-2015 biennium, this revenue has been re-characterized from unrestricted to restricted within the Department of Health and Human Services ("DHHS").

Liquor Sales and Distribution. The Liquor Commission is overseen by the Chairman of the Liquor Commission as well as a Deputy Commissioner, both appointed by the Governor with the consent of the Executive Council. Pursuant to RSA 176:3, the Commission is required to optimize profitability, maintain proper controls, and provide an efficient operation for the service of its customers. 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 licensed 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.

RSA 176:16, III requires that 5% of the previous fiscal year gross profits derived by the Commission from the sale of liquor shall be deposited into the alcohol abuse prevention and treatment fund established by RSA 176-A:1 to benefit the New Hampshire Granite Advantage Health Care Trust Fund. RSA 126-AA:3, VI allows for an additional transfer from the Liquor Fund in the event of a shortfall in the Granite Advantage Health Care Trust Fund.

Holders of off-premises retail licenses with annual wine 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 wine purchases exceeding $350,000 receive a discount of 15% less than the regular F.O.B. price at the warehouse.

Tobacco Tax. Effective August 1, 2013, the tax rate for each pack containing 20 cigarettes is $1.78 per pack, the tax rate for each pack containing 25 cigarettes is $2.23 per pack, and the tax rate for all other tobacco products, excluding premium cigars, is 65.03% of the wholesale sales price. Tobacco tax revenues were $221.3 million in fiscal year 2015 and $227.1 million in fiscal year 2016. Tobacco tax revenues fell in fiscal year 2017 to $218.7 million and decreased again in fiscal year 2018 to $211.6 million. In fiscal year 2019 tobacco tax revenues fell further to $202.4 million. Chapter 346, Laws of 2019, contained two provisions impacting the Tobacco Tax that became effective January 1, 2020. The first applies the Tobacco Tax to "electronic cigarettes." So called closed cartridge systems will be taxed at a rate of $0.30 per milliliter and open systems, generally containers of liquid containing nicotine, will be taxed at a rate of 8% of the wholesale sales price. The second raises the legal smoking age in New Hampshire from 18 to 19 years of age. The change in New Hampshire's smoking age was superseded by the change to the federal legal smoking age to 21 years of age. Tobacco Tax revenues ended fiscal year 2020 at $214 million, which is $11.5 million or 5.7% above prior year and $16 million or 8.1% above plan.

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 was 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. Effective July 1, 2014, Chapter 158 of the Laws of 2014 clarified the taxable services under the MET, declared the intent of the MET, removed the application of the MET to special hospitals for rehabilitation, provided for a tax rate reduction beginning for the taxable period ending June 30, 2016 and changed the payment and return date. Further, all revenue collected pursuant to the tax is now credited to the Uncompensated Care Fund and restricted to fund medical care for the Medicaid population. The tax payment and tax return are now due on April 15 within the taxable period.

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, kept the tax rate at 5.5% of net patient services revenue but significantly decreased the State's commitment to reimburse hospitals for uncompensated care. Certain hospitals challenged a number of legislative and agency actions since 2005 that reduced the reimbursement rates for certain Medicaid services and related payments.

Beginning in June of 2011, DRA received requests for refund or credit of the MET from 20 of the 28 hospital taxpayers for prior fiscal periods ending June 30, 2008 through June 30, 2013, totaling $109 million, and received additional refund requests from all hospitals for the fiscal year 2014 receipts of approximately $165.6 million. DRA denied $20 million of those requests related to fiscal year 2008 as being outside the statute of limitations and additionally denied $7 million in requests related to fiscal year 2012. The DRA also issued tax notices for fiscal year 2012 for $13 million.

During fiscal year 2013, the DRA reached agreements with over half of the hospitals to resolve all outstanding issues between them relating to approximately $67.6 million of the $89 million in MET refund and credit requests and $11 million of the $13 million in tax notices for fiscal years 2009 through 2013, leaving $14.4 million in refund requests and $2 million in tax notices outstanding as of June 30, 2013. As a result of the settlement agreements reached in fiscal year 2013 for fiscal years 2009 through 2013, the State received approximately $5.4 million of MET revenue and granted $3.6 million in credits to be applied in fiscal year 2014 and $3.6 million in credits to be applied in fiscal year 2015. See "MEDICAID PROGRAM."

In fiscal year 2014, the State reached an agreement with 26 New Hampshire hospitals' outstanding challenges to: the constitutionality of the MET, to the majority of the claims that the hospitals had filed for refunds on their fiscal year 2014 tax payments and what remained outstanding related to fiscal years 2013 and prior years, and to Medicaid rate reductions made in previous years. The Legislature approved this agreement and Senate Bill 369 was signed into law on June 30, 2014 (Chapter 158, Laws 2014). See "LITIGATION – *Catholic Medical Center et al v. DRA*." Under the agreement, the State will provide DSH payments to critical and noncritical access hospitals. Critical access hospitals will be reimbursed 75 percent of their uncompensated care costs, and noncritical care access hospitals will receive no more than 50 percent of their individual uncompensated care costs in fiscal years 2016 and 2017. The State's liability will be capped at $224 million in total payments that are shared with the federal government. In fiscal years 2018 and 2019, critical access hospitals would continue to be reimbursed 75 percent of their uncompensated care costs. Other acute care hospitals would receive no more than 55 percent of their uncompensated care costs, up to a cap of $241 million. The hospitals are guaranteed at least $175 million a year in DSH payments, subject to additional reductions based on MET revenue shortfalls and tax rate reductions.

Senate Bill 369 (Chapter 158, Laws of 2014) lowered the tax rate from 5.5 percent to 5.45 percent for taxable periods beginning after July 1, 2015, then down to 5.4 percent for taxable periods beginning after July 1, 2016. Senate Bill 369 also provided that beginning on or after July 1, 2017 and for every year thereafter, the rate would remain 5.4 percent, unless total uncompensated care for all hospitals fell below $375 million, in which case the rate will be reduced to 5.25 percent. However, House Bill 1817 (Chapter 162, Section 34, Laws of 2018) amended the MET statute to eliminate the possibility of a future rate reduction based upon total aggregate uncompensated care, thereby making the rate of 5.4 percent permanent.

The State agreed to credit all money raised from the MET as restricted revenue and use those funds exclusively to support Medicaid services, including funding DSH payments, hospital provider payments, and other Medicaid costs. The agreement eliminates certain freestanding rehabilitation hospitals from the MET base, and also precludes them from receiving uncompensated care payments. Through the agreement, the participating hospitals agreed they will not challenge the MET on constitutional grounds as long as the terms of the agreement are met. Additionally, the participating hospitals agreed to drop their claims for tax refunds in fiscal years 2014 and 2015 and drop their participation – and claims – in lawsuits challenging the constitutionality and application of the MET. They also agreed to drop claims in state and federal court cases challenging rate reductions made beginning in fiscal year 2008. If future Legislatures choose to cut funding, the hospitals retain the right to re-launch their litigation and the State retains all of its defenses.

Medicaid Enhancement Tax Estimates and Uses For Fiscal Years 2016-2020
(millions)

	FY 2016 (Actual)	FY 2016 (Budget)	FY 2017 (Actual)	FY 2017 (Budget)	FY 2018 (Actual)	FY 2018 (Budget)	FY 2019 (Actual)	FY 2019 (Budget)	FY 2020 (Actual)	FY 2020 (Budget)
Medicaid Enhancement Tax Revenues	$212.5	$220.5	$226.6	$228.1	$242.9	$235.9	$250.2	$242.9	$265.5	$261.2
To hospitals for uncompensated care	103.6	95.9	107.8	95.1	112.4	83.1	112.95	82.4	114.1	118.8
To General Fund	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
To medical providers	108.5.	124.7	118.7	133.0	130.5	152.8	136.7	160.5	151.4	142.4

For taxable periods ending June 30, 2015 and prior, the MET was assessed at a rate of 5.5%. For the taxable period ending June 30, 2016, the MET was assessed at a rate of 5.45%. For the taxable period ending June 30, 2017, the MET was assessed at a rate of 5.4%. For the taxable period ending June 30, 2018, and going forward, the MET will be assessed at a rate of 5.4%.

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, 2019, companies of 41 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 & 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 163 of the Laws of 1998 allows for a deduction from taxable interest and dividend income an amount equal to any cash distributions made to a qualified investment capital corporation. Chapter 341, Laws of 2018 expands the use of the education tax credit ("ETC") program to allow individuals to apply for, and if granted by the DRA, use an ETC against the Interest and Dividends Tax. The ability to use ETC against the Interest and Dividends Tax is expected to increase utilization of the ETC program (which has seen low utilization in previous years). However, the ETC program is capped at $5.1 million in tax credits per year, thereby limiting the potential increase in tax credit usage.

Chapter 144 of the Laws of 2009 amended the Interest & 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 & Dividends Tax effective January 1, 2010, leaving such distributions received during the 2009 tax year subject to the tax.

Chapter 286 of the Laws of 2012 amended the Interest & Dividends Tax to eliminate the taxation of trusts. Under the new law, interest and dividend income received by estates held by trustees treated as grantor trustees under Section 671 of the United States Internal Revenue Code shall be included in the return of their grantor, to the extent that the grantor is an inhabitant or resident of New Hampshire. Income reported by, and taxed federally as interest or dividends to, a trust beneficiary who is an individual inhabitant or resident of New Hampshire with respect to distributions from a trust that is not treated as a grantor trust under Section 671 of the United States Internal Revenue Code shall be included as interest or dividends in the return of such beneficiary and subject to taxation in accordance with the provisions of RSA Chapter 77. This change in the tax was originally estimated to result in a reduction in revenue of $4 million to $5 million. Fiscal year 2014 Interest & Dividends Tax revenues were below those for fiscal year 2013 by approximately $13 million. In addition to the difference between the amount of tax paid by trusts ($5.1 million in tax year 2012) and the amount of tax currently paid by beneficiaries of those trusts (which is affected by a possible reduction in distributions to beneficiaries), additional exemptions and exceptions available to beneficiaries, and the exclusion of previously taxable income, other possible factors impacting the reduction of revenue include: lower interest rates; the acceleration of 2013 dividends into 2012; and non-taxable distributions resulting from conversions of S-corporations to limited liability companies. As a result, the actual impact of the 2012 Interest & Dividends Tax law change on the fiscal year 2014 and fiscal year 2015 revenues remains unknown at this time. Interest and Dividends Tax revenue increased $17.1 million from fiscal year 2014 to fiscal year 2015, from $79.8 million to $96.9 million. In fiscal year 2016, revenue declined to $89.3 million and then increased in fiscal year 2017 to $94.3 million and increased again in fiscal year 2018 to $105.8 million. In fiscal year 2019, revenue increased again to $114.7 million, $8.9 million or 8.4% above prior year. Interest & Dividends Tax revenue ended fiscal year 2020 at $125.7 million, which is $11 million or 9.6% above prior year and $8.8 million or 7.5% above plan.

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. Chapter 279 Laws of 2012 amended RSA 82-A to exclude internet access from the definition of communication services effective June 21, 2012. This resulted in a shortfall of $28.5 million in communication services tax revenue for fiscal year 2013. The revenue decrease caused by the elimination of internet access from the definition of communication services was factored into the determination of the revenue plan for the 2014-2015 biennium. Communications Tax revenue stabilized at $57.3 million in fiscal year 2015, the same annual total as fiscal year 2013, but substantially less than $79.3 million in fiscal year 2012, prior to the law change. In 2016, revenue continued its recent slide to $52.4 million, declined again in fiscal year 2017 to $47.1 million and declined again in fiscal year 2018 to $43.4 million. In fiscal year 2019, revenue declined again, but by a smaller amount, to $41.2 million. Communications Tax revenues ended fiscal year 2020 at $39.8 million, which is $1.4 million or 3.4% below prior year and $0.9 million or 2.3% below plan. Chapter 346, Laws of 2019 clarified the applicability of the Communications Tax to voice over internet protocol (VoIP) and prepaid wireless telecommunications, and the State currently anticipates that this clarification will result in $1.5 million and $2.5 million of Communications Tax revenue in fiscal year 2020 and fiscal year 2021, respectively.

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 DRA. 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 Land and Community Heritage Investment Program ("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. For the 2014-2015 biennium, all revenues from the

$25 fee were again dedicated to the LCHIP program. In fiscal year 2016, real estate transfer tax revenue was $134.5 million, an increase of $16.9 million from $117.6 million in fiscal year 2015. In fiscal year 2017, real estate transfer tax revenue increased to $141.7 million. Real estate transfer tax revenue increased again in fiscal year 2018 to $149.2 million and again in fiscal year 2019 to $152.8 million. Real Estate Transfer Tax revenues ended fiscal year 2020 at $158.4 million, which was $5.6 million or 3.7% above prior year and $1 million or 0.6% below plan. Chapter 346, Laws of 2019 requires that the State Treasurer annually transfer $5 million of real estate transfer tax revenue to the New Hampshire Housing Authority's Affordable Housing Fund, beginning in fiscal year 2021.

Court Fines and Fees. The Unified Court System was established during the 1984-1985 biennium. Prior to July 1, 2009 fines and fees collected by the various components of the court system were 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. Pursuant to current law, fines collected through the plea by mail program are credited as unrestricted Highway Fund revenue. All fines, fees and surcharges imposed and collected by the various components of the court system are credited to various funds depending upon the law involved. Approximately 62% of revenues collected are credited to the General Fund, 22% to the Highway Fund and 16% to restricted funds.

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 in order 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. 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. For the tax year beginning April 1, 2020, the tax is $1.925 per $1,000 of valuation. In addition, for fiscal years after June 30, 2004, the law requires the Commissioner of the DRA to set the education property tax rate at a level sufficient to generate $363.0 million in revenue.

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. The proceeds from this tax have been dedicated to the Education Trust Fund. Utility Property Tax revenue ended fiscal year 2020 at $43.3 million, which was $3.8 million or 9.6% above prior year and $0.1 million or 0.2 % below plan.

Electric Consumption Tax. The franchise tax on electric utilities was replaced in fiscal year 2001 with a tax on electricity consumption. A tax was imposed on the consumption of electricity at the rate of $.00055 per kilowatt hour. Consumers who are customers of municipal providers were exempt from the tax. Chapter 156 of the Laws of 2017 repealed the electricity consumption tax effective January 1, 2019. This tax historically generated approximately $6 million in annual revenue.

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 Bingo, Lucky 7 and games of chance in the State are licensed and regulated by the Lottery Commission. On games of chance, the State receives a blended rate between 3% and 10% of revenues depending on the type of game being conducted. The State receives a fixed fee of 7% of Bingo revenues and a $15 flat fee for each Lucky 7 "deal" purchased by a charitable organization. Live dog racing is now prohibited in the State. Any harness racing or thoroughbred racing would also be supervised by the Lottery Commission; however, no such racing is currently conducted in the State. The State imposes a tax ranging from 1% to 1.25% of the contributions plus one-quarter of the breakage of all simulcast harness and thoroughbred racing pari-mutuel pools. For simulcast greyhound racing pari-mutuel pools, the tax is 1.5% of contributions plus one-quarter of the breakage.

Other. This revenue category includes over 200 individual types of fees, fines, assessments, taxes and income. These revenues are reported in the following seven broad subcategories: reimbursement of indirect costs; interest on surplus funds; corporate filing fees; escheatment of abandoned property; corporate record fees; agricultural fees; 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 at authorized retail locations. In addition, the State together with the states of Maine and Vermont offer instant and draw based games under the Tri-State Lotto Compact. The State is also a participant in the Multi State Lottery Association and offers national draw based games Powerball and Mega Millions through that association. In December of 2017, the Lottery Commission began operation of KENO, an online game that has continuous drawings from 11:00 a.m. through 1:00 a.m. and is offered in “pouring establishments” in towns which have authorized the game. In September 2018, the Lottery Commission began offering instant games and limited draw based games through an online platform. Revenues from all of these games are initially recorded in the Lottery Enterprise Fund and are netted with expenses and transferred monthly to the Education Trust Fund.

Sports Betting Revenue. The Lottery Commission is responsible for the operation and oversight of sports betting in the State. The State has entered into a contract with DraftKings to operate online and retail sports betting locations. DraftKings launched the online betting platform on December 30, 2019. As part of a revenue sharing agreement set forth in the contract, the State receives 51% of gross gaming revenue (“GGR”) relating to online wagering after reduction of permitted promotional costs which may not exceed 15% of GGR. Additionally, DraftKings is permitted to operate up to 10 retail sports betting locations within the state. Currently, two locations are operational with the first location launched in August of 2020 and a second added in September of 2020. The State receives 50% of GGR from retail sports wagering after reduction of permitted promotional costs which may not exceed 10% of GGR.

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. Due to the significant reduction in travel, turnpike toll revenue has been negatively affected by the COVID-19 pandemic. Turnpike monthly revenue (unaudited) in calendar year 2020 was down from prior year by 21.3% in March, 50.8% in April, 39.2% in May, 21.5% in June, 18.6% in July, 16.6% in August, 10.7% in September, 12.9% in October, 20.8% in November and 20.9% in December. Total Turnpike revenues for fiscal year 2021 are currently estimated to decrease 6.9% from fiscal year 2020 and decrease 11.9% from the original fiscal year 2021 budget. The State does not expect to require any General Fund transfers or CARES Act funds be credited to the Turnpike System Revenue Fund. It is assumed that the Turnpike System will continue to see a decline in commuters due to an expected longer term shift to telecommuting. The Department of Transportation is not yet able to quantify any such long-term decline but has engaged a consultant to provide a range of revenue projections into the future. Based on current revenue projections, reductions in operating costs and balance of cash reserves, it is anticipated that all maintenance, operations, debt service and Renewal & Replacement projects will proceed as planned and have sufficient funds to cover forecasted expenses. The currently projected revenue decline will require delay of some capital projects by one to three years beginning in fiscal year 2024.

On January 6, 2021, Senators representing the Town of Merrimack introduced Senate Bill 117-FN in the New Hampshire Senate Transportation Committee with the goal of removing the northbound and southbound toll booths at Exit 10 on the F. E. Everett Turnpike in Merrimack. The Department of Transportation provided the following projections relative to annual transactions, gross toll revenue, toll operations/maintenance costs, and removal costs for the toll plazas.

	Projected		
	FY 2022	FY 2023	FY 2024
Transactions[1]	1,916,315	1,876,857	1,997,775
Gross Toll Revenue[1]	$916,897	$938,433	$955,873
Expenditures – Increase / (Decrease)			
Toll Operations/Maintenance Costs[2]	($618,762)	($631,045)	($643,666)
Toll Removal Costs	$800,000	-	-
Total Net Expenditures	$181,328	($631,045)	($643,666)

[1] Impact of eliminating toll revenue analysis performed by DOT consultant (Stantec Consulting Services, Inc.) on 01/12/21.
[2] Includes personnel costs, utility costs, and other facility operating/maintenance costs, with a 2% annual inflation adjustment.

The above table does not include debt service on the outstanding bonds related to the construction costs of Exit 10 improvements, toll collection system maintenance, or E-ZPass back office system expenditures. Also not factored in is potential costs related to staff lay-offs should any of the seven (7) full-time or four (4) part-time employees working at Exit 10 not be able to be relocated. Therefore, the total net impact of this bill is indeterminable at this time.

The Department of Transportation cannot predict the outcome of the proposed legislation.

Fuel Tax. The State imposes a user fee upon the sale of each gallon of motor fuel sold in the State at the rate of $0.222 per gallon (the “road toll”), 4 cents per gallon for aviation fuel, 2 cents per gallon for private jet fuel, and 0.5 cents per gallon for all aircraft certified to operate under part 121 of the Federal Aviation Administration regulations, which generally applies to scheduled airlines. The proceeds of the road toll are credited to the Highway Fund for highway purposes and uses. Of this amount, $0.0264 of the road toll is allocated to a separate account in the Highway Fund, the Highway and Bridge Betterment Account. Effective July 1, 2014, Chapter 17 of the Laws of 2014 increased the road toll by $0.042 from $0.18 to $0.222 per gallon. All revenue associated with the increase in rate, projected to generate approximately $30 to $34 million annually, is restricted for paving and bridge work, municipal block grant aid, municipal bridge aid, and funding to pay debt service on bonds to be issued to complete the I-93 Salem to Manchester widening project. Chapter 17 of the Laws of 2014 and as amended by Chapter 276:210 and 276:211, Laws of 2015 authorized $200 million in general obligation bonds for this purpose. Subsequent legislation specifically authorized a federal Transportation Infrastructure Finance and Innovation Act (“TIFIA”) loan as an alternative to a traditional general obligation bond issue including, without limitation, a pledge of the revenue collected from adjustments under RSA 260:32-a for rates that exceed $0.18 per gallon less required distributions under RSA 235:23, I, on said revenues. On May 24, 2016, the State entered into the TIFIA financing agreement to fund the construction of the remaining portions of the I-93 project. The loan, which has a 1.09% rural TIFIA interest rate, will fund $200 million in projects on the I-93 corridor from Salem to Manchester, New Hampshire. The debt service payments are funded by a portion of the revenue collected from the increase in the road toll that was effective July 1, 2014. The road toll increase pursuant to Chapter 17 of the Laws of 2014 will expire once all debt service payments for the I-93 project have been made and the financing is fully amortized (June 2034). See “STATE INDEBTEDNESS – Debt Statement.”

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. Transportation related match resources by the State are primarily non-cash Turnpike toll credits. On December 4, 2015, President Obama signed into law the Fixing America’s Surface Transportation Act, or “FAST Act” - the first Federal law in over ten years to provide long-term funding certainty for surface transportation. The FAST Act authorizes $305 billion over federal fiscal years 2016 through 2020 for the US Department of Transportation’s highway, highway and motor vehicle safety, public transportation, motor carrier safety, hazardous materials safety, rail, research, technology and statistics programs. The federal fiscal year 2020 distribution of obligation limitation for the period beginning on October 1, 2019, and ending September 30, 2020 pursuant to the Department of Transportation Appropriations Act is $180.2 million. Reauthorization of a transportation bill is currently being contemplated through Congress. For federal fiscal year 2021, Congress passed an extension of the FAST Act providing level funding for 2021 consistent with federal fiscal year 2020. The State has sought to mitigate the risks associated with the uncertainty of the continued funding of the HTF by monitoring and potentially deferring federally funded infrastructure projects.

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.

Federal Sequestration. Certain federal funding received by the State has been adversely impacted by implementation of certain provisions of the federal Budget Control Act of 2011 (the "Budget Control Act"). The Joint Select Committee on Deficit Reduction failed to reach an agreement on the deficit reduction actions as required by the Budget Control Act and, as a result, sequestration—a unique budgetary feature of the Budget Control Act—was triggered and began on March 1, 2013. Sequestration has and will adversely affect the availability of certain federal funds received annually by the State. Some of the largest sources of federal revenues for the State, however, such as Medicaid reimbursements and federal aid to highways, are generally exempt from sequestration. To date the State has not experienced any serious impact on its programs or financial condition resulting from sequestration. State agencies have managed to address reduced federal funding in a variety of ways - through delays in hiring for open positions, identification of alternative funding sources, reductions in program operating expenditures, and reductions in program grants and benefits awarded.

The State has five outstanding bond issues that are impacted by reduced interest subsidies received due to sequestration. The shortfall in annual interest subsidies has ranged from a high of $511,112 in fiscal year 2014 to $371,335 in fiscal year 2019. On March 13, 2020 the request for the interest subsidy related to the Turnpike System 2009 Series A Bonds May 1, 2020 interest payment was filed with the Internal Revenue Service ("IRS"). Due to the partial refunding of the State's Turnpike Revenue Bonds, 2009 Series A Bonds with the State's Turnpike Revenue Bonds, 2019 Refunding Series issued November 14, 2019, a calculation was made to adjust the requested subsidy amount to account for the impact and timing of the refunding transaction. In a letter dated August, 26, 2020, the IRS requested additional information. The State responded to the IRS request on September 23, 2020, and is currently waiting for a reply, or the remittance of the subsidy, from the IRS.

The State cannot predict at this time what total impact sequestration will have on the State. The State may face reduced federal grant awards in future years as a result of overall efforts to control federal spending. Longer term, adverse effects may also arise due to the economic impacts of reduced federal spending in New Hampshire and New England, including reduced federal funds for research and defense related work and other activities that now receive federal funds, but these effects, if realized, cannot be determined at this time.

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 administrative agencies.

Administration of Justice and Public Protection includes the judicial branch, the departments of justice, safety, corrections and various agencies whose activities relate to the protection of 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 management of other multi-modal 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.

Results of Operations

Fiscal Year 2016

HB 1 and 2, the operating budget for fiscal years 2016-2017, were vetoed by the Governor on June 25, 2015. As a result, the State entered a six-month continuing resolution budget based on appropriations from fiscal year 2015. On September 16, 2015, HB 1 and 2, along with a companion bill, SB 9, were signed into law as Chapters 274, 275, and 276 of the Laws of 2015. The fiscal year 2016 budget as adopted in 2015 assumed the State would start the year with an unassigned General Fund surplus of $49.0 million and a Rainy Day Fund balance of $23.8 million. Fiscal year 2016 did begin with the projected balance of $49.0 million, but the Rainy Day Fund balance was short of the estimate by $1.5 million, at $22.3 million. The results of revenue, expenditures and other estimates for fiscal year 2016 were expected to bring the unassigned General Fund surplus down by $15.5 million, to $32.9 million, with the Rainy Day Fund balance expected to remain unchanged during fiscal year 2016. However, the fiscal year ended with an undesignated General Fund surplus of $88.5 million and a Rainy Day Fund balance of $93.0 million, for a total unassigned balance of $181.5 million.

These positive variances were caused by a number of factors, foremost of which was that actual combined General Fund and Education Trust Fund unrestricted revenues for fiscal year 2016 exceeded plan amounts by $166.5 million. Traditional unrestricted revenue for the General and Education Trust Funds received during fiscal year 2016 totaled $2,457.6 million which was above the fiscal year 2016 Plan of $2,291.1 million by 7.3%. The favorable results as compared to the fiscal year 2016 budget resulted, in part, from the following taxes which performed better than expected: Business Taxes by $132.8 million (23.4%); Meals and Rooms Taxes by $9.8 million (3.4%); Insurance Taxes by $5.1 million (4.3%); Tobacco Taxes by $4.3 million (1.9%); and Real Estate Transfer Taxes by $16.2 million (13.7%). Interest and Dividends Taxes were below the fiscal year 2016 budget by approximately $3.8 million (4.1%) and Communications Taxes were below the fiscal year 2016 budget by $5.7 million (9.8%). The State's other remaining revenue sources combined were approximately $7.8 million above the fiscal year 2016 budget.

Included in the strong revenue collections, the State also experienced a positive variance in the results of the tax amnesty program conducted during a portion of fiscal year 2016 for all taxes collected by the Department of Revenue Administration. The program was expected to generate $16 million above traditional revenue collections; however, actual receipts were approximately $19 million or $3 million more than originally estimated. Not reflected in the traditional unrestricted revenue total above is a one-time settlement received during the year of $307.2 million from the MtBE settlement (see LITIGATION – *State of New Hampshire v. Amerada Hess, et al*). Of this, $30.7 million was transferred to the Rainy Day Fund in accordance with RSA 7:6-e, and the remaining $276.5 million will be held as a component of restricted fund balance, to be administered as the newly established NH Drinking Water and Groundwater Trust fund in accordance with Senate Bill 380 (Chapter 11, 2016 session).

Audited net General Fund and Education Fund appropriations exceeded the fiscal year 2016 budget estimates by $12.8 million (0.5%). The fiscal year 2016 budget of $2,327.9 million included approximately $46.7 million in anticipated lapses that were not achieved during the fiscal year, with actual lapses according to the unaudited results coming in at $40.3 million for a difference of $6.4 million. Appropriations authorized after the passage of the fiscal year 2016 budget via new legislation or existing laws made up the remainder of the increase in net appropriations.

Audited net unfavorable closing adjustments made in accordance with GAAP to bring the budgetary accounting basis to the modified accrual accounting basis totaled $36.7 million for fiscal year 2016. GAAP and other adjustments were not budgeted in fiscal year 2016. The most significant of the GAAP and other adjustments affecting fiscal year 2016 was the recording of the $10.4 million liability and expense as a result of the expected resolution of the *City of Dover v. State of New Hampshire* litigation, representing payment of the entire amount of education adequacy aid withheld due to the cap. Also significant was the increase in the State's share of Medicaid liability required as of June 30, 2016. A General Fund GAAP adjustment of approximately $9.6 million was required to recognize liabilities that have been reported or billed and not yet paid to providers and managed care organizations, as well as liabilities incurred by the same providers and organizations during the same period but not yet reported. The remainder of this unfavorable variance was due to smaller scale increases in other areas, including accounts payable and accrued payroll, due largely to the timing of payments.

The audited results show that the total unassigned General Fund balance at the close of fiscal year 2016 is $181.5 million, consisting of $88.5 million of undesignated fund balance and $93.0 million in the Rainy Day Fund. Per Ch. 264:5, Laws of 2016, as fiscal year 2016 audited financial results confirmed that unrestricted General Fund and Education Trust Fund revenues exceeded plan, an amount not to exceed $40 million was transferred to the Revenue Stabilization Reserve Account, bringing that balance to $93 million, and the $88.5 million undesignated balance exceeded the anticipated budget balance of $32.9 million by $55.6 million.

For information regarding the audit for fiscal year 2016, see "FINANCIAL STATEMENTS."

Fiscal Year 2017

The fiscal year 2017 budget as adopted in 2015 assumed the State would start the year with an unassigned General Fund surplus of $32.9 million and a Rainy Day Fund balance of $23.8 million; however, based on positive variances in fiscal year 2016 as noted above, fiscal year 2017 began with an undesignated General Fund surplus of $88.5 million and a Rainy Day Fund balance of $93.0 million, for a total unassigned balance of $181.5 million.

Positive variances continued in fiscal year 2017 as combined General Fund and Education Trust Fund unrestricted revenues exceeded plan amounts by $96.1 million. Traditional unrestricted revenue for the General and Education Trust Funds received during fiscal year 2017 totaled $2,407.5 million which was above the fiscal year 2017 plan of $2,311.4 million by 4.2%. The favorable results as compared to the fiscal year 2017 budget resulted, in part, from the following taxes that performed better than expected: Business Taxes by $72.7 million (12.9%); Real Estate Transfer Taxes by $15.3 million (12.1%); Meals and Rooms Taxes by $7.3 million (2.4%); and Insurance Taxes by $7.5 million (6.6%). Interest and Dividends Taxes were below the fiscal year 2017 budget by approximately $1.7 million (1.8%), as well as Tobacco Taxes below budget by $3.1 million (1.4%) and Communications Taxes below budget by $11.3 million (19.3%). The State's other remaining revenue sources combined were approximately $9.4 million above the fiscal year 2017 budget.

Net General Fund and Education Fund appropriations exceeded the fiscal year 2017 budget estimates by $124.1 million (5.3%). Appropriations authorized after the passage of the fiscal year 2017 budget via new legislation or existing laws increased net appropriations by approximately $142 million. The additional appropriations utilized the majority of the beginning undesignated General Fund surplus carried forward from fiscal year 2016. In addition, the Legislature authorized a transfer of $13.9 million of General Fund surplus to the Highway Fund for fiscal year 2017. Offsetting the impact of additional appropriations and transfers to other funds were favorable lapses of combined General Fund and Education Fund appropriations. The fiscal year 2017 original budget of $2,353.6 million included $47 million in anticipated lapses, while actual lapses according to the audited results came in at $63.3 million for a difference of $16.3 million.

Audited net favorable closing adjustments made in accordance with GAAP to bring the budgetary accounting basis to the modified accrual accounting basis totaled $22 million for fiscal year 2017. GAAP and other adjustments were not budgeted in fiscal year 2017. The most significant of the GAAP and other adjustments affecting fiscal year 2017 was the reversal of the $10.4 million liability and expense recorded in fiscal year 2016 as a result of the expected resolution of the *City of Dover v. State of New Hampshire* litigation, representing payment of the entire amount of education adequacy aid withheld due to the cap. While this was recorded as a liability reducing 2016 General Fund surplus, a portion of this amount ($9.1 million) was also appropriated to the Education Fund in fiscal year 2017; thus the combined impact resulted in a positive $9.1 million GAAP adjustment in fiscal year 2017. Also contributing to the positive adjustment was a decrease in the annual escheat liability ($3.7 million) and a decrease in the State's share of Medicaid liability ($2.3 million), both measured as of June 30, 2017. The remainder of the variance was due to smaller scale increases or decreases in several other areas.

The audited results show that the total unassigned General Fund balance at the close of fiscal year 2017 was $100.0 million, consisting of $100.0 million in the Rainy Day Fund. Per Chapter 156, Laws of 2017, $7.0 million of fiscal year 2017 audited undesignated fund balance was transferred to the Revenue Stabilization Reserve Account to bring the balance in that account to $100 million and the remaining surplus of $18.7 million was transferred to the Public School Infrastructure Fund established pursuant to RSA 198:15-y.

Fiscal Year 2018

As assumed in the fiscal year 2018 budget as adopted in 2017, fiscal year 2018 began with no undesignated General Fund surplus and a Rainy Day Fund balance of $100.0 million, for a total unassigned General Fund balance of $100.0 million.

Positive variances continued in fiscal year 2018 as combined General Fund and Education Trust Fund unrestricted revenues exceeded plan amounts by $133.3 million. Traditional unrestricted revenue for the General and Education Trust Funds received during fiscal year 2018 totaled $2,577.2 million which was above the fiscal year 2018 plan of $2,443.9 million by 5.5%. The favorable results as compared to the fiscal year 2018 budget resulted, in part, from the following taxes that performed better than expected: Business Taxes by $118.8 million (17.9 %); Meals and Rooms Taxes by $1.9 million (0.6 %); Interest and Dividends Taxes by $9.8 million (10.2%), and Insurance Taxes by $1.4 million (1.2%). Real Estate Transfer Taxes were below the fiscal year 2018 budget by approximately $5.8 million (3.7%), Tobacco Taxes below budget by $3.4 million (1.6%) and Communications Taxes below budget by $0.6 million (1.4%). The State's other remaining revenue sources combined were approximately $11.2 million above fiscal year 2018 budgeted amounts. The DRA believes that a portion of the additional revenue in fiscal year 2018 was due to one-time or temporary impacts from the TCJA. See *"Revenues - Business Enterprise Tax ("BET")"* herein.

Net General Fund and Education Fund appropriations exceeded the fiscal year 2018 budget estimates by $22.4 million (0.92%). Appropriations authorized after the passage of the fiscal year 2018 budget via new legislation or existing laws increased net appropriations by approximately $65.9 million. The additional appropriations utilized a portion of undesignated General Fund surplus revenues from fiscal year 2018. Offsetting the impact of additional appropriations and transfers to other funds were favorable lapses of combined General Fund and Education Fund appropriations. The fiscal year 2018 original budget of $2,443.4 million included $51.0 million in anticipated lapses, while actual lapses according to the audited results came in at $94.8 million for a difference of $43.8 million.

The total unassigned General Fund balance at the close of fiscal year 2018 was $184.4 million, consisting of $110.0 million in the Rainy Day Fund. Per Chapter 162, Laws of 2018, $10.0 million of fiscal year 2018 audited undesignated fund balance was transferred to the Revenue Stabilization Reserve Account to bring the balance in that account to $110 million. In addition, $10 million of fiscal year 2018 surplus revenue was designated for the Public School Infrastructure Fund pursuant to Chapter 349, Laws of 2018.

Fiscal Year 2019

The fiscal year 2019 budget as adopted in 2017 assumed that fiscal year 2019 would begin with no undesignated General Fund surplus; however, fiscal year 2019 actually began with a surplus of $74.4 million and a Rainy Day Fund balance of $110.0 million, for a total unassigned General Fund balance of $184.4 million.

Positive variances continued in fiscal year 2019 as combined General Fund and Education Trust Fund unrestricted revenues exceeded plan amounts by $172.9 million. Traditional unrestricted revenue for the General and Education Trust Funds received during fiscal year 2019 totaled $2,644.6 million which was above the fiscal year 2019 plan of $2,471.7 million by approximately 172.0 million, or 7.0%. The favorable results as compared to the fiscal year 2019 budget resulted, in part, from the following taxes that performed better than expected: Business Taxes by $151.6 million (23.2 %); Meals and Rooms Taxes by $3.6 million (1.0 %); Interest and Dividends Taxes by $16.7 million (17.0%), Insurance Taxes by $17.6 million (15.0%) and Communications Taxes by $0.5 million (1.2%). Real Estate Transfer Taxes were below the fiscal year 2019 budget by approximately $11.5 million (7.0%), and Tobacco Taxes below budget by $12.0 million (5.6%). The State's other remaining revenue sources combined were approximately $5.5 million above fiscal year 2019 budgeted amounts. The DRA believes that a portion of the additional revenue in fiscal year 2019 was due to one-time or temporary impacts from the TCJA. See *"Revenues - Business Enterprise Tax ("BET")"* herein.

The Net General Fund and Education Fund appropriations were less than the fiscal year 2019 budget estimates by $8.3 million (0.3%). Appropriations authorized after the passage of the fiscal year 2019 budget via new legislation or existing laws increased net appropriations by approximately $91.1 million. The additional appropriations utilized a portion of undesignated General Fund surplus revenues from fiscal year 2019. Offsetting the impact of additional appropriations and transfers to other funds were favorable lapses of combined General Fund and Education Fund appropriations. The fiscal year 2019 original budget of $2,471.6 million included $52.0 million in anticipated lapses, while actual lapses were $147.3 million for a difference of $95.3 million.

The total unassigned General Fund balance at the close of fiscal year 2019 was $307.8 million, including $115.3 million in the Rainy Day Fund. During the 2019 legislative session, Chapter 346:240, Laws of 2019, required that $5 million of unrestricted General Fund excess revenue over plan be transferred into the Rainy Day Fund, bringing the balance as of June 30, 2019 to $115.3 million. See also "FINANCIAL STATEMENTS – Fiscal Year 2019."

Fiscal Year 2020

Fiscal year 2020 combined General Fund and Education Trust Fund unrestricted revenues were less than plan amounts by $106.0 million. Unrestricted revenue for the General and Education Trust Funds received during fiscal year 2020 totaled $2,520.2 million which was less than the fiscal year 2020 plan of $2,626.2 million by 4.3%. The unfavorable results as compared to the fiscal year 2020 budget resulted, in part, from the following taxes that performed less than expected due to the COVID-19 pandemic and both state and federal tax deadlines being extended: Business Taxes by $85.3 million (13.0 %), Meals and Rooms Taxes by $53.1 million (15.3 %), Real Estate Transfer Tax by $1.0 million (0.6%), and Communications Taxes by $0.9 million (2.2%). Interest and Dividends Taxes exceeded the fiscal year 2020 budget by $8.8 million (9.0%), Insurance Taxes exceeded budget by $8.9 million (7.6%), and Tobacco Taxes exceeded budget by $16.0 million (7.5%). The State's other remaining revenue sources combined were approximately $0.6 million above fiscal year 2020 budgeted amounts.

The General Fund and Education Fund appropriations plus transfers out to other funds totaled $2,879.9 million, which were higher than the fiscal year 2020 budgeted appropriations of $2,867.3 million (excludes $68.1 million recorded as a surplus transfer, not an appropriation). The net increase of $12.6 million was due to $14.2 million in additional appropriations authorized after the passage of the fiscal year 2020 budget via new or existing legislation, offset by a reduction for certain appropriations designated for fiscal year 2020, which were delayed to fiscal 2021 and one-time expenditures that did not occur due to spending freezes. The fiscal year 2020 additional appropriations utilized a portion of undesignated General Fund surplus revenues from the previous biennium. Offsetting the impact of additional appropriations and transfers to other funds were favorable lapses of combined General Fund and Education Fund appropriations. The fiscal year 2020 original budget included $56.7 million in anticipated lapses, while actual lapses according to the preliminary unaudited results came in at $102.7 million for a difference of $46.0 million, mainly due to the Governor's cost-containment measures and unanticipated federal revenues.

The total unassigned General Fund balance at the close of fiscal year 2020 as set forth in the audited financial statements was $64.3 million, including an undesignated surplus/(deficit) of ($51.2) million net with $115.5 million in the Revenue Stabilization Account. During fiscal year 2020, net General Fund appropriations of $1,688.1 million exceeded General Fund unrestricted revenue of $1,525.4 million by $162.7 million. In addition, legislative actions required transfers out of General Fund surplus to other funds totaling $72.3 million. The combination of net appropriations and transfer out, in excess of unrestricted revenues, as well as minor GAAP and other adjustments, resulted in the $243.7 million decrease in the undesignated fund balance from a positive beginning balance of $192.5 million to a negative ending balance of $51.2 million.

The total unassigned Education Trust Fund balance at the close of fiscal year 2020 was $59.3 million, as compared to beginning of year unassigned fund balance of $78.9 million, a decrease of $19.6 million. This was also due to net Education Trust Fund appropriations in excess of unrestricted Education Trust Fund revenue and transfers in during fiscal year 2020.

The following tables present a comparison of General Fund and Education Trust Fund unrestricted revenues for fiscal years 2016 through 2020, General Fund and Education Trust Fund net appropriations for fiscal years 2016 through 2020, and General Fund and Education Trust Fund undesignated fund balances and the amounts reserved for the Revenue Stabilization Reserve Account for each of the fiscal years 2016 through 2020. The information is derived from the State's audited financial statements.

GENERAL AND EDUCATION TRUST FUND UNRESTRICTED REVENUES
FISCAL YEARS 2016-2020
(GAAP Basis - In Millions)

	FY 2016*			FY 2017			FY 2018			FY 2019			FY 2020		
Revenue Category	**General**	**Education**	**Total**	**General**	**Education**	**Total**	**General**	**Education**	**Total**	**General**	**Education**	**Total**	**General**	**Education**	**Total**
Business Profits Tax	$352.8	$74.2	$427.0	$317.4	$68.4	$385.8	$393.4	$88.9	$482.3	$378.0	$95.5	$473.5	$364.2	$86.6	$450.8
Business Enterprise Tax	91.3	181.0	272.3	83.6	168.4	252.0	87.8	211.0	298.8	96.8	235.3	332.1	45.8	213.2	259.0
Subtotal	444.1	255.2	699.3	401.0	236.8	637.8	481.2	299.9	781.1	474.8	330.8	805.6	410.0	299.8	709.8
Meals & Rooms Tax	292.8	8.5	301.3	306.2	8.6	314.8	322.5	9.2	331.7	340.1	10.0	350.1	306.8	8.6	315.4
Tobacco Tax	132.4	94.7	227.1	128.2	90.4	218.6	124.5	87.1	211.6	119.7	82.7	202.4	127.8	86.2	214.0
Liquor Sales and Distribution	139.8	-	139.8	141.1	-	141.1	136.4	-	136.4	133.5	-	133.5	131.8	-	131.8
Interest & Dividends Tax	89.3	-	89.3	94.3	-	94.3	105.8	-	105.8	114.7	-	114.7	125.7	-	125.7
Insurance Tax	123.4	-	123.4	121.9	-	121.9	115.0	-	115.0	135.1	-	135.1	134.0	-	134.0
Communications Tax	52.4	-	52.4	47.1	-	47.1	43.4	-	43.4	41.2	-	41.2	39.8	-	39.8
Real Estate Transfer Tax	89.7	44.8	134.5	94.5	47.2	141.7	99.4	49.7	149.1	102.0	50.9	152.9	105.6	52.8	158.4
Securities Revenue	43.7	-	43.7	44.6	-	44.6	43.4	-	43.4	42.6	-	42.6	41.6	-	41.6
Lottery Transfers	-	75.9	75.9	-	72.6	72.6		86.1	86.1	-	105.6	105.6	-	99.8	99.8
Racing & Charitable Gaming Commission Transfers	-	3.3	3.3	-	3.5	3.5		1.2	1.2	-	-	-	-	-	-
Tobacco Settlement	1.5	40.0	41.5	2.6	40.0	42.6	5.9	40.0	45.9	4.6	40.0	44.6	2.6	40.0	42.6
Utility Property Tax	-	43.3	43.3	-	41.8	41.8		45.2	45.2	-	39.5	39.5	-	43.3	43.3
State Property Tax	-	363.1	363.1	-	363.4	363.4		363.1	363.1	-	363.1	363.1	-	363.2	363.2
Other	110.6	-	110.6	112.8	-	112.8	114.1		114.1	109.3	-	109.3	96.6	1.1	97.7
Subtotal	1,519.7	928.8	2,448.5	1,494.3	904.3	2,398.6	1,591.6	981.5	2,573.1	1,617.6	1,022.6	2,640.2	1,522.3	994.8	2,517.1
Net Medicaid Enhancement Revenues	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Recoveries	9.1	-	9.1	8.9	-	8.9	4.1	-	4.1	4.4	-	4.4	3.1	-	3.1
Subtotal	1,528.8	928.8	2,457.6	1,503.2	904.3	2,407.5	1,595.7	981.5	2,577.2		1,022.6	2,644.6	1,525.4	994.8	2,520.2
Executive Orders and Special Session Revenues	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total	$1,528.8	$928.8	$2,457.6	$1,503.2	$904.3	$2,407.5	$1,595.7	$981.5	$2,577.2	$1,622.0	$1,022.6	$2,644.6	$1,525.4	$994.8	$2,520.2

* Includes Tax Amnesty Receipts (fiscal year 2016).

GENERAL FUND AND EDUCATION TRUST FUND NET APPROPRIATIONS
FISCAL YEARS 2016-2020
(GAAP Basis – In Millions)

Category of Government	FY 2016 General	FY 2016 Education	FY 2016 Total	FY 2017 General	FY 2017 Education	FY 2017 Total	FY 2018 General	FY 2018 Education	FY 2018 Total	FY 2019 General	FY 2019 Education	FY 2019 Total	FY 2020 General	FY 2020 Education	FY 2020 Total
General Government	$263.3	$-	$263.3	$276.8	$-	$276.8	$274.7	$-	$274.7	$256.2	$-	$256.2	$304.9	$-	$304.9
Justice and Public Protection	247.8	-	247.8	266.1	-	266.1	273.0	-	273.0	288.0	-	288.0	323.4	-	323.4
Resource Protection and Development	31.5	-	31.5	36.5	-	36.5	37.2	-	37.2	38.4	-	38.4	52.8	-	52.8
Transportation	1.0	-	1.0	37.8	-	37.8	20.9	-	20.9	11.3	-	11.3	3.2	-	3.2
Health and Social Services	623.3	-	623.3	679.1	-	679.1	681.3	-	681.3	693.1	-	693.1	825.2	-	825.2
Education	216.9	956.9	1,173.8	214.9	966.5	1,181.4	217.0	961.7	1,178.7	217.8	962.6	1,180.4	178.6	1,085.1	1,263.7
Net Appropriations	$1,383.8	$956.9	$2,340.7	$1,511.2	$966.5	$2,477.7	$1,504.1	$961.7	2,465.8	$1,504.8	$962.6	$2,467.4	$1,688.1	$1,085.1	$2,773.2

GENERAL FUND AND EDUCATION TRUST FUND BALANCES
FISCAL YEARS 2016–2020
(GAAP Basis - In Millions)

	FY 2016			FY 2017			FY 2018			FY 2019			FY 2020		
	General	Education	Total	General	Education	Total	General	Education	Total	General	Education	Total	General	Education	Total
Undesignated Fund Balance, July 1	$49.0	$0.0	$49.0	$88.5	$0.0	$88.5	$0.0	$0.0	$0.0	$74.4	$21.4	$95.8	$192.5	$16.4	$208.9
Additions:															
Unrestricted Revenue	1,528.8	928.8	2,457.6	1,503.2	904.3	2,407.5	1,595.7	981.5	2,577.2	1,622.0	1,022.6	2,644.6	1,525.4	994.8	2,520.2
Executive Orders and Special Session Revenues	30.7	-	30.7	-	-	-	-	-	-	-	-	-	-	-	-
Total Additions	$1,559.5	$928.8	$2,488.3	$1,503.2	$904.3	$2,407.5	$1,595.7	$981.5	$2,577.2	$1,622.0	$1,022.6	$2,644.6	1,525.4	994.8	2,520.2
Deductions:															
Appropriations Net of Estimated Revenues	(1,423.7)	(957.3)	(2,381.0)	(1,425.7)	(973.1)	(2,398.8)	(1,533.1)	(961.6)	(2,494.7)	(1,573.2)	(950.4)	(2,523.6)	(1,777.0)	(1,084.7)	2,861.7)
COC Appropriation Adjustments	-	-	-	(133.1)	(9.1)	(142.2)	(64.4)	(1.5)	(65.9)	(76.5)	(14.6)	(91.1)	(13.8)	(0.4)	(14.2)
Special Session Reductions	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Less: Lapses	39.9	0.4	40.3	47.6	15.7	63.3	93.4	1.4	94.8	144.9	2.4	147.3	102.7	-	102.7
Total Net Appropriations	(1,383.8)	(956.9)	(2,340.7)	(1,511.2)	(966.5)	(2,477.7)	(1,504.1)	(961.7)	(2,465.8)	(1,504.8)	(962.6)	(2,467.4)	(1,688.1))	(1,085.1)	(2,773.2)
GAAP and Other Adjustments	(36.7)	-	(36.7)	22.0	-	-	(0.6)	1.6	1.0	9.7	(2.5)	7.2	(8.7)	2.6	(6.1)
Other One time Revenue Adjustments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Current Year Balance	139.0	(28.1)	110.9	14.0	(62.2)	(48.2)	91.0	21.4	112.4	126.9	57.5	184.4	(171.4)	(87.7)	(259.1))
Transfers (to)/from:															
Rainy Day Fund	(70.7)	-	(70.7)	(7.0)	-	(7.0)	(10.0)	-	(10.0)	(5.3)	-	(5.3)	(0.2)	-	(0.2)
Public School Infrastructure Fund	-	-	-	(18.7)	-	(18.7)	(6.6)	-	(6.6)	(3.5)	-	(3.5)	-	-	-
Highway Fund	-	-	-	(13.9)	-	(13.9)	-	-	-	-	-	-	(4.0)	-	(4.0)
Fish & Game Fund	(0.7)	-	(0.7)	(0.7)	-	(0.7)	-	-	-	-	-	-	-	-	-
Education Trust Fund	(28.1)	28.1	-	(62.2)	62.2	-	-	-	-	-	-	-	(68.1)	68.1	-
Designated for Education Aid, June 30	-	-	-	-	-	-	-	-	-	-	62.5	62.5	-	62.5	62.5
Undesignated Fund Balance, June 30	88.5	(0.0)	88.5[1]	-	-	-	74.4	21.4	95.8	192.5	16.4	208.9	(51.2)	(3.2)	(54.4)
Reserved for Revenue Stabilization Account	93.0	-	93.0	100.0	-	100.0	110.0	-	110.0	115.3	-	115.3	115.5	-	115.5
Total Equity	$181.5	$0.0	$181.5	$100.0	-	$100.0	$184.4	$21.4	$205.8	$307.8	$78.9	$386.7	$64.3	$59.3	$123.6

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(1) Per Ch. 264:5, Laws of 2016, to the extent the audited financial statements for fiscal year 2016 showed that GF/ETF Revenues exceeded the plan, an amount not to exceed $40 million would be transferred to the Revenue Stabilization Reserve Account. The State's audited financial statements reported revenues approximately $151 million in excess of plan for fiscal year 2016; therefore the full $40 million authorized by law was transferred at the conclusion of the audit, bringing the current balance in the Revenue Stabilization Reserve Account, in addition to $30.7 million representing 10% of the MtBE settlement, to $93 million, and $88.5 million remained in the General Fund.

Operating Budget Fiscal Years 2020 and 2021

General and Education Trust Funds. On June 28, 2019, the Governor vetoed the operating budget for fiscal years 2020 and 2021 citing concerns regarding the fiscal sustainability of the budget passed by the Legislature, which included increases in business taxes. Chapter 145, Laws of 2019 was concurrently signed by the Governor and became law, and provided State agencies with funding consistent with fiscal year 2019 levels through September 30, 2019. Chapters 345 and 346 of the Laws of 2019, the operating budget for fiscal years 2020 and 2021, were signed by the Governor and became law on September 26, 2019. The following discussion describes the original biennial budget as enacted into law prior to the onset of the COVID-19 global pandemic and the resulting impact on the State's people, businesses, economy and budget.

To address the Governor's concerns regarding the use of one-time revenues for ongoing expenses, the enacted operating budget used the State's budget surpluses to provide $40 million in one-time capital grants to municipalities over the biennium and $62.5 million in one-time capital grants to school districts in fiscal year 2021.

The enacted budget instituted hold harmless grants to school districts to offset reductions in enrollment, resulting in an increase in educational grants of $35.2 million in fiscal year 2020 and $41.6 million in fiscal year 2021. The budget also provided for 3.1% annual rate increases for Medicaid service providers, fully funded the waitlist of developmental disability services, and provided a $20.1 million increase for mental health services.

General and Education Trust Fund revenue estimates for fiscal years 2020 and 2021 were originally $2,626 million and $2,656 million, respectively. The budget provided for conformity with the federal Internal Revenue Code (IRC) for State business tax purposes. The budget also legalized sports betting and provided for the taxation of non-tobacco cessation electronic cigarettes.

The fiscal years 2020 and 2021 budget repealed the statutory 2021 business tax rate reductions and instituted triggered business tax rate adjustments based on State revenues. If revenues came in 6% ($157.6 million) below the fiscal year 2020 estimate, effective January 1, 2021, the Business Profits Tax rate would increase from 7.7% to 7.9% and the Business Enterprise Tax would increase from 0.6% to 0.675%.

If revenues came in 6% ($157.6 million) above fiscal year 2021 estimate, effective January 1, 2021, the Business Profits Tax rate would decrease from 7.7% to 7.5% and the Business Enterprise Tax would decrease from 0.6% to 0.5%.

Fiscal year 2020 revenues were $106 million below plan, which did not trigger any changes in Business Profits Tax and Business Enterprise Tax rates.

Total net operating appropriations (including estimated lapse) for the General and Education Trust Funds for fiscal years 2020 and 2021 are $2,879 million and $2,682 million, respectively. General Fund lapse estimates are $56.7 million and $75.4 million for fiscal years 2020 and 2021, respectively. Noteworthy budget initiatives include:

- Establishes the Department of Military Affairs and Veterans Services, combining the Adjutant General's Department, the Office of Veteran Services, and the Bureau of Community-Based Military Programs into a new one-stop-shop for veterans. This will streamline services, reduce redundancies and provide efficiencies.
- Administratively attaches various small agencies to larger departments in order to leverage the economies of scale of existing State human resource and financial staff.
- Provides funding to the Community College System of New Hampshire and the University System of New Hampshire to freeze resident in-state tuition for academic years 2020 and 2021.
- Provides funding to the University of New Hampshire to expand the nursing program to double the number of nursing graduates.
- Funds important capital projects with surplus funds including $3.25 million to rebuild the State Fish Pier in Portsmouth, $1.5 million to repair the Ossipee Lake Dam, and $8.75 million to begin the design and construction of a new State Psychiatric Hospital.

Chapter 346, Laws of 2019 also provided $500,000 to fund an independent sixteen member "Commission to Study School Funding." The commission submitted its report to the State legislature on December 1, 2020. Among other findings, the commission found that the current system of school funding "fails to direct aid to more needy communities in a meaningful manner" resulting in lower student outcomes in those communities. The commission found that "[a] weighted funding formula that allocates funding to districts according to the costs facing each district is the most effective way to address disparities in student outcomes." It also recommends that to the extent a statewide education property tax is used in any reformed funding formula, the State discontinue the current system whereby municipalities retain any excess statewide property tax collected in such municipality and not needed to fund the adequate education grant from the State. As any reforms to the State school funding mechanism would need to be enacted by the Legislature, it is unknown at this time, if any of the recommendations or proposals in the Commission's report will result in changes to the current system of State public school funding.

Highway Funds. Total net operating appropriations (including estimated lapses) for the Highway Fund for fiscal years 2020 and 2021 are $242.8 million and $251.6 million, respectively. Spending is not directly comparable to years prior to fiscal years 2016-2017 because of changes made to the way the Highway Fund is budgeted. In the fiscal years 2016-2017 budget, in accordance with the New Hampshire Constitution, Article 6-a "Use of Certain Revenues Restricted to Highways," the cost of collections is recorded as restricted revenue, and the remainder of the revenue, after providing for the cost of collection, is deposited into the Highway Fund. This change reduced unrestricted Highway Fund revenue and appropriations by approximately $28.9 million in fiscal year 2016 and $29.7 million in fiscal year 2017. In addition, on May 20, 2014, Chapter 17 of the Laws of 2014 ("Chapter 17") increased the State's motor vehicle fuel fee by 4.2 cents per gallon beginning on July 1, 2014. This was the first increase in the State's motor vehicle fuel fee since 1991. The proceeds of this increase are dedicated to certain infrastructure projects throughout the State, such as the continuation of the widening of Interstate 93, resurfacing and rehabilitation of secondary roadways, and rehabilitation and reconstruction of municipal bridges. The increase provided under Chapter 17 will expire once all debt service payments on bonds to be issued to finance the I-93 widening project have been made. Further, the State pledged the incremental revenue from Chapter 17 for the purpose of entering into the $200 million federal Transportation Infrastructure Finance and Innovation Act credit program which reduces anticipated expenditures for repayment of the I-93 debt service by offering a lower interest rate and deferred principal payments for nine years.

The budget for fiscal years 2020 and 2021 transferred $4.5 million of surplus general funds from the prior biennium to the Highway Fund as unrestricted revenue. The amount transferred in fiscal year 2020 was $3.9 million.

Highway Fund revenues are collected from the Road Toll (fuel tax) and motor vehicle related fees including licenses, registrations, and violations. Fiscal year 2020 gross unrestricted Highway Fund collections totaled $248.1 million, which was $10.8 million (4.2%) less than plan ($258.9 million). Road Toll (fuel tax) collections were significantly impacted by COVID-19 due to declines in gasoline consumption and ended the year $10.4 million (8.7%) lower than plan. Motor vehicle related collections were also slightly impacted by COVID-19 and ended the year $404,000 (0.5%) lower than plan. Similar trends have continued into fiscal year 2021 due to decreased mobility associated with public health guidelines. Fiscal year 2021 gross unrestricted Highway Fund collections are currently projected to reach $238.1 million, which is $17.9 million (7.0%) less than plan ($256.0 million). Road Toll collections are currently projected to be down $18.0 million (13.6%) from plan while motor vehicle related collections are projected to be within $100,000 of plan at $123.5 million (99.9% of plan).

Fish and Game Funds. Total net operating appropriations (including estimated lapses) for the Fish and Game Fund for fiscal years 2020 and 2021 are $12.7 million and $12.9 million, respectively. The Fish and Game Fund is a major State fund that has historically been kept separate from the General Fund. It accounts for the operation of fish hatcheries, inland and marine fisheries and wildlife areas and functions related to law enforcement, land acquisition and wildlife management and research. Principal revenues include fees from fish and game licenses, the marine gas tax, penalties, recoveries, federal grants-in-aid related to fish and game management and other funding as approved by the Legislature.

Fish and Game Fund revenue of $15.9 million for fiscal year 2020 was $3 million (24%) above plan. Appropriations were $14 million and lapses were $1.3 million, $0.1 million more than was assumed in the budget due to the Governor's cost-containment measures. The Fish and Game Fund ended fiscal year 2020 with a cash surplus of $6 million, which was $2.5 million higher than budget.

Current Estimates for Fiscal Year 2021

The analysis included in this section for fiscal year 2021 includes updated data current as of the introduction of Governor Sununu's proposed operating budget for fiscal years 2022-2023 on February 15, 2021. An executive summary of the proposed operating budget has been released by the Department of Administrative Services*. The proposed budget projects year-end data for fiscal year 2021 accompanied by revenue and appropriation projections for fiscal years 2022 and 2023.

The adopted budget for fiscal year 2020 contemplated the use of both current year revenues and fund balance carried forward from the prior biennium, to support current year spending. Due to the unusually high level of unrestricted revenues collected in fiscal year 2019 as a result of the impact of federal tax law changes, fiscal year 2019 closed with a large undesignated fund balance of $208.9 million. The Legislature had enacted Chapter 345, Laws of 2019, which resulted in a cap on the amount of unrestricted General fund excess revenues over plan to be transferred into the Rainy Day fund, thereby leaving a large undesignated balance to be carried over to the next biennium. The Legislature approved additional spending for fiscal year 2020 against a portion of the undesignated balance as of the beginning of fiscal year 2020, largely representing one-time initiatives. The adopted budget for the fiscal years 2020 and 2021 assumed an ending undesignated fund balance of $27.1 million for fiscal year 2020.

The actual General and Education Trust Fund undesignated balance at the end of fiscal year 2020 was ($54.4) million, which, when compared to the ending fund balance projected in the adopted budget for fiscal year 2020 of $27.1 million, represents a shortfall of $81.5 million leading in to fiscal year 2021, compared to what had been anticipated. While uncertainty remains due to the COVID-19 pandemic, the State currently estimates that fiscal year 2021 General and Education Trust Fund revenues will be $2,750.0 million, which is above plan by $94 million (3.5%). Lapses are estimated to be $150.5 million, which is also above plan by $75.1 million (99.6%). These higher than expected lapse estimates are due to cost-containment measures taken by the executive branch to reduce an anticipated deficit at the close of fiscal year 2021†. Given these estimates, the State currently expects the fiscal year 2021 General and Education Trust Fund undesignated balance to be approximately ($30.2) million. The State continues to monitor revenues and constrain non-essential expenses and believes that any biennial deficit can be covered by the State's existing Rainy Day Fund balance of $115.5 million.

The budgeted amounts for fiscal year 2021 are based on information from Chapter 345, Laws of 2019 (referred to as the fiscal years 2020-2021 operating budget), which was signed into law on September 26, 2019, along with adjustments from the Comparative Statement of Undesignated Surplus, prepared by the State's Legislative Budget Assistant, which represent agreed upon budget adjustments both for revenues and appropriations that resulted from legislation passed outside of the fiscal years 2020-2021 operating budget, primarily in Chapter 346, Laws of 2019. The following tables present a comparison of General Fund and Education Trust Fund unrestricted revenues (page 40), net appropriations (page 41), and surplus balances (page 42) for fiscal years 2019 and 2020, and budgeted amounts for fiscal year 2021. Since the budget adjustments are summarized at levels different than those contained in the following tables, allocations and estimates were used to provide a presentation most comparable to prior years; the actual results for fiscal year 2021 may vary from those presented in the tables.

The budgeted amounts shown below for fiscal year 2021 are the amounts originally contained in the adopted budget, which was based on information and estimates prior to the COVID-19 pandemic. No further legislative action is anticipated with respect to the fiscal year 2021 budget. Due to the effects of COVID-19, the actual results for fiscal year 2021 will vary from those presented in the tables.

The legislature may adopt different assumptions for fiscal year 2021 as it considers the Governor's proposed budget for fiscal years 2022-2023. Among the initiatives contained in the Governor's budget proposal are a merger of University System of New Hampshire with the Community College System of New Hampshire, both being component units of the State, to form a unified system of public higher education. The Governor's budget as introduced included proposals to reduce the Business Enterprise Tax from 0.6% to 0.55% and the meals & rentals tax from 9.0% to 8.5% beginning in fiscal year 2022. A separate proposal would eliminate the Interest and Dividends tax over a five-year period beginning in fiscal year 2023. The budget proposes a one-time appropriation of $30 million to the Public School

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* A copy of the executive summary can be found at: https://das.nh.gov/budget/Budget2022-2023/Executive-Summary-FY22-23.pdf

† Additional detail on cost containment measures, including a state hiring freeze can be found herein under "COVID-19 GLOBAL PANDEMIC – Effects of the COVID-19 Pandemic on State Finances."

Infrastructure Fund to support capital and energy efficient investments. These proposals will be vetted by the legislature prior to the beginning of fiscal year 2022 when the next biennial budget would take effect once enacted.

GENERAL FUND AND EDUCATION TRUST FUND UNRESTRICTED REVENUES
ACTUAL AND BUDGET
FISCAL YEARS 2019-2021
(GAAP Basis - In Millions)

		FY 2019			FY 2020			Operating Budget 2021[1]	
Revenue Category	**General**	**Education**	**Total**	**General**	**Education**	**Total**	**General**	**Education**	**Total**
Business Profits Tax	$ 378.0	$ 95.5	$473.5	$364.2	$86.6	$450.8	$ 402.3	$ 94.0	$ 496.3
Business Enterprise Tax	96.8	235.3	332.1	45.8	213.2	259.0	49.8	239.9	289.7
Subtotal	474.8	330.8	805.6	410.0	299.8	709.8	452.1	333.9	786.0
Meals and Rooms Tax	340.1	10.0	350.1	306.8	8.6	315.4	375.3	11.6	386.9
Tobacco Tax	119.7	82.7	202.4	127.8	86.2	214.0	112.7	88.5	201.2
Liquor Sales and Distribution	133.5	-	133.5	131.8	-	131.8	133.8	-	133.8
Interest & Dividends Tax	114.7	-	114.7	125.7	-	125.7	116.9	-	116.9
Insurance Tax	135.1	-	135.1	134.0	-	134.0	130.9	-	130.9
Communications Tax	41.2	-	41.2	39.8	-	39.8	39.8	-	39.8
Real Estate Transfer Tax	102.0	50.9	152.9	105.6	52.8	158.4	104.5	53.9	158.4
Securities Revenue	42.6	-	42.6	41.6	-	41.6	44.3	-	44.3
Transfers from Lottery Commission	-	105.6	105.6	-	99.8	99.8	-	110.4	110.4
Transfers from Racing & Charitable Gaming Commission	-	-	-	-	-	-	-	-	-
Tobacco Settlement	4.6	40.0	44.6	2.6	40.0-	42.6	-	39.2	39.2
Utility Property Tax	-	39.5	39.5	-	43.3	43.3	-	44.2	44.2
State Property Tax	-	363.1	363.1	-	363.2	363.2	-	363.1	363.1
Other	109.3	-	109.3	96.6	1.1	97.7	97.6	-	97.6
Subtotal	1,617.6	1,022.6	2,640.2	1,522.3	994.8	2,517.1	1,607.9	1,044.8	2,652.7
Recoveries	4.4	-	4.4	3.1	-	3.1	3.3	-	3.3
Total	$1,622.0	$1,022.6	$2,644.6	$1,525.4	$994.8	$2,520.2	$1,611.2	$1,044.8	$2,656.0

[1] As stated above, the operating budget for fiscal year 2021 represents revenues included in Chapter 345, Laws of 2019, plus certain adjustments from the Legislative Budget Assistant Surplus Statement. The operating budget for fiscal year 2021 was adopted prior to the onset of the COVID-19 pandemic and accordingly the fiscal year 2021 information shown above does not reflect its potential impact. See *"Current Estimates for Fiscal Year 2021"* above.

GENERAL FUND AND EDUCATION TRUST FUND APPROPRIATIONS NET OF ESTIMATED REVENUES
ACTUAL AND BUDGET
FISCAL YEARS 2019-2021
(In Millions)

	Actual Fiscal Year 2019*			Actual Fiscal Year 2020*			Operating Budget Fiscal Year 2021*		
Category	**General**	**Education**	**Total**	**General**	**Education**	**Total**	**General**	**Education**	**Total**
General Government	$256.2	$-	$256.2	$304.9	$-	$304.9	$272.0	$-	$272.0
Justice and Public Protection	288.0	-	288.0	323.4	-	323.4	330.6	-	330.6
Resource Protection and Development	38.4	-	38.4	52.8	-	52.8	48.8	-	48.8
Transportation	11.3	-	11.3	3.2	-	3.2	1.4	-	1.4
Health and Social Services	693.1	-	693.1	825.2	-	825.2	839.9	-	839.9
Education	217.8	962.6	1,180.4	178.6	1,085.1	1,263.7	174.9	1,078.6	1,253.5
Total	$1,504.8	$962.6	$2,467.4	$1,688.1	$1,085.1	$2,773.2	$1,667.6	$1,078.6	2,746.2
Appropriation Adjustments	-	-	-	-	-	-	11.1	62.5	73.6
Lapses	-	-	-	-	-	-	(75.4)	-	(75.4)
Total Net Appropriations	$1,504.8	$962.6	$2,467.4	$1,688.1	$1,085.1	$2,773.2	$1,603.3	$1,141.1	$2,744.4

* Appropriation adjustments and lapses are not known by category of government until fiscal year end. Accordingly, the actual fiscal year 2019 and preliminary unaudited 2020 appropriations by category are net of adjustments and lapses, while the budgeted appropriations by category for fiscal year 2021 are not. Total net appropriations budgeted for fiscal year 2021 are shown below the budgeted appropriations by category. As stated above, the operating budget for fiscal year 2021 represents appropriations included in Chapter 345, Laws of 2019, plus certain adjustments from the Legislative Budget Assistant Surplus Statement. The operating budget for fiscal year 2021 was adopted prior to the onset of the COVID-19 pandemic and accordingly the fiscal year 2021 information shown above does not reflect its potential impact. See "*Current Estimates for Fiscal Year 2021*" above.

GENERAL FUND AND EDUCATION TRUST FUND BALANCES
FISCAL YEARS 2019 – 2021
(GAAP Basis - In Millions)

	Actual FY 2019			Actual FY 2020			Operating Budget FY 2021[(1)]		
	General	**Education**	**Total**	**General**	**Education**	**Total**	**General**	**Education**	**Total**
Undesignated Fund Balance, July 1	$74.4	$21.4	$95.8	$192.5	$16.4	$208.9	$ (6.7)	$33.8	$27.1
Designated for Education Aid, July 1								62.5	62.5
Additions:									
Unrestricted Revenue	1,622.0	1,022.6	2,644.6	1,525.4	994.8	2,520.2	1,611.2	1,044.8	2,656.0
Other Additions	-	-	-	-	-	-	-	-	-
Total Additions	$1,622.0	$1,022.6	$2,644.6	$1,525.4	$994.8	$2,520.2	1,611.2	1,044.8	2,656.0
Deductions:									
Appropriations Net of Estimated Revenues	(1,573.2)	(950.4)	(2,523.6)	(1,777.0)	(1,084.7)	(2,861.7)	(1,667.6)	(1,078.6)	(2,746.2)
Appropriation Adjustments	(76.5)	(14.6)	(91.1)	(13.8)	(0.4)	(14.2)	(11.1)	(62.5)	(73.6)
Special Session Reductions	-	-	-	-	-	-	-	-	-
Less: Lapses	144.9	2.4	147.3	102.7	-	102.7	75.4	-	75.4
Total Net Appropriations	(1,504.8)	(962.6)	(2,467.4)	(1,668.1)	(1,085.1)	(2,773.2)	(1,603.3)	(1,141.1)	(2,744.4)
GAAP and Other Adjustments	9.7	(2.5)	7.2	(8.7)	2.6	(6.1)	-	-	-
Other One time Revenue Adjustments	-	-	-	-	-	-	-	-	-
Current Year Balance	126.9	57.5	184.4	(171.4)	(87.7)	(259.1)	7.9	(96.3)	(88.4)
Transfers (to)/from:									
Rainy Day Fund	(5.3)	-	(5.3)	(0.2)	-	(0.2)	(1.2)	-	(1.2)
Public School Infrastructure Fund	(3.5)	-	(3.5)	-	-	-	-	-	-
Highway Fund	-	-	-	(4.0)	-	(4.0)	-	-	-
Fish & Game Fund	-	-	-	-	-	-	-	-	-
Education Trust Fund	-	-	-	(68.1)	68.1	-	-	-	-
Designated for Education Aid, June 30	-	62.5	62.5	-	62.5	62.5	-	-	-
Undesignated Fund Balance, June 30	192.5	16.4	208.9	(51.2)	(3.2)	(54.4)	0.0	-	0.0
Reserved for Revenue Stabilization Account	115.3	-	115.3	115.5	-	115.5	116.2	-	116.2
Total Equity	$307.8	$78.9	$386.7	$64.3	$59.3	$123.6	$116.2	-	$116.2

[(1)] As noted above on page 39, the budgeted amounts for fiscal year 2021 are based on information from the fiscal years 2020-2021 operating budget, along with certain adjustments prepared by the State's Legislative Budget Assistant. As such, the amounts stated in the table above for the Undesignated Fund Balance at July 1, 2020, the amounts reserved for the Revenue Stabilization Account at June 30, 2021 and resulting Total Equity, do not reflect the actual Undesignated Fund Balance and the actual amount reserved for the Revenue Stabilization Account and resulting Total Equity at June 30, 2020. In addition, the operating budget for fiscal year 2021 was adopted prior to the onset of the COVID-19 pandemic and accordingly the fiscal year 2021 information shown above does not reflect its potential impact. See "*Current Estimates for Fiscal Year 2021*" above.

Fiscal Year 2021 Revenue Performance for the Eight Months Ended February 28, 2021 (Unaudited)

The interim revenue reporting is prepared on a cash basis of accounting, in order to give readers a general sense as to how cash deposits of unrestricted revenues are tracking throughout the fiscal year. However, in accordance with generally accepted accounting standards, each year the State makes adjustments to its cash basis fiscal year totals, in order to present unrestricted revenue results, on a modified accrual basis of accounting. Modified accrual accounting requires the State to recognize collections within sixty days after the close of fiscal year-end in the fiscal period to which they are attributed. This annual adjustment is reflected in the State's annual comprehensive financial report (Annual Financial Report). However, due to the COVID-19 pandemic and the impact of the extended federal tax filing deadline on the timing of the collection of State tax revenues, there was a significant increase in the amount of the standard accrual adjustment resulting in anomalous excess accrued revenue of $30.8 million which was reclassified from fiscal year 2021 cash basis revenue to fiscal year 2020 modified accrual revenue in the Annual Financial Report released in December 2020. The adjustment is allocated as follows:

Revenue Category	Amounts Attributed to and Reported in FY 20 ($ millions)
Business Tax	$18.3
Tobacco Tax	1.3
Real Estate Transfer	0.2
Meals & Rooms Tax	1.6
Communications Tax	0.2
Interest & Dividends Tax	9.2
Total Adjustment	**$30.8**

The analysis below does not reflect this $30.8 million adjustment.

Unrestricted revenue for the General and Education Funds received for the eight months ending February 28, 2021 on a cash basis totaled $1,361.8 million, which was above plan by $133.7 million (10.9%) and above prior year by $147.7 million (12.2%). When comparing fiscal year 2021 actual results to the same period in fiscal year 2020 and the fiscal year 2021 revenue plan amounts on a cash basis, the results were as follows:

- Business Tax revenues through February 28, 2021 totaled $463.6 million, which were $89.1 million (23.8%) above plan and $94.9 million (25.7%) above prior year. According to the Department of Revenue Administration (DRA), the increase in monthly revenue for February, as compared to plan, was largely due to anomalous tax notice payments followed by an increase in return, estimates, and extension payments along with a decrease in refund payments for the month compared to prior year.

- Meals and Rooms Tax collections through February 28, 2021 totaled $212.5 million, or $57.7 million (21.4%) below plan and $42.5 million (16.7%) below prior year. According to DRA, February collections (January activity) from hotels were down 24.0% and taxable meals were down 9.7% from the same month last year.

- Tobacco Tax receipts through February 28, 2021 of $164.5 million were $30.4 million (22.7%) above plan and $30.7 million (22.9%) above prior year. According to the DRA, stamp sales were up 27% in February as compared to the same month of the prior year. In addition, bond receivable balance is more than the same month of the prior year by 55%.

- Interest and Dividend Tax receipts through February 28, 2021 of $67.5 million were $20.3 million (43.0%) above plan and $22.4 million (49.7%) above prior year. DRA has reported that the change in February interest and dividend collections compared to prior year were attributable to increases in refunds as well as decreases in return payments offset by increases in estimate, extension, and tax notice payments.

- Real Estate Transfer Taxes collections through February 28, 2021 of $141.7 million were $28.7 million (25.4%) above plan and $22.2 million (18.6%) above prior year. According to DRA, the number of transactions reported by the counties for the month of February (January collections) was up 14.4% compared to the prior year, and transaction values for the activity reported by the counties were up 27.1% over the same month last year.

When reviewing unrestricted revenue results on an interim basis, it is important to note that the revenue plan adopted in the state budget is an annual plan. Monthly allocations are estimated based on past experience and are not necessarily indicative of where the state will end the fiscal year, as many of the larger collection periods occur in the second half of the fiscal year for significant unrestricted revenue sources.

STATE OF NEW HAMPSHIRE
GENERAL AND EDUCATION FUNDS UNRESTRICTED REVENUES
FOR THE EIGHT MONTHS ENDED FEBRUARY 28, 2021 (UNAUDITED)
(In Millions)

Revenue Category	FY 21 Actual	FY 20 Actual	FY 21 Plan	FY 2021 vs Plan Variance	FY 2021 vs Plan % Change	FY 2021 vs FY 2020 Variance	FY 2021 vs FY 2020 % Change
Business Profits Tax	$314.8	$230.6	$237.3	$77.5	32.7%	$84.2	36.5%
Business Enterprise Tax	148.8	138.1	137.2	11.6	8.5%	10.7	7.7%
Subtotal	463.6	368.7	374.5	89.1	23.8%	94.9	25.7%
Meals & Rooms Tax	212.5	255.0	270.2	(57.7)	-21.4%	(42.5)	-16.7%
Tobacco Tax	164.5	133.8	134.1	30.4	22.7%	30.7	22.9%
Transfer from Liquor Commission	89.8	89.5	85.4	4.4	5.2%	0.3	0.3%
Interest & Dividends Tax	67.5	45.1	47.2	20.3	43.0%	22.4	49.7%
Insurance Tax	20.4	20.2	20.2	0.2	1.0%	0.2	1.0%
Communications Tax	26.6	26.1	27.0	(0.4)	-1.5%	0.5	1.9%
Real Estate Transfer Tax	141.7	119.5	113.0	28.7	25.4%	22.2	18.6%
Securities Revenue	16.8	16.2	17.2	(0.4)	-2.3%	0.6	3.7%
Transfers from Lottery Commission*	85.8	60.3	64.0	21.8	34.1%	25.5	42.3%
Tobacco Settlement	-	-	-	-	0.0%	-	0.0%
Utility Property Tax	22.9	22.5	22.9	-	0.0%	0.4	1.8%
State Property Tax	-	-	-	-	0.0%	-	0.0%
Other	47.6	55.1	50.2	(2.6)	-5.2%	(7.5)	-13.6%
Subtotal	1,359.7	1,212.0	1,225.9	133.8	10.9%	147.7	12.2%
Recoveries	2.1	2.1	2.2	(0.1)	-4.5%	-	0.0%
Total	$1,361.8	$1,214.1	$1,228.1	$133.7	10.9%	$147.7	12.2%
Reduction for Anomalous Accruals Attributed to FY 20	(30.8)	-	-	(30.8)	100.0%	(30.8)	100.0%
Cash Receipts Attributable to FY 21	$1,331.0	$1,214.1	$1,228.1	$102.9	8.4%	$116.9	9.6%

*Includes Racing & Charitable Gaming Commission.

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 certain 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 ("PPACA") has reduced states' ability to reduce eligibility categories. The maintenance-of-effort ("MOE") requirements in ACA were effective until the state exchanges were operational (2014), but the MOE for children was through fiscal year 2019. The federal government and the state share responsibility for financing Medicaid. The federal government matches state Medicaid spending at rates that vary depending on state per capita income.

As of January 31, 2021, 212,351 adults and children with full benefits were enrolled in the New Hampshire Medicaid program as compared to 175,653 on September 30, 2019. This includes 70,177 (compared to 48,688 last year) within the Medicaid expansion "New Adult Group", which principally insures childless adults up to 138% of the federal poverty level (the State expanded its Medicaid program as provided for under the PPACA in July 2014). See "Figure 1 – Enrollment by Delivery Method" below for enrollment trends since July 2013. After several years of steady decrease in overall enrollment, the COVID-19 pandemic has resulted in increase in Medicaid enrollment since March 2020, principally due to requirements of the federal Families First Coronavirus Response Act ("FFCRA"), which prevents states disenrolling most people whose Medicaid coverage would otherwise have ended. The standard Medicaid population, including CHIP was 142,174 as of January 31, 2021. For the period February 29, 2020 through January 31, 2021, this population increased by 12,996 members or 10.3%. For the same period the Granite Advantage population increased from 51,463 to 70,177 an increase of 18,714 or 36.4%. The combined population as of January 31, 2021 was 212,351 an increase of 33,836 or 18.9% since February 29, 2020.

Overview of New Hampshire Medicaid. The New Hampshire Medicaid program ("New Hampshire Medicaid") administered through the Department of Health and Human Services ("DHHS") is a complex network that provides health care and psychosocial support insurance coverage to participants who meet eligibility requirements. New Hampshire Medicaid covers all or part of the health care costs of low-income children, pregnant women, parents with children, senior citizens, 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 $2.1 billion in fiscal year 2017; $2.13 billion in fiscal year 2018; $2.14 billion in fiscal year 2019; $2.07 billion in fiscal year 2020 and expects to expend $2.4 billion in fiscal year 2021. The State's base federal matching rate is 50%. There are exceptions, which afford higher federal medical assistance percentages (FMAP) rates, such as the Breast and Cervical Cancer Program (base match of 65%; enhanced match of 69.34% during the COVID-19 Public Health Emergency period) and the NH Granite Advantage Health Care Program at 93% match through calendar year 2019; and then 90% beginning in calendar year 2020.

The public health emergency for COVID-19 was declared by the Secretary of Health and Human Services on January 31, 2020. Section 6008(a) of the FFCRA provides a temporary 6.2 percentage point base increase to the Federal Medical Assistance Percentage ("FMAP") under section 1905(b) of the Social Security Act effective beginning January 1, 2020 and is available for each calendar quarter during the public health emergency, through the end of the quarter in which the public health emergency including any extensions, ends. This enhanced federal funding is being used and has been sufficient to support the increased Medicaid caseload costs resulting from the COVID-19 pandemic. For the six-month period of January 2020 through June 2020, the Department received enhanced federal match of $62.7 million and projected to receive $22.1 million in each quarter for fiscal year 2021. FFCRA requires states receiving the enhanced FMAP due to the Federal Public Health Emergency ("PHE") to keep anyone enrolled in Medicaid as of March 18, 2020 (the start date of the PHE) enrolled in the program through the first day of the month following the month in which the PHE ends. After the requirements of FFCRA end, members that otherwise would have lost Medicaid coverage will have their eligibility redetermined with pre-emergency methods and will lose coverage as appropriate.

Children's Health Insurance Program (CHIP). On January 22, 2018, Congress passed a six-year extension of CHIP funding as part of a broader continuing resolution to fund the federal government. The act provides enhanced federal funding for CHIP for six years starting at the enhanced rate of 88% for federal fiscal years (FFY)

2018 and 2019, 76.5% for FFY 2020, and 65% in FFY 2021 and beyond. The reauthorization of CHIP offset State General Fund requirements by $20.1 million in State fiscal year 2018 and $29.3 million in State fiscal year 2019. This includes enhanced match for qualifying CHIP State costs for related expenses for standard Medicaid children up to age 18 that fall within two groups. The match was known for state fiscal years 2020 and 2021 and was included in the biennial budget. The CHIP expenses continue to receive an additional 4.34 percentage point increase provided by the FFCRA during the public health emergency period.

New Hampshire Medicaid Financial Summary. DHHS Budget. As part of the final fiscal years 2020-2021 budget that was signed, DHHS was required to reduce General Fund expenditures by $25 million over the biennium. DHHS met this requirement during fiscal year 2020 with a higher than estimated lapse of expenditures. This higher lapse did not reduce services. Included in the budget and other bills signed into law during the fiscal year 2019 legislative session were several additions to the Medicaid program. The largest impact is a 3.1% rate increase to be effective January 1, 2020, which has been implemented, and an additional 3.1% rate increase to be effective January 1, 2021. The rate increases are fully funded. DHHS also directly received over $100 million in CARES Act relief funds for various programs including programs addressing homelessness, testing, and nutrition. This amount does not include the Medicaid enhanced FMAP.

Though New Hampshire Medicaid deploys a robust array of management strategies to contain Medicaid costs (see Cost Containment, below), economic forces and State and federal regulations limit options for controlling Medicaid spending. Total expenditures are a function of enrollment of qualified applicants, provider rates, and service utilization on the fee-for service side of the program and are a function of enrollment and per-member per month rates paid to Managed Care Organizations on the managed care side of the program. Enrollment fluctuations result primarily from changes in the State economy, in particular the unemployment rate, and changes in policy at the State or federal level that impact Medicaid eligibility.

Policy Changes and Enrollment Trends. Historical policy changes have impacted Medicaid enrollment. The number of individuals enrolled in Medicaid at the beginning of fiscal year 2014 was approximately 140,000. The number of individuals enrolled at the end of fiscal year 2019 was 175,653, representing an increase of 25.4%. However, between fiscal years 2018 and 2019 the enrollment decreased by 3.8%. The 2014 to 2019 increase can be primarily attributed to two elements of the PPACA. Historically, an increase of approximately 7% in enrollment was attributable to the federal changes in eligibility criteria as part of the Modified Adjusted Gross Income ("MAGI") methodology, which changed the financial eligibility criteria for Medicaid medical services. More recent declines in enrollment appear to be related largely to a reduction in federal outreach efforts and a shorter open enrollment period for the annual open ACA enrollment where those applications for ineligibility due to income would cascade to Medicaid eligibility. Economic conditions are another factor as demonstrated with the COVID-19 pandemic. Current enrollment for the standard Medicaid population, including CHIP was 142,174 as of January 31, 2021. For the period February 29, 2020 through January 31, 2021, this population increased by 12,996 members or 10.3%. For the same period the Granite Advantage population increased from 51,463 to 70,177 an increase of 18,714 or 36.4%. The combined population as of January 31, 2021 was 212,351 an increase of 33,836 or 18.9% since February 29, 2020. The increased enrollment trend is expected to continue during the economic downturn throughout the duration of the COVID-19 pandemic. FFCRA generally prohibits states from disenrolling Medicaid beneficiaries during the PHE. The current PHE period is approved through April 21, 2021. States are given a 60-day notice for each 90-day approval period. The Biden Administration has indicated that the intent is to continue the PHE throughout calendar year 2021. The Department is following the CMS SHO#20-004 guidance letter regulatory requirements when completing renewals and redeterminations after the end of the PHE. During the PHE and at its unwinding, the NH Medicaid is eligible to receive enhanced federal match conditioned on compliance with this guidance.

In August 2014, the State expanded Medicaid eligibility by implementing the New Hampshire Health Protection Program ("NHHPP"), which expanded coverage to an additional 52,507 individuals by the end of fiscal year 2018; 49,155 at 2019 state fiscal year end and 58,829 at 2020 state fiscal year end. Medical costs for this expanded population were initially funded from July 2014 through December 2015 with 100% federal financial participation ("FFP"), as provided for under PPACA for calendar years 2015 and 2016; 95% for calendar year 2017; 94% for calendar year 2018; 93% for calendar 2019.

During the 2016 legislative session, the program was reauthorized to operate through December 31, 2018 and funded the non-federal share of the program with a combination of revenue sources, namely, revenue from the State's insurance premium tax, contributions from the State's high risk insurance pool and voluntary donations from hospitals. On July 25, 2017, CMS informed the State that its use of voluntary provider donations did not meet all of the federal criteria for a bona fide provider donation but allowed the State additional time through the following legislative session to amend its funding for the non-federal share of the program.

Senate Bill 313 was enacted on June 28, 2018. This legislation repealed the NHHPP and established the NH Granite Advantage Health Care Program ("Granite Advantage Program"), a five-year demonstration program beginning January 1, 2019, which will serve the entire expansion population in the State's managed care program. The State received notice on November 30, 2018 that CMS had issued all necessary approvals for the program.

The Granite Advantage Program provides the same services as the NHHPP, but instead of utilizing qualified health plans on the Federal Marketplace for coverage for the New Adult Expansion Group, the Granite Advantage Program transitioned this population into the State's existing managed care program, which was expected to reduce costs by an estimated $200 million total funds in the first full calendar year of operation. New Hampshire Granite Advantage Health Care Trust Fund provides coverage for the newly eligible Medicaid population as provided for under RSA 126-AA:2.

All moneys in the fund are nonlapsing and are continually appropriated to the Commissioner for the purposes of the fund. The fund is authorized to pay and/or reimburse the cost of medical services and cost-effective related services, including without limitation, capitation payments to MCOs. No State general funds shall be used to fund the program. The non-federal share of the costs of the program, including administrative expenses, are funded from a combination of revenues: liquor revenues; the insurance premium tax; contributions from the State's insurance high risk pool assessment and other funds as allowed by RSA 126-AA:3.

Figure 1-Enrollment by Delivery Method

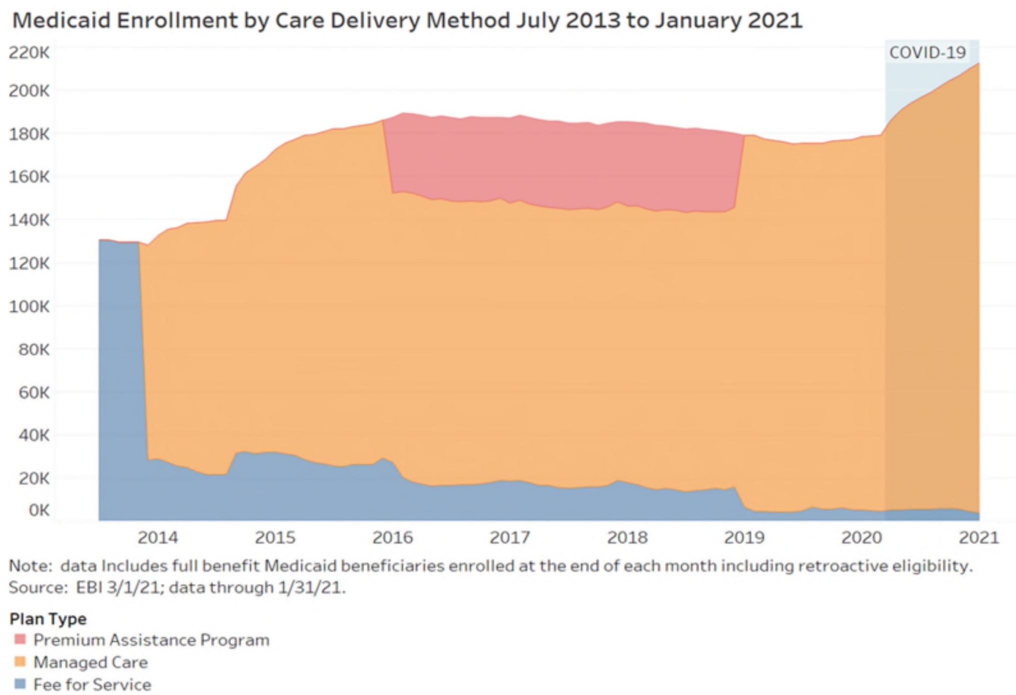
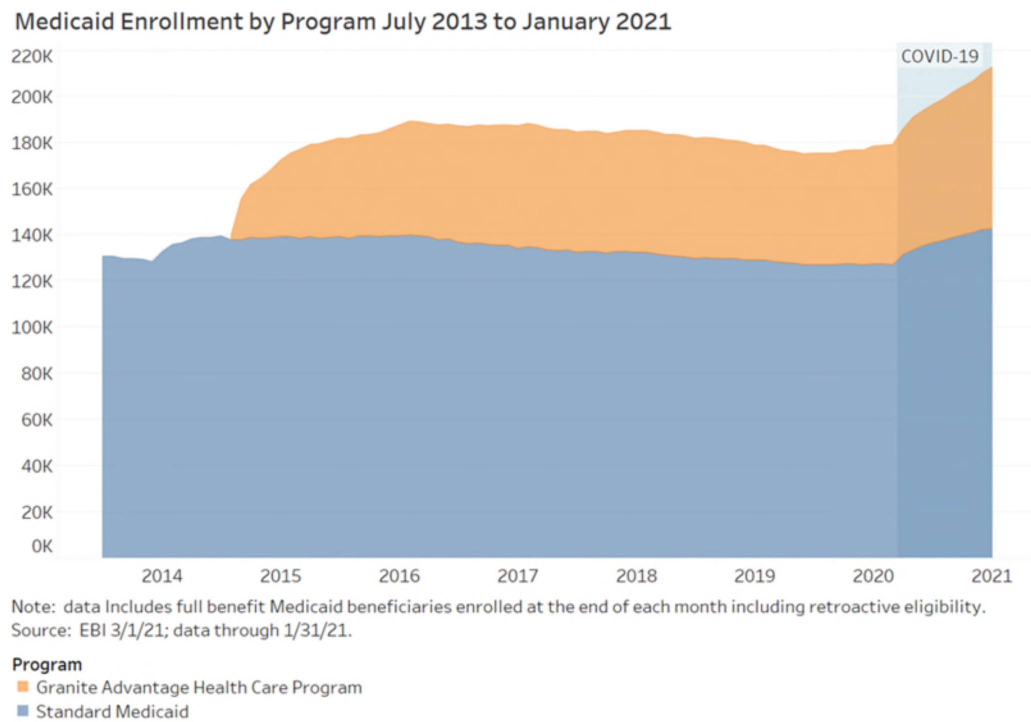


Figure 2-Enrollment by Eligibility Standard



Cost Containment. New Hampshire Medicaid competitively reprocured its Medicaid Care Management Program in fiscal year 2019 and initiated a new contract with three MCOs, two incumbents and a third new plan to the State. The reprocured program provides additional beneficiary choice through an added MCO in the program and includes care coordination enhancements and stronger contract provisions to strengthen the oversight of MCO performance, including establishing withhold and liquidated damage provisions for the MCOs. Overall, New Hampshire Medicaid continues to deploy a robust array of financial and utilization management and quality improvement strategies to contain costs and improve member health. Further, New Hampshire Medicaid implemented in January, 2019 a next day enrollment feature into managed care to reduce fee for service financial exposure. Historically, comparison of New Hampshire Medicaid reimbursement rates to providers have found that in almost every case the State's Medicaid provider payment rates to be significantly lower than other states' Medicaid and commercial insurance rates. Specifically, New Hampshire's Medicaid rates also tend to be lower, with a couple of exceptions, than the rates of the other Medicaid programs in New England. The fiscal year 2020-2021 operating budget includes a number of provider rate enhancements including two 3.1% increases in all provider rates as of January 1, 2020 and 2021. The capitation rates paid to the MCOs have been adjusted to reflect the provider rate increases. The increase in capitation rates is funded from the $31 million General Fund appropriation related to the 3.1% increase and is subject to federal match.

New Hampshire's Disproportionate Share Hospital ("DSH") Program. 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 MET the individual hospital paid to the State. Previously, hospital DSH payments equaled the amount paid in MET. At the time, no changes were made to the State's definition of net patient services revenue or to the MET rate of 5.5% of that revenue.

Pursuant to RSA 167:64, DSH funds were made available only to critical access hospitals up to 100% of each hospital's uncompensated care in the 2012-2013 biennium. For fiscal year 2014, in recognition of the amount of uncompensated care provided by all hospitals in New Hampshire, the Legislature increased DSH funding by $20 million in State funds, and limited payments made to critical access hospitals to 75% of uncompensated care. This funding level allowed total DSH payments to both critical access and non-critical access hospitals of $92 million in fiscal year 2014, which also includes the matching federal funds.

The statute also codified the State's settlement with hospitals over the use of MET revenue, revising services taxable under the MET and clarifying that the MET is a health care-related tax. The statute removes the application of the MET to special hospitals for rehabilitation, changes the payment schedule for the tax and the method for collecting overdue tax payments, provided for a phased in reduction in the rate of the tax and clarified the priority in which MET can be applied to DSH payments to hospitals and for Medicaid provider payments.

MET and DSH Impact in fiscal years 2016 and 2017. As a result of a shortfall in MET received in fiscal year 2016 and a preliminary injunction from a federal court, the liability to the State's hospitals under the DSH program for their uncompensated care (UCC) exceeded the amount of DSH payments budgeted for fiscal years 2016 and 2017. DHHS satisfied the shortfalls by utilizing excess revenue received from the drug rebate program.

New Hampshire's Critical and Non Critical Access Hospitals file their MET in April and self-report UCC in February. DSH Payments are required to be paid to New Hampshire hospitals to reimburse for care for which they have not been paid, known as "Uncompensated Care" and are funded by the MET and federal Medicaid matching funds. MET is currently assessed at 5.4% of net patient service revenue, collected by the DRA, and subsequently transferred to DHHS.

In fiscal years 2016 and 2017, DSH payments were paid annually by May 31st and processed in the following priority order (subject to certain caps at both the ceiling and floor level):

(1) Critical Access Hospital will be reimbursed at an amount equal to 75% of UCC
(2) Non-Critical Access Hospital will be reimbursed at an amount equal to 50% of UCC
(3) Remaining funds shall support Medicaid Provider payments

The State's fiscal year 2017 DSH obligation was higher than anticipated at the time the 2016-2017 biennial budget was enacted because of a dispute over the clarification to the definition of uncompensated care by the federal government that resulted in the issuance of a permanent order by the Federal District Court in New Hampshire in *NHHA v. Sylvia Matthews Burwell*. The effect of the order was to prevent the inclusion of any third party payments against hospital costs to arrive at a net UCC until such time as CMS issued the clarification of the definition by rule-making. Without the rule, third-party revenue for Medicaid patients was excluded thereby resulting in higher calculations of uncompensated care which are subject to a DSH payment in State fiscal year 2017. CMS issued a final rule effective June 2, 2017; however, since issuance of the final order, the NHHA et al. and other entities in other courts brought suit against USDHHS questioning the authority of the Secretary to issue this interpretation in rule (*NHHA v. Azar*). The rule was vacated in an order issued March 2, 2018 and the State's DSH payments for fiscal years 2018 and 2019 therefore did not consider private insurer or Medicare revenue for the purposes of calculating uncompensated care.

MET and DSH Impact in Fiscal Years 2018 and 2019. During the 2018 legislative session, the NHHA and the State revised their 2014 settlement to agree that for fiscal year 2018, DSH payments would be made in an amount equal to 92.2% of the MET collected, and for fiscal year 2019, in an amount equal to 90.2% of amount of MET collected. The new agreement was codified in Chapter 162:31, Laws of 2018, which also appropriated the additional DSH payments for the biennium ended June 30, 2019.

In fiscal years 2018 and 2019, DSH payments were paid annually by May 31st and were processed in the following priority order:

(1) Critical Access Hospital (CAH) will be reimbursed at an amount equal to 75% of UCC
(2) Non-Critical Access Hospital will be reimbursed at an amount up to 92.2% (fiscal year 2018) or 90.2% (fiscal year 2019) of MET revenues
(3) Remaining funds shall support Medicaid Provider payments

In fiscal year 2018, this resulted in an increased DSH payment of $57.9 million above the fiscal year 2018 budget and decreased the available MET for other Medicaid Provider payments by $22.2 million. For fiscal year 2019, DSH payments totaled $225.9 million, or $60.4 million above the budgeted DSH payments. MET revenue totaled $250.2 million, which is $3.2 million higher than originally budgeted, so the reduction to MET available for Medicaid Provider payments was $23.6 million.

The legislation also included the following two provisions:

Provision 1) Given any future change to the federal definition of uncompensated care resulting in a decrease in the UCC calculation, then the percentage of allowable UCC for CAH hospitals will be adjusted to 75% of UCC calculated without regard to payments from Medicare or third party payers. If increasing the percentage of allowable DSH causes any hospital to exceed the hospital-specific DSH limit, the difference will be paid to the critical access hospitals in Medicaid supplemental payments, MCO directed payments, increased rates, or any other allowable Medicaid payment.

Provision 2) Any future reduction in the federal DSH allotment to the State resulting in a DSH payment below the percentage of MET established for the year in question will be paid to hospitals in Medicaid supplemental payments, MCO directed payments, increased rates, or any other allowable Medicaid payment.

MET and DSH Impact in Fiscal Years 2020 and 2021. Per the revised settlement agreement, for fiscal years 2020 to 2024, hospitals will be paid for uncompensated care costs in an amount up to 86% of the MET revenue, with an additional 5% of MET revenue directed to an increase in hospital service provider rates, or another allowable form of Medicaid payment. The budget for fiscal year 2020 assumed $112.18 million of MET revenue for uncompensated care payments ($224.4 million total funds) and $6.52 million for hospital service rate increases ($13.04 million total funds) included in the amounts listed below for fiscal years 2020 and 2021. The budget also assumed $142.4 million of MET for Medicaid Provider payments.

An appeals court decision issued on August 13, 2019 reinstated the previously vacated rule, thereby requiring the calculation of uncompensated care cost to include the impact of payments from private insurers and Medicare for dually-eligible individuals. Therefore, under provision 1 above, the State may be required to increase payments to critical access hospitals to an amount higher than the hospital-specific DSH limit established in the re-instated rule. In fiscal year 2020, the State satisfied provision 1 through a combination of DSH payments with supplemental payments under the upper payment limit. For fiscal year 2021, the State expects to meet provision 1 through a combination of MCO directed payments and supplemental payments under the upper payment limit. The 2021 MCO directed payments were included in rate filings submitted to CMS. For State fiscal year 2021 critical access hospitals will not receive a DSH payment; instead they will receive a MCO directed payment and a supplemental payment under the upper payment limit. For non-CH hospitals, the State and hospitals have verbally agreed to make all payments in the form of DSH (i.e., the DSH payments will reach 91% of MET, without additional increases to provider rates).

The Federal Consolidated Appropriations Act for 2021 (the "Appropriations Act"), signed into law on December 27, 2020, impacts DSH calculation of uncompensated care costs. The Appropriations Act only allows the inclusion of costs and payments for services for which Medicaid is the primary payor for such services. Therefore, the act entirely excludes both the costs and payments for services related to dually-enrolled individuals from uncompensated care costs. This change in law will impact UCC calculations. With respect to the treatment of Provider Relief funds, CMS issued guidance on January 6, 2021 in the COVID-19 FAQ's that when a provider receives reimbursement from either (1) the FFCRA Relief Fund for COVID-19 testing and testing-related services or (2) the Uninsured Relief Fund for COVID-19 care or treatment furnished to uninsured individuals, the payment made is made "on behalf of" the individual with no other source of third party coverage for the service. Accordingly, when such payments are for inpatient and outpatient hospital services, they must be included in the determination of inpatient and outpatient hospital services revenue for the uninsured.

However, as a result of the settlement agreement payments to hospitals will remain at 91% of MET.

In October 2020, LRG HealthCare, the parent company of Lakes Region General Hospital and Franklin Regional Hospital, filed for Chapter 11 bankruptcy protection. Currently, there is one hospital with a bid submitted to purchase Lakes Region General Hospital and Franklin Regional Hospital. Should the sale be approved, subject to CMS, state, and bankruptcy court approval, the current bidder has agreed to assume Lakes Region Hospital and Franklin Regional Hospital Medicaid Enhancement Tax obligation. The bankruptcy proceeding and federal and state reviews are currently pending.

MET and DSH Impact in Fiscal Years 2022 and 2023. The revised settlement agreement is controlling through fiscal year 2024. The budget for fiscal year 2022 assumes $112.2 million of MET revenue for uncompensated care payments ($224.5 million total funds) and $6.54 million for hospital service rate increases ($13.08 million total funds) included in the amounts listed below for fiscal years 2022 and 2023. The budget also assumes $142.52 million of MET for Medicaid Provider payments. Starting in State fiscal year 2021, hospitals will receive a combination of MCO directed payments, an upper payment limit supplemental payment and DSH payments in an amount equal to 91% of MET.

Additionally, the DSH allotment reductions, which had been scheduled to begin on October 1, 2019 (FFY 2020), were again postponed to FFY2024. Under current law, the aggregate reductions to the Medicaid DSH allotments equal $8.0 billion beginning on October 1, 2024 and ending in 2027. For both provision 1 and provision 2, the State is working cooperatively with the hospitals to identify an appropriate payment methodology, which may be directed payment, supplemental payments, value-based payments or any other payment allowable by law.

Any change in payment methodology resulting from provision 1 or provision 2 is expected to be revenue-neutral to the State, as the settlement provides that the State will expend 86% plus 5% of the MET regardless of the form of Medicaid payment to the hospitals and the remainder will be available to the State for all other forms of Medicaid provider payments.. If hospitals have a lower net patient service revenue, for example, due to the COVID-19 pandemic, there will be less MET collected. This will not impact the State's ability to make DSH payments, it will however mean that the remainder of funds available after the State makes its DSH related obligations will be smaller and therefore there will less MET revenue going into the General Fund in support of provider payments. The hospitals are required to submit a non-binding estimate in January. Based on recent projections, New Hampshire hospitals are estimating the SFY 2021 MET revenue at $244.2 million, a 10% reduction in net patient service revenues.

The table below sets forth aggregate DSH Payments, including both federal and State funding sources since 2009.

State Fiscal Year	DSH Payments
2009 paid	$178,040,743
2010 paid	195,457,290
2011 paid	207,698,608
2012 paid	48,735,473
2013 paid	52,889,190
2014 paid	92,020,821
2015 paid	68,328,525
2016 paid	207,184,916
2017 paid	215,614,596
2018 paid	223,668,312
2019 paid	225,946,954
2020 paid	228,149,996
2021 budget	246,034,816

Future Outlook. Recent federal activity has presented new opportunities and challenges for states. The Medicare Modernization Act of 2003, the Deficit Reduction Act of 2005, and PPACA imposed new requirements for states along with options in the areas of benefits, cost sharing, and long-term care. DHHS had previously 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. In these earlier preliminary estimates, federal funding for many PPACA reforms began at 100% and reduces to 90% over time.

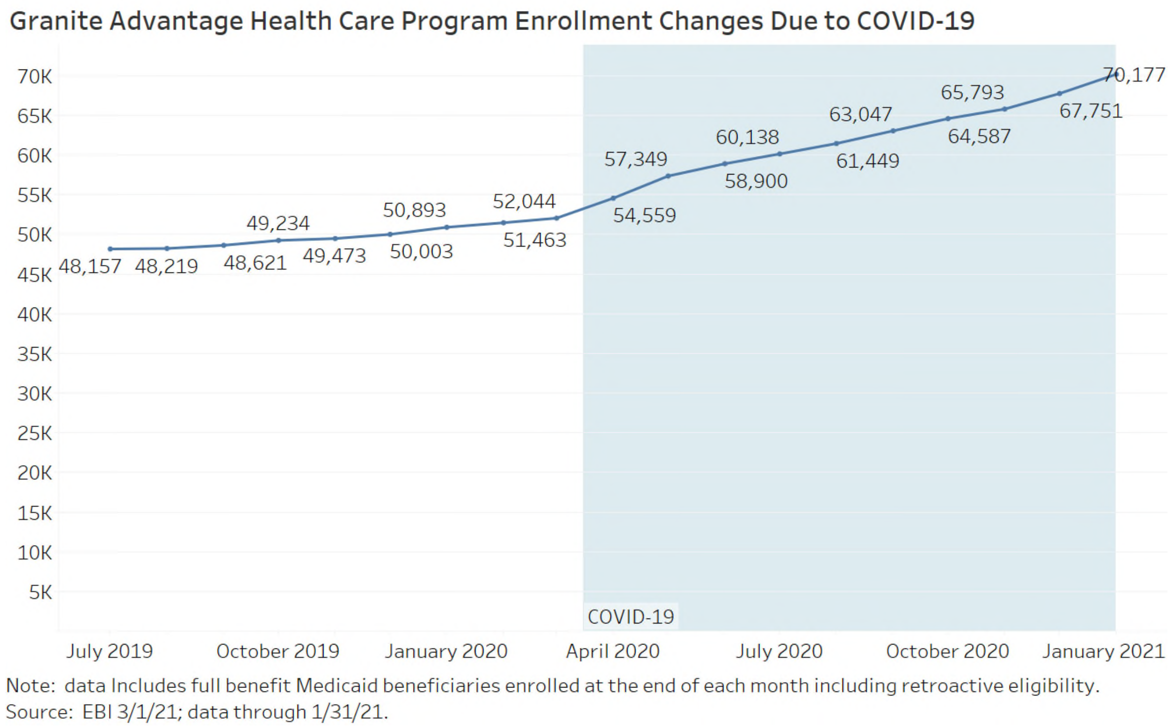
The U.S. Department of Health and Human Services Office of the Inspector General (OIG) has withdrawn a proposed rule amendment, effective January 1, 2020, which may have had an impact on the collection of drug rebates under Medicare Part D, Medicaid care management organizations.

Granite Advantage Health Care Program ("Granite Advantage"). New Hampshire Granite Advantage Health Care Trust Fund provides coverage for the newly eligible Medicaid population as provided for under RSA 126-AA:2 covering adults from age 19 up to and including age 64 and who are not enrolled in or eligible for another eligibility group of Medicaid or have Medicare. Senate Bill 313 repealed the NHHPP effective December 31, 2018 and establishes the NH Granite Advantage Health Care Program, a five-year demonstration program beginning on January 1, 2019. The State's application to extend and revise the State's Section 1115 demonstration, titled "New Hampshire Health Protection Program (NHHPP) Premium Assistance Demonstration", was approved by CMS, effective on November 30, 2018. In addition to transitioning the New Adult Group from the Federal Marketplace to the State's managed care program, the waiver allows the State to offer new incentives for beneficiaries to utilize lower cost providers; implement reference based pricing; and adopt new measures to address the State's Opioid Crisis. Included in the waiver was an extension of the community engagement and work requirement issued May 7, 2018 with the goal of improving health and economic mobility and sustaining insurance coverage and employment for this population. This requirement conditions continued eligibility for benefits on satisfying work and community engagement requirements of 100 hours per month of qualifying activities for individuals who are not otherwise exempted. (See "*Litigation*" below for a discussion of potential litigation related to the community engagement and work requirement.) As previously noted, Senate Bill 313 also addresses changes to the non-federal share of the program cost.

Granite Advantage members were then under the State's 1915 (b) waiver enrolled in one of New Hampshire's Medicaid Care Management plans; previously NHHPP coverage was largely through qualified health plans on the Federal Exchange. Subsequently, on November 30, 2018 New Hampshire received approval from CMS to amend and extend its 1115 waiver to incorporate the Granite Advantage Health Care Program, including provisions to allow for the Granite Advantage Health Care Program to (1) eliminate 90-day retroactive coverage, and (2) implement a Community Engagement and Work Requirement for this eligibility group. The elimination of the 90-day retroactive coverage began January 1, 2019; the on-ramp of the Community Engagement and Work Requirement began March 1, 2019. The work and community engagement requirement was initially suspended under authority provided under SB 290, and was later terminated as a result of a decision by the U.S. District Court of the District of Columbia on July 29, 2019, as was the elimination of retroactive coverage. With respect to the future of the ACA, the U.S. Supreme Court will decide *California v. Texas*, a case that could determine whether the entire Affordable Care Act can continue. The New Hampshire Granite Advantage Health Care Program community engagement requirement is not currently in effect. Although implementation began in January 2019, it was halted by court order in July 2019 as well as the fact that the subsequent COVID-19 pandemic has made community engagement infeasible. Implementation of the community engagement requirement is also prohibited by the Families First Coronavirus Response Act (FFCRA), which conditioned a state's receipt of an increase in federal Medicaid funding during the pandemic. Since New Hampshire has chosen to claim the 6.2 percentage point FFCRA Federal Medical Assistance Percentage (FMAP) increase, the State must maintain the enrollment of beneficiaries who were enrolled as of, or after, March 18, 2020 until the end of the PHE. CMS has preliminarily determined that allowing work and other community engagement requirements to take effect in New Hampshire would not promote the objectives of the Medicaid program. CMS has notified the State that they have started a process of determining whether to withdraw the authorities approved in the New Hampshire Granite Advantage Health Care Program 1115 demonstration that permit the State to require work and other community engagement activities as a condition of Medicaid eligibility. The Granite Advantage MCO coverage is authorized under the 1915(b) waiver. Chapter 342:12, Laws of 2018 provides at any time the federal match rate applied to medical assistance for newly eligible adults in Granite Advantage is less than 90 percent in 2020 or beyond, the Program with notice is to be repealed and coverage terminated.

Enrollment in Granite Advantage has roughly been about 50,000 over the past few years, with some variation throughout the year (when looked at on a point-in-time basis). However, as shown in the chart below, due to the COVID pandemic, enrollment has been steadily increasing since March 16, 2020 through January 2021 to over 70,000 members, an increase of an additional 20,000 or 40%. Most of the net growth has been due to the Federal Families First Coronavirus Response Act which requires states, as a condition of receiving an enhanced federal match for Medicaid (except for adult expansion) to suspend termination of eligibility for Medicaid except for members who die, move out of state, or request ending Medicaid coverage.

Because the Granite Advantage program typically sees many members leaving the program each month (who are replaced by new members) a requirement to retain members who would otherwise have left the program leads to steady growth (see chart below).



The following table sets forth State fiscal year expenditures for the NHHPP and Granite Advantage.

State Fiscal Year	NH Health Protection Program	Granite Advantage Health Care Program
2015	$202,475,294	
2016	$405,982,081	
2017	$452,883,648	
2018	$492,239,603	
2019	$238,210,616(1)	$167,784,917(2)
2020		$382,383,945
2021 Proj.		$544,575,788

(1) July 1, 2018 through December 31, 2018.
(2) January 1, 2019 through June 30, 3019.

The actual expenses for fiscal year 2020 shown above are approximately $24 million higher than projected. The increase in projected costs is due to the increase in Medicaid caseload resulting from the COVID-19 pandemic and the related unprecedented economic downturn. Cost projections assumes caseload trend increases by 2% monthly through December 2020, flat caseload through the March 2021 and gradual monthly decreases of 2% beginning in April 2021 until pre-COVID monthly membership is reached as of date of service March 2022. Added to the cost includes the legislative provider rate increases approved in HB 4, Section 348 to increase all Medicaid provider rates, including all state plan services and waiver programs by 3.1 percent effective January 1, 2020 and an additional 3.1 percent effective January 1, 2021. The rate increases are applied to the Medicaid fee-for-service fee schedule for the purpose of determining payments for all services not delivered through managed care, and requires the department's actuary to incorporate the rate increases into the capitation payment for all services provided in the care management program.

As provided in statute, no State general funds are used to fund the non-federal share of the program. RSA 126:AA changed the funding of the non-federal share to include profits from the Liquor Commission through the

Alcohol, Prevention & Treatment Fund and limited the N.H. Health Plan Assessment to no more than the funding needed to cover the Remainder Amount not to exceed the monies from Insurance Premium Tax Revenue and Alcohol, Prevention & Treatment Fund as well as Other Funds Returnable. No additional funding was needed in State fiscal year 2020, however, due to the impact of the COVID-19 pandemic on caseload and the provider rate increase noted above, current projections indicate the need of approximately $7.9 million of additional Liquor Commission Funds.

Operational Cost of Granite Advantage Coverage State fiscal year 2019 projected through State fiscal year 2022

	SFY 2019	SFY 2020	SFY 2021	SFY 2022
Cost of Coverage for the Program	$166,861,382	$380,112,773	$542,896,016	$499,389,569
Administrative Costs	$923,535	$2,271,172	$1,679,772	$1,713,525
Total Costs	**$167,784,917**	**$382,383,945**	**$544,575,788**	**$501,103,094**
Less:				
Federal Reimbursement: Program & Admin	$155,259,100	$348,686,800	$489,757,564	$450,538,137
Actual/Est. Insurance Premium Tax Revenue	$8,132,273	$5,883,982	$9,141,860	$10,416,922
Alcohol Abuse, Prevention & Treatment Fund	$5,000,000	$10,037,800	$10,000,000	$10,000,000
Additional Liquor Commission Funds			$7,993,964	$6,403,483
Funds Returnable: RSA 126-AA:3(f)	$781,600	$4,870,826	$5,296,927	$5,301,627
Total Reimbursement & Tax Contributions	**$169,172,973**	**$369,479,408**	**$522,190,315**	**$482,660,168**
Remainder Amount	($1,388,057)	$12,904,537	$22,385,473	$18,442,925
Assessment fee from NH Health Plan	$0	$17,291,000	$16,610,953	$18,442,925
non-federal funds brought forward from prior SFY	$0	$1,388,057	$5,774,520	$0
Balance of non-federal funds	**$1,388,057**	**$5,774,520**	**$0**	**$0**

NHHPP Risk Mitigation. As of January 1, 2016, the Bridge Period ended and the NHHPP members began coverage in the QHPs, except for medically frail members that remained in an MCO. This risk settlement period covers only those medically frail members, which is a minimal proportion compared to the approximately 50,000 members. The MCO contracts included a risk mitigation provision to minimize the financial risk for the MCOs, the state and the federal government from the potential under or over estimation of the capitation rates given the estimating healthcare costs for this population that was not previously covered by health insurance. The NHHPP population was healthier than assumed for the period of September 2014 through December 2015 (the "Bridge Period") resulting in $61.5 million net recovery of 100% federal funds. The funds were received by the MCOs and returned to CMS in January 2018. The Risk Settlement reconciliation for January 2016 through June 2016 resulted in $5.7 million net recovery, which was also 100% federal funds. The Risk Settlement reconciliation for the period July 2016 through June 2017 resulted in $16.6 million recovery, 100% federal funds for the period July 2016 through December 2016; 95% federal funds and 5% non-federal for the period January 2017 through June 2017. The Risk Settlement reconciliation for July 2017 through June 2018 resulted in $10.3 million net recovery, 95% federal funds and 5% non-federal funds for the period July 2017 through December 2017 and 94% federal funds and 6% non-federal funds for the period January 2018 through June 2018. The Risk Settlement reconciliation for the final six months of the program, July 2018 through December 2018, resulted in $1.8 million net recovery, 94% federal funds and 6% non-federal funds.

Final Close-out of the NH Health Protection Program Fund. The balance of $5.8 million has been refunded, split equally between the NHHP and the Foundation as instructed in the final court approval which applied the doctrine of cy pres. In July 2017, CMS informed DHHS that it could no longer accept donations from the Foundation to fund the Healthcare Protection Program, effective with fiscal year 2019. In response to CMS's directive, the Legislature enacted SB 313 repealing the Health Protection Plan and creating the New Hampshire Granite Advantage Health Care Program and Trust Fund. Money from the Fund was authorized to be transferred to the Granite Advantage Health Care Fund, except funds derived from other sources than the Liquor Commission. This directive prevented the transfer of the Foundation's remaining charitable donation in the Fund. The remaining charitable donation funds has been directed to the Foundation with the requirement that "the funds be expended to improve health and health care delivery in New Hampshire, with an emphasis on health care access and delivery issues that have a disproportionate impact on low income individual, such as ensuring access to treatment for substance use disorder."

Medicaid to Schools. New Hampshire Medicaid through its State Plan draws an in-kind federal match at a 50% rate to pay local education agencies (LEAs) and school administrative units (SAUs) for Medicaid to Schools State Plan benefits. During the COVID-19 public health emergency, the in-kind federal match is increased to 56.2%. Under current law, the increased match will extend through the last day of the calendar quarter in which the public health emergency is declared. The Medicaid to Schools benefit drawn from federal funds in recent fiscal years has been approximately $27.0 million annually. As a result of changes in rule, in law and the impact of COVID-19, claims submitted in 2020 are approximately $8 million to date. However, schools have not exhausted their time for submission of claims. Oversight transitioned from the Bureau of Developmental Services to the Division of Medicaid Services effective July 1, 2019, LEAs and SAUs bill health and behavioral related services provided in the school setting when covered services are provided to Medicaid enrolled children and adolescents, or when services are provided to a child through his or her individualized education plan (IEP) under the federal Individuals with Disabilities Education Act, a Section 504 plan, or other written health related plans.

On July 1, 2019, the Substance Abuse and Mental Health Services Administration and CMS issued guidance on how and under what conditions a state can expand access to services in the school setting. The guidance among other aspects points to the condition that the school setting participation must be comparably operated and administered as other Medicaid settings. In state program integrity activities, prior to and subsequent to the guidance, DHHS self-identified aspects of administration of the benefit where comparability was not sufficiently attained. DHHS is currently working with schools to strengthen compliance, revising rules, and is engaging CMS relative to a corrective action plan.

On February 21, 2020, He-W 589, a new Medicaid to Schools Administrative rule, was approved. This rule describes the services reimbursable under Medicaid. Additionally, on March 9, 2020, the Legislature passed SB 684, which accomplished three (3) important goals for Medicaid to Schools. First, it added public schools to the list of settings where a licensed nurse may delegate the task of administering medication. Second, it provided a means to license qualified professionals that are certified by the Department of Education which are providing health related services to New Hampshire students. Once licensed, schools may be able to seek federal funding for services provided by these licensed professionals. Finally, the legislation provided clarity and aligned language between the Medicaid to Schools statutes.

As part of the activities necessary to administer the Medicaid state plan, states may also provide Medicaid payments to schools for Medicaid outreach and enrollment activities, as well as other eligible, school-based administrative activities; New Hampshire schools have not yet availed themselves to that opportunity in any material way. DHHS will be working with the Department of Education and LEAs/SAUs to implement an administrative claiming program in the State.

Waivers.

IMD / Substance Use Disorder 1115 Waiver. In 2016, the Legislature passed HB517, which required the State to redevelop excess capacity at the existing Sununu Youth Services Center (SYSC) to allow for expansion to a 36-bed residential Substance Use Disorder (SUD) treatment facility available for adolescents. The program at SYSC was intentionally designed as a Comprehensive SUD Program, to be in alignment with the existing SUD service delivery system. The State submitted an application for the Substance Use Disorder Treatment and Recovery Access 1115 Demonstration Waiver. CMS approved the waiver on July 10, 2018. The SYSC officially opened November 1, 2018. However, the program was suspended in December 2019. The Department is reexamining its adolescent treatment system in light of federal and state requirements and its experience with this particular program.

This waiver has budget neutrality provisions (a requirement to show expenditures for this project do not exceed the federal expenditures that would otherwise have been made). The budget neutrality is monitored with the support of the Department's actuary. The Department submitted an amendment to the waiver on August 21, 2020 to prospectively adjust the budget neutrality targets, and negotiations with CMS have been ongoing to address corrective action to our budget neutrality limit calculations. CMS has indicated that any prior overages will be not be counted against budget neutrality.

Section 1115 Transformation Waiver. On January 5, 2016, CMS approved the State's Section 1115 Research and Demonstration Transformation to access new federal funding to help transform its behavioral health delivery system. On January 5, 2016, CMS approved the State's application to participate in this Demonstration Waiver that will allow the State to access up to a total of $150 million over the next five years (approximately $30 million per year) over a five year period for the purpose of strengthening and expanding capacity for the State's behavioral health system. The Transformation Waiver has four main targets:

(1) Deliver integrated physical and behavioral health care that better addresses the full range of individuals' needs
(2) Expand capacity to address emerging and ongoing behavioral health needs in an appropriate setting
(3) Reduce gaps in care during transitions across care settings by improving coordination across providers and linking patients with community supports
(4) Move fifty percent of Medicaid reimbursement to alternative payment models by the end of the demonstration period

There are two distinct federal funding streams associated with the waiver, a federal reimbursement for Designated State Health Programs (DSHP) and a federal reimbursement for Delivery System Reform Incentive Payments (DSRIP). The DSHP funds consist of new federal matching funds received on existing State and local health related programs. Under the waiver approval, DSHP funds will be disbursed to fund new DSRIP reform projects. DSRIP performance based payments made to the regionally based networks of medical and community social service providers called Integrated Delivery Networks (IDN's) processed in fiscal year 2017 were $24.9 million; in fiscal year 2018 were $20.4 million; in fiscal year 2019 were $18.7 million and in fiscal year 2020 were $10 million. Under the waiver the State, including local county governments, are not required to spend any new or additional funds. However, in order to continue to receive the additional federal matching funds, spending on the existing health related programs is expected to continue.

A change in federal policy has introduced potential implications to the current five-year waiver for future DSHP financing under the DSRIP waiver. CMS has issued national guidance regarding the discontinuation of certain DSHP financing subsequent to the original five year duration. A portion of the State's DSRIP waiver required conversion of certain DSHP financing to a CPE (certified public expenditures) method for this waiver specifically. Under the CPE rules, CMS guidance potentially disallows a portion of the monies anticipated by the State. While CMS has subsequently approved DHHS' alternative methodology, it is contingently effective in that it depends on counties voluntarily appropriating monies not previously federally matched to be contributed to DHHS so they can be matched in support of the DSRIP waiver. In State fiscal year 2019, the counties provided $6.3 million and in State fiscal year 2020 provided $4.99 million in funding. The capability of the counties to contribute is indirectly the result of enhanced Proshare payments due to the alternative methodology. The impact going forward in 2020, the remainder of the waiver period, should the counties elect not to provide financial support, would be a curtailment of what can be accomplished through the waiver. Therefore, any county shortfall is not expected to impact the General Fund. This waiver has budget neutrality provisions (a requirement to show expenditures for this project do not exceed the federal expenditures that would otherwise have been made). Budget neutrality is monitored with the support of the Department's actuary. CMS, the Department, and its actuary have held substantive discussions and have provided data to support the need for technical adjustments to the original budget neutrality aspects of this waiver. In particular, adjustments are needed to reflect (i) correction of inconsistencies between the original budget neutrality targets and the CMS-64 reporting of actual expenditures,(ii) acuity changes due to an increase in the population receiving behavioral health services consistent with the Medicaid Eligibility Group (MEG) structure, (iii) New Hampshire's response to the opioid crisis, including the expansion of community mental health services and (iv) other unpredictable expenditures not known at the time of the original budget neutrality calculation. The Department and its actuary, under its own assumptions, have calculated the waiver over its term to be budget neutral. CMS has subsequently communicated that it has not accepted the State's proposal; however, the State has the opportunity to potentially further negotiate and/or appeal. CMS indicated the State was not prohibited from completing the waiver nor from drawing federal match. The Standard Terms and Conditions have a maximum exposure of the actual federal draw.

Fast Forward Waiver State Plan Amendment 1915(i). In 2016, the Legislature passed HB517 requiring DHHS to establish a Medicaid home and community-based behavioral health services program for children with severe emotional disturbances whose service needs cannot be met through traditional behavioral health services. DHHS may establish such services through a State plan amendment or a waiver under provisions of the SSA. If DHHS proceeds with the waiver, it may limit geographic availability of services. The services shall include the following or their functional equivalent: wrap around care coordination, wrap around participation, in home respite care, out of home respite care, customizable goods and services, family peer support, and youth peer support. On July 12, 2018, CMS approved the State's Plan Amendment, which amended the NH Title XIX State Plan to include a section to provide home and community-based services to children with serious behavioral health issues through a coordinated model. The services were effective July 2018.

Additional 1915 waivers. Each of the below waivers are federally required to be cost effective and are fully appropriated in the State fiscal years 2020-2021 budget.

Choices For Independence 1915(c) Waiver. This waiver provides adult medical day services, home health aide, homemaker, personal care, respite, supported employment, financial management services, adult family care, adult in-home services, community transition services, environmental accessibility services, home-delivered meals, non-medical transportation, participant directed and managed services, personal emergency response system, residential care facility services, skilled nursing, specialized medical equipment services, supportive housing services for aged individuals ages 65 years and older .

Acquired Brain Disorder 1915(c) Waiver. This waiver provides community participation services, respite, service coordination, supported employment services, assistive technology support services, community support services (CSS), crisis response services, environmental and vehicle modification services, participant directed and managed services - PDMS (formerly consolidated acquired brain disorder services), residential habilitation/personal care services, specialty services, wellness coaching for individuals with brain injuries aged 22 years and above.

Development Disabilities 1915(c) Waiver. This waiver provides community participation services, residential habilitation/personal care services, respite, service coordination, supported employment, assistive technology support services, community support services (CSS), crisis response services, environmental and vehicle modification services, participant directed and managed services (PDMS) formerly consolidated developmental services, specialty services, and wellness coaching for individuals with developmental disabilities . There is no upper or lower age limit for this waiver. However, funding pursuant to RSA 171-A is provided 90 days prior to an individual graduating or leaving the school system.

In Home Supports 1915 (c) Waiver. This waiver provides enhanced personal care, consultations, environmental and vehicle modifications, family support/service coordination, and respite care services for individuals under age 21 with developmental disabilities who live at home with their families.

Freedom of Choice Managed Care, 1915 (b). This waiver provides for enrollment in Mandatory Managed Care for State Plan Services for Currently Voluntary Populations.

Litigation. Various aspects of New Hampshire Medicaid are the subject of litigation and potential litigation. Such litigation, if decided in a manner unfavorable to the State, could subject the State to substantial financial judgments. See "LITIGATION" with respect to the matters under the captions that reference DHHS or New Hampshire Medicaid.

As mentioned above, DHHS has received approval from the Centers for Medicare and Medicaid Services (CMS) of a waiver under Section 1115 of the Social Security Act of 1933, as amended, for the implementation of its Granite Advantage Health Care Program for coverage of the New Adult Group under the Patient Protection and Affordable Care Act. That waiver approval includes a waiver of Section 1902a(10) thus permitting eligibility for benefits to be conditioned on satisfying work and community engagement requirements. To date, litigation challenging the Secretary's determination under Section 1115 that work and community engagement requirements promote the objectives of the Medicaid program has been filed in every state in which the Medicaid agency has implemented such a work and community engagement requirement pursuant to a CMS issued waiver. See *Stewart v. Azar, et.al., Civ. Action No. 18-152 (USDCDC)(Kentucky Waiver),* and *Gresham, et al. v. Azar, Civ. Action No.*

1:18-cv-01900 USDCDC) (Arkansas). On February 14, 2020, a 3-judge panel of the D.C. Circuit Court of Appeals ruled unanimously that the Secretary's approval of the Arkansas work requirement waiver was "arbitrary and capricious" under the APA and affirmed Judge Boasberg's decision to vacate the Secretary's approval.

On July 29, 2019, the US District Court for the District of Columbia vacated New Hampshire's section 1115 waiver requirement. The court decision both prohibited the implementation of the work and community engagement requirement and also invalidated the waiver of 90-day retroactive coverage. As of the decision date, Granite Advantage members at this time no longer needed to meet the 100-hour monthly participation requirement or request any type of exemption as a condition of continued eligibility to keep their Medicaid coverage. The U.S. Supreme Court is scheduled to hear oral arguments on appeal of the D.C. Circuit Court of Appeals ruling on March 29, 2021. On February 12, 2021, the Biden Administration sent letters notifying Arkansas, New Hampshire, and other states with approved work requirement waivers that CMS has "preliminarily determined" that work requirements do not further Medicaid program objectives. Additionally, the 90-day retroactive coverage has been reinstated for the Granite Advantage population. The cost of reinstating the 90-day coverage is accounted for in the current fiscal year 2020-2021 budget.

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 therefor, are wholly statutory.

Pursuant to various general or special appropriation acts, the Legislature has from time to time authorized the State Treasurer, with the approval of the Governor and Council, to issue bonds or notes for a variety of specified projects or purposes. In general, except for the Turnpike System revenue bonds 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 table below sets forth the long-term debt of the State outstanding as of June 30, 2020.

Debt Statement as of June 30, 2020 (In Thousands)

General Obligation Bonds:		
General Improvement	$557,611	
Highway	91,813	
University System of New Hampshire	91,745	
Total Direct General Obligation Debt		$741,169
Revenue Bonds:		
Turnpike System[1]	295,930	
GARVEE[2]	90,800	
Total Revenue Bond Debt		$386,730
Contingent (Guaranteed) Debt:		
Water Pollution and Waste Disposal Bonds issued by Political Subdivisions	0	
Business Finance Authority	52,300	
Local School District School Bonds	15,289	
Total Contingent Debt		$67,589
Total Debt		$1,195,488
Less: Self-Supporting and Contingent Debt:		
General Fund Self-Supporting Debt[3]	29,783	
Turnpike System Revenue Bonds	295,930	
Highway Fund	91,813	
GARVEE	90,800	
Water Pollution and Waste Disposal Bonds issued by Political Subdivisions	0	
Business Finance Authority	52,300	
Local School District School Bonds	15,289	
Liquor Commission	38,590	
State Revolving Fund	11,227	
School Building Aid	52,480	
Fish & Game	1,322	
Total Self-Supporting and Contingent Debt		$679,534
Total Net General Fund Debt[4]		$515,954

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

(3) Includes bonds paid from General Fund restricted revenues (primarily user fees, criminal penalty assessments and lease 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.

(4) 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 revenue.

In addition to the debt included in the table above, Chapter 17 of the Laws of 2014 authorized $200 million in general obligation bonds for the completion of the Interstate 93 widening project. Chapter 276:210-211, Laws of 2015, amended the legislation by specifically authorizing a federal Transportation Infrastructure Finance and Innovation Act ("TIFIA") loan as an alternative to a traditional general obligation bond issue including, without limitation, a pledge of the revenue collected from adjustments under RSA 260:32-a for rates that exceed $0.18 per gallon less required distributions under RSA 235:23, I, on said revenues.

On May 24, 2016, the State entered into the TIFIA financing agreement to fund the construction of the remaining portions of the I-93 project. The loan, established at a 1.09% rural TIFIA interest rate, will fund $200 million in project costs along the I-93 corridor from Salem to Manchester, New Hampshire. The debt service payments are to be funded by a portion of the revenue collected from the increase in the road toll that was effective July 1, 2014. The road toll increase was projected to generate approximately $34 million annually and generated $32.9 million for fiscal year 2020. The increase will expire once all debt service payments for the I-93 project have been made and the financing is fully amortized (June 2034). The full $200 million loan is expected to be drawn down monthly over the next several years. The State will pay interest only on the outstanding balance until 2025, when principal repayment will begin on a level debt service basis to maturity, June 1, 2034. The TIFIA loan agreement also requires that the State expend certain annual amounts of the increased road toll revenues on non-federally aided highway projects in the State. In the event, the State does not meet these requirements the interest rate on the loan will increase to 2.17% until the spending requirements are met. In addition, the TIFIA loan agreement provides for a default rate of interest equal to 3.09%. As of February 28, 2021 the amount drawn on the TIFIA loan was $191.1 million on a GAAP accrual basis, which amount was $8.9 million less than originally expected.

The table above does not include the outstanding TIFIA loan balance as of June 30, 2020 in order to reconcile Total Direct General Obligation Debt outstanding of $741 million with scheduled Direct General Obligation Debt Service principal payments of $741 million.

In addition to the debt presented above, at June 30, 2020, the State had short and long-term capital leases outstanding of $3.6 million and $13.4 million, respectively, 77% 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,				
	2016	**2017**	**2018**	**2019**	**2020**
Direct General Obligation Debt	$ 827,558	$ 806,138	$ 785,384	$ 754,424	$ 741,169
Contingent (Guaranteed) Debt	80,366	73,495	69,766	73,736	67,589
Less: Self-Supporting Debt	(301,796)	(312,448)	(306,219)	(305,311)	(292,804)
Total Net General Fund Debt	606,128	567,185	548,931	522,849	515,954
Per Capita Debt[1]:					
Direct General Obligation Bonds	$620	$604	$585	$558	$545
Net General Fund Debt	$454	$425	$409	$386	$379
Ratio of Debt to Personal Income[1]					
Direct General Obligation Bonds	1.11%	1.08%	0.98%	0.91%	0.86%
Net General Fund Debt	0.81%	0.76%	0.69%	0.63%	0.60%
Ratio of Debt to Estimated Full Value:					
Direct General Obligation Bonds	0.50%	0.46%	0.43%	0.39%	0.36%
Net General Fund Debt	0.37%	0.33%	0.30%	0.27%	0.25%
General Fund Unrestricted Revenues	1,528,800	1,503,190	1,595,673	1,622,002	1,525,395
Debt Service Expenditures[2]	90,280	90,710	90,674	93,668	91,730
Debt Service as a Percent of General Fund Unrestricted Revenues	5.91%	6.03%	5.68%	5.77%	6.01%
Population (in thousands)	1,334	1,335	1,343	1,353	1,360
Total Personal Income (in millions)	74,388	74,687	80,122	8,143	86,345
Estimated Full Value (in thousands)	$165,140,011	$173,365,434	$182,759,870	$194,656,334	$207,887,399

[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
as of June 30, 2020

	General Obligation Debt	Net General Fund Debt
5 years..	50%	51%
10 years......................................	81	80
15 years......................................	95	95
20 years......................................	100	100

Recent Debt Issuances

In recent years, the State has issued bonds 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,				
	2016	**2017**	**2018**	**2019**	**2020**
Beginning Debt	$ 918,168	$ 827,558	$ 806,139	$ 785,384	$ 754,424
Bonds Issued	0	118,260	70,855	63,410	80,865
Total Net Debt	918,168	945,818	877,024	848,794	835,289
Less: Bonds Paid	90,610	85,904	91,640	94,370	94,120
Defeasance	0	53,775	0	0	0
Ending Debt	$827,558	$806,139	$ 785,384	$ 754,424	$ 741,169

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, 2020. 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 in the amount of $110.0 million with expected subsidy payments of $9 million over the remaining life of the bonds as of June 30, 2020. With the exception of one minor withheld amount, which has since been rectified, prior to sequestration, the State had received interest subsidy payments from the federal government equal to 35% of the actual interest payable on such "Build America Bonds." Federal sequestration has cut a percentage of these direct pay subsidies for fiscal years 2013 through 2020 and is expected to cause further reductions in fiscal year 2021 and beyond. The result in State fiscal year 2020 was a reduction of $107,657 in subsidy interest payments on general obligation bonds. See "STATE FINANCES – *State Revenues – Federal Sequestration.*"

Direct General Obligation Debt
as of June 30, 2020(1)
(In Thousands)

Fiscal Year Ending June 30,	Principal	Interest	Total
2021	$ 86,840	$ 32,012	$118,852
2022	81,620	28,343	109,963
2023	72,175	24,475	96,650
2024	66,930	21,084	88,014
2025	63,740	18,037	81,777
2026	55,840	15,396	71,236
2027	51,720	12,855	64,575
2028	45,925	10,598	56,523
2029	38,790	8,506	47,296
2030	35,625	6,755	42,380
2031	25,760	5,337	31,097
2032	19,095	4,289	23,384
2033	20,535	3,510	24,045
2034	18,300	2,678	20,978
2035	18,129	1,952	20,081
2036	10,935	1,420	12,355
2037	11,400	969	12,369
2038	8,865	591	9,456
2039	5,740	291	6,031
2040	3,205	80	3,285
Total	$741,169	$199,179	$940,347

(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.

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 Treasury does not currently anticipate any temporary borrowings in fiscal years 2021 or 2022.

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, 2020, the State had statutorily authorized but unissued direct general obligation debt in the total principal amount of $234 million, under various laws. This amount does not include the State's Turnpike System and GARVEE 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. Chapter 193 of the Laws of 2012 authorized an additional $250 million of GARVEE bonds, for a total authorized amount of $445 million. 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. Another $115 million of GARVEE bonds were issued on May 30, 2012 for the continued work on widening I-93, specifically, three identified construction projects associated with I-93 exits 2 and 3 in Salem and Windham, respectively, and an additional project subsequently authorized for engineering on I-93 widening from exit 3 north to the I-293 split in Manchester. The bonds issued in May 2012 were fully paid in September 2020. Additionally, Chapter 231 of the Laws of 2010 authorized the issuance of an additional $45 million of GARVEE bonds for the purpose of financing a portion of the State's share of the replacement of the Memorial Bridge and Sarah Mildred Long Bridge, both located on the Seacoast between New Hampshire and Maine. The Memorial Bridge and Sarah Mildred Long Bridge have been replaced and are in operation, with the cost split between New Hampshire and Maine. New Hampshire did not use GARVEE bonds as a means of financing the construction cost of either bridge. The New Hampshire Ten Year Transportation Improvement Plan 2021-2030, Chapter 33 of the Laws of 2020, modified RSA 228-A:2 to remove bonding for 2 Connecticut River bridges located in Lebanon, New Hampshire and Hinsdale, New Hampshire, as well as the Memorial Bridge and Sarah Mildred Long Bridge. The State did not use GARVEE bonds as a means of financing these bridges.

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.

Purpose	Guarantee Limit as of June 30, 2020	Remaining Guarantee Capacity as of June 30, 2020
Local Water Pollution Control Bonds	$50.0 million(1)(2)	$50.0 million
Local School Bonds	95.0 million(1)(2)	76.8 million
Local Superfund Site Bonds	20.0 million(4)	20.0 million(3)
Local Landfill and Waste Site Bonds	10.0 million(1)(2)	10.0 million
Business Finance Authority Bonds, Loans	145.0 million(1)(4)	92.7 million(3)
Pease Development Authority	70.0 million(4)	13.9 million(3)
Housing Finance Authority Child Care Loans	0.3 million(1)(2)	0.3 million

(1) Revolving limit.
(2) Limit applies to total principal and interest.
(3) Plus interest.
(4) Limit applies to principal only.

Since June 30, 2020, the Business Finance Authority has issued $6 million of State guaranteed bonds pursuant to its programs.

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. For example, Chapter 30:7, Laws of 2020 amended RSA 6 by adding section 6:13-e which authorizes $50 million in general obligation bonds for the purpose of funding certain environmental projects for PFAS remediation. Unlike the borrowing authority for most capital budget projects, this authorization allows for maturities of up to 30 years from the date of issue and is non-lapsing. It also provides, pursuant to RSA 485-H:6, I, that any borrowing shall be paid with general fund unrestricted revenues; however, reimbursement shall made from settlement funds received via lawsuits against PFAS manufacturers. See "LITIGATION – Other Matters - *Potential Claims Relating to PFAS Environmental Issues*."

The following table sets out the State's capital budget appropriations and bonds authorized for the 2020-21 biennium as authorized by Chapter 146, Laws of 2019.

Capital Appropriations and Bonds Authorized

	Biennium Ending June 30, 2021
Adjutant General	$ 28,625,000
Administrative Services	23,345,000
Community-Technical College System	7,465,500
Corrections	7,404,000
Education	18,550,000
Environmental Services	23,861,670
Fish & Game	400,000
Health & Human Services	10,369,352
Information Technology	4,292,500
Judicial Branch	1,710,000
Liquor Commission	2,000,000
Pease Development Authority/Ports	756,250
Police Standards and Training	1,185,000
Natural and Cultural Resources	6,685,000
Safety	6,711,000
Transportation	106,373,987
University System of New Hampshire	10,000,000
Veteran's Home	1,170,000
Gross Appropriations	260,903,759
Less-Federal, Local & Other Funds	103,914,648
Net Bonds Authorized	$156,989,111
Funding of Bonds	
Highway Funded	$ 24,245,150
Other Funded	7,762,000
General Funded	124,981,961
Net Bonds Authorized	$156,989,111

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 to follow are as of June 30, 2020.

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 $281.2 million of such bonds were outstanding as of February 28, 2021.

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 27 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 $98 million of such bonds were outstanding as of June 30, 2020. 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 Health and Education 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, 2020, no bonds remain outstanding 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 and are guaranteed by the State. As of June 30, 2020, no bonds remain outstanding under this program.

State Guaranteed Local School Bonds. The Governor with the advice and consent of the Council may agree to award an unconditional State guarantee for the payment of not more than $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, 2020, $18.2 million of principal and interest was guaranteed under this program. This amount includes approximately $15.2 million of principal due on such bonds.

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, 2020, all previously outstanding bonds guaranteed under this program have been paid.

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, 1993, and 2015 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. As of June 30, 2019, $20 million of such guaranteed bonds were outstanding, all of which were scheduled to mature on November 1, 2020. In March 2020, the Authority refinanced these bonds with $20 million State guaranteed fixed rate refunding bonds that mature February 1, 2030.

The Authority is authorized 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; $11.6 million of such guaranteed revenue bonds were currently outstanding as of June 30, 2020.

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 $115 million at any time.

As of June 30, 2020, $20.7 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.

Pursuant to legislation enacted with the state budget in September 2019, the Authority may recommend that the Governor and Council award State guarantees of certain indebtedness of businesses located in unincorporated areas of the state, but the total principal amount of indebtedness guaranteed for such purposes may not exceed $30 million at any time. This $30 million is calculated separately from and unrelated to the aforementioned $115 million.

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 June 30, 2020, the Pease International Tradeport had 4.86 million square feet of new or renovated office/R&D/manufacturing space with over 250 companies employing more than 10,500 direct hires with another 5,125 indirect hires resulting from companies not located at Pease but doing business with companies at Pease.

As of June 30, 2020, PDA was authorized to issue bonds, not exceeding in the aggregate $250.0 million, and the Governor and Council may award an unconditional State guarantee to secure up to $105.0 million in principal amount plus interest on those bonds. The remaining guarantee capacity at June 30, 2020 was $48.9 million. The $105.0 million unconditional State guarantee was made up of two separate statutory provisions, one of which is $35.0 million that may be awarded by the Governor and Council after the approval of a PDA comprehensive development plan for a research district at the PDA. Bonds have never been issued under these statutory provisions, and the authority to issue the $35.0 million of State-guaranteed development bonds was repealed by Chapter 346, Laws of 2019.

The remaining guarantee provision authorizes the State to issue up to $70.0 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. Under this program, there is currently no debt outstanding; however, there remains capacity to borrow up to $48.9 million on a one-time basis pursuant to this guarantee.

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 particular 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, 2020, no outstanding debt was guaranteed under this program.

New Hampshire Municipal Bond Bank. The New Hampshire Municipal Bond Bank ("NHMBB") 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. As of June 30, 2020, the amount of bonds issued and outstanding pursuant to the NHMBB reserve fund requirement totaled $769.8 million.

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. The State created the New Hampshire Higher Educational and Health Facilities Authority (formerly the New Hampshire Higher Education and Health Facilities Authority) as a public body corporate and agency of the State to provide financing for the State's nonprofit health and educational facilities and the University System. The bonds and notes issued by the Authority are not a debt or obligation of the State and no State funds may be used for their repayment. Moreover, bonds issued for the University System by the Authority constitute limited obligations of the University System payable solely from designated enterprise revenues.

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 both a cost-sharing multiple-employer pension plan (the "Pension Plan") and a medical subsidy plan (the "Medical Subsidy Plan" 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, 2020, there were approximately 48,479 active, 2,661 inactive vested, 13,760 inactive non-vested, and 39,612 retired members of the System. The System provides service, disability, death and vested deferred pension retirement benefits to its members and their beneficiaries. The Medical Subsidy Plan provides 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 some part of 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 System flows back to the State. See "HEALTH CARE COVERAGE FOR RETIRED EMPLOYEES."

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 being 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 plan through the Medical Subsidy Plan. The Medical Subsidy Plan is 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. Under current law, the cash outflow necessary to make benefit payments will continue until all benefits are paid. By law effective July 1, 2011, the maximum benefit payable is capped and the subsidy amount is not to be increased, provided, however, that all legislative provisions are subject to amendment or modification, within constitutional limits. Medical subsidy payments are made directly to former employers (State and local governments) 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. For information regarding additional health care benefits provided directly by the State for retired employees, see "HEALTH CARE COVERAGE FOR RETIRED EMPLOYEES" below.

Additional information pertaining to the Pension Plan is contained in the State's audited financial statements for the year ended June 30, 2020 at note 11 and in the Required Supplementary Information about the System (page 109), which financial statements are included as Exhibit A to this Information Statement. The System's audited financial statements for the year ended June 30, 2020 are also included in the State's Comprehensive Annual Financial Report for the year ended June 30, 2020 (the "2020 State Annual Financial

Report"), which report is also incorporated herein by reference and may be accessed at *https://das.nh.gov/accounting/reports.asp*. The 2020 State Annual Financial Report has also been filed with the EMMA and 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 its web site at *www.nhrs.org*. The System's Comprehensive Annual Financial Report for the year ended June 30, 2020 (the "2020 System Annual Financial Report") and the Annual Financial Report Schedules, GASB Statement Nos. 67 and 74 Plan Reporting and Accounting Schedules June 30, 2020 are currently available at *https://www.nhrs.org/funding-and-investments/reports-valuations/annual-report-archive,* along with the most recent full actuarial valuation, the Actuarial Valuation Report as of June 30, 2019 (the "2019 Actuarial Valuation").The Fiscal Year 2016-2019 Experience Study, which is the most recent available actuarial experience study, is also available at that website location. 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") accepted the 2015 Actuarial Valuation on September 13, 2016, and used that valuation to certify the employer contribution rates for the 2018-2019 biennium at that same meeting. The Board accepted the 2017 Actuarial Valuation on September 11, 2018, and used that valuation to certify the employer contribution rates for the 2020-2021 biennium at that same meeting. The Board accepted the 2019 Actuarial Valuation on August 11, 2020, and used that valuation to certify the employer contribution rates for the 2022-2023 biennium at their meeting on September 8, 2020.

At its December 10, 2019 meeting, the Board accepted the 2019 System Annual Financial Report, and accepted the audited fiscal year 2020 Annual Financial Report at its December 8, 2020 meeting. See also *Results of Actuarial Valuations* and *GASB Statements No. 67 and 68* below.

See also *Results of Actuarial Valuations* and *GASB Statements No. 67 and 68* below.

Financing

The financing of the System is provided through both member and employer contributions from the State and political subdivisions. 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 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 to the same extent as is certified."

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 Plan is divided into four membership 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 no longer shares in the funding of local employer contributions, with the exception of a one-time payment of $3.5 million that was paid in fiscal year 2012.

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 removed State funding for local employer contributions with the exception of $3.5 million in fiscal year 2012 noted above. As a result of significant legislative changes made in 2011 to pension eligibility, benefits and other provisions, coupled with increased member contributions, the State paid approximately $63.2 million less in fiscal year 2012 and $65.6 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. The budgets adopted for fiscal years after 2013 did not include any State funding for local employer contributions. See "*Total Employer Contributions to NHRS*" tables below.

Chapter 224, Laws of 2011 included many changes to eligibility and pension benefits, primarily for new members and members that were not vested as of January 1, 2012. These changes were 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 used to calculate pension benefits will be calculated using the highest five years' salary rather than the 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.

The Actuarially Determined Contribution ("ADC") (formerly referenced as the Annual Required Contribution or ARC) from the State to the NHRS shown below represents both Pension Plan and Medical Subsidy Plan 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.

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

			State Share					
Fiscal Year	**Total Employer**	**% of ADC**	**For State Employees**	**On Behalf of Local**	**Total**	**State Share % of Total**	**Local Share**	**Local Share % of Total**
2021*	$503.7	100%	$98.7	$0.0	$98.7	20%	$405.0	80%
2020	491.5	100%	98.2	0.0	98.2	20%	393.3	80%
2019	479.9	100%	97.4	0.0	97.4	20%	382.5	80%
2018	466.9	100%	92.8	0.0	92.8	20%	374.1	80%
2017	425.8	100%	90.2	0.0	90.2	21%	335.6	79%
2016	415.7	100%	87.1	0.0	87.1	21%	328.6	79%
2015	381.2	100%	85.0	0.0	85.0	22%	296.2	78%
2014	377.3	100%	80.8	0.0	80.8	21%	296.5	79%
2013	299.5	100%	66.0	0.0	66.0	22%	233.5	78%
2012	303.5	100%	70.2	3.5	73.7	24%	229.8	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%

*Amounts for 2021 are projected.
Note: State contributions are projected to continue to represent 20% of employer contributions in both fiscal years 2022 and 2023.

Starting in fiscal year 2007, changes were made to the way the Medical Subsidy Plan was 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 Subtrust 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, 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 Plan. 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.

2011-2015 Experience Study

On May 10, 2016 the Board of Trustees accepted an actuarial experience study (the "2011-2015 Experience Study") for the period July 1, 2010 through June 30, 2015. The 2011-2015 Experience Study contains related information regarding the System and can be accessed in its entirety at ***https://www.nhrs.org/docs/default-source/actuarial/july-1-2010---june-30-2015-experience-study.pdf?sfvrsn=4.*** In addition to demographic and economic assumptions recommended by the System's actuary, significant recommendations included reducing the 7.75% investment rate of return to within a range of 7.0% to 7.5% and reducing the 3.75% assumed payroll growth to within a range of 3.0% to 3.50%. The Board of Trustees voted on May 10, 2016 to adopt 7.25% as the assumed rate of return and a 3.25% payroll growth rate for all member groups except teachers, which was reduced to 2.75%, for developing the 2017 Actuarial Valuation.

2016-2019 Experience Study

On December 10, 2019, the Board of Trustees, in response to a recommendation from the System's actuarial consultant, voted to initiate the next actuarial experience study earlier than statutorily required to cover the four year period July 1, 2015 through June 30, 2019 (the "2016-2019 Experience Study). This action was taken to allow the changes in actuarial assumptions resulting from the experience study to be factored into the 2019 Actuarial Valuation, which was used to set the required contribution rates for fiscal years 2022 and 2023.

The draft 2016 -2019 Experience Study was presented by the actuarial consultant to the Board at its May 12, 2020 meeting, and the Board voted at its June 9. 2020 meeting to adopt revised actuarial assumptions as recommended by its actuaries. The revised assumptions included:

- Reduced the assumed rate of investment return from 7.25% to 6.75%
- Updated demographic assumptions, including merit and longevity salary increases, disability rates, retirement rates, and mortality tables (specifically the new public pension plan mortality tables).
- Reduced wage inflation from 3.25% to 2.75% (2.25% for teachers)
- Reduced price inflation from 2.5% to 2.0%
- Increased the medical subsidy margin for teachers from 0.20% to 0.50%

These new assumptions, which better reflect the retirement system's actual and anticipated experience, were used in the 2019 Actuarial Valuation. By statute, this valuation was used by the Board in September to certify employer contribution rates for fiscal years 2022 and 2023. The new demographic assumptions added $258.5 million to the UAAL, while the new economic assumptions added $680.4 million to the UAAL, for a total increase to the UAAL of $938.8 million. The 2016-2019 Experience Study contains related information regarding the System and can be accessed in its entirety at ***https://www.nhrs.org/docs/default-source/actuarial/july-1-2015---june-30-2019-experience-study.pdf?sfvrsn=208f00b4_4.***

Results of Actuarial Valuations

In each year, the actuarial consultant for NHRS conducts valuations that provide the actuarial information necessary for inclusion in the Annual Financial Report schedules and located at https://www.nhrs.org/funding-and-investments/reports-valuations/annual-report-archive. Biennially in each odd-numbered year, the NHRS also has actuarial valuations for contribution rate setting purposes performed by the actuarial consultant, the results of which are used to determine the employer contribution rate for the next succeeding biennium. For example, the 2017 Actuarial Valuation was used to set required contributions for fiscal years 2020 and 2021, and the 2019 Actuarial Valuation was used to certify required contributions for fiscal years 2022 and 2023. The 2019 Actuarial Valuation was accepted by the Board at its August 11, 2020 meeting and the valuation was used to certify employer contribution rates for the fiscal year 2022-2023 biennium at the September 8, 2020 meeting pursuant to RSA 100-A:16, III. Overall, rates increased approximately 20 percent as compared to the most recent biennium, primarily due to adjustments to the actuarial assumptions adopted by the Board in June as a result of the 2016 -2019 Experience Study. See "2016-2019 Experience Study" above.

The net assets at actuarial value available to pay pension benefits as of June 30, 2020 were reported to be $9,447.8 million. The market value of pension net assets as of June 30, 2020 was approximately $351.9 million less than the actuarial value. The total pension accrued liability at June 30, 2020 was $15,488.1 million, resulting in an unfunded accrued actuarial liability ("UAAL") at June 30, 2020 of $6,040.2 million and a funded ratio of 61.0%. The Actuarial Valuation Report as of June 30, 2019 was accepted by the Board at its August 11, 2020 meeting. The net assets at actuarial value available to pay pension benefits as of June 30, 2019 were reported to be $9,121.9 million. The market value of pension net assets was approximately $49.0 million more than the actuarial value. The total pension accrued liability at June 30, 2019 was $15,014.2 million, resulting in an unfunded accrued actuarial liability ("UAAL") at June 30, 2019 of $5,892.2 million and a funded ratio of 60.8%.

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, up until 2018, 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 original 30-year UAAL amortization began with fiscal year 2010. In 2018, legislation was enacted to recognize actuarial gains and losses incurred after July 1, 2017, over closed periods of no more than 20 years. This is referred to as "layered amortization" of the UAAL. The outstanding UAAL balance as of June 30, 2017, referred to as the "Initial UAAL," remains scheduled to be paid by 2039. New two-year layers will be established as they occur in future biennial valuations and will be amortized over separate periods of no more than 20 years. This approach will spread future actuarial gains and losses more evenly over time, avoid some of the potential employer contribution rate volatility as 2039 approaches, and provide a basis to deal with gains and losses incurred beyond 2039.

Actuarial Valuations can be viewed in their entirety at *http://www.nhrs.org/funding-and-investments/reports-valuations/annual-report-archive.*

The actuary for the Plans uses several actuarial assumptions including the current investment return rate at 6.75% (and 2.75% for Medical Subsidy Plan for funding purposes) and the payroll growth rate at 2.75% (2.25% for teachers). 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 investment returns on 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. For example, the use of the corridor in the 2009 actuarial valuations for the Plans lowered the actuarial value of assets that would have otherwise been established in its absence and thus raised the required employer contribution rates in fiscal years 2012 and 2013.

The NHRS medical subsidy UAAL with the actuarial assumptions accepted by the Board as part of the 2016 - 2019 Experience Study, was $618.5 million as of June 30, 2020, which represented a decrease of approximately $40.3 million as compared to the UAAL as of June 30, 2019 of $658.8 million. This liability is separate and in addition to the State's other postemployment benefits ("OPEB") liability discussed under "HEALTH CARE COVERAGE FOR RETIRED EMPLOYEES."

Employer contribution rates depend on actuarial assumptions and plan experience. As described above, the assumptions for the investment rate of return, rate of inflation, and rate of payroll growth were changed following the acceptance of the 2016-2019 experience study to 6.75%, 2.0%, and 2.75% (2.25% for teachers), respectively. These assumptions were used beginning with the 2019 Actuarial Valuation. All actuarial assumptions will be re-examined as part of the next Experience Study, which is scheduled to cover the period 2020-2023.

New Hampshire Retirement System
Pension and Medical Subsidy Plan Assumptions

	Pension Plan	**Medical Subsidy Plan**
Actuarial Cost Method	Entry age normal	Entry age normal
Amortization Method	Level percentage of payroll, closed	Level percentage of payroll, closed
Amortization Period	Original UAAL 30 years from 7/1/2009; each biennial layer after 6/30/17 no more than 20 years	*
Asset valuation method	5-year smoothed market	5-year smoothed market
Actuarial Assumptions:		
Investment rate of return*	6.75%	2.75%
**Price Inflation*	2.0%	2.0%
Rate of Payroll Growth	2.75% (2.25% for teachers)	2.75% (2.25% for teachers)
Valuation Health Care Trend Rate	N/A	N/A-The Medical Subsidy Plans provide a specific dollar subsidy to be used for health care. 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 is intended to meet or exceed the contribution that would be otherwise necessary to amortize the liability under a 30-year amortization period.

The rates for fiscal years 2014 and 2015 were certified by the Board on September 11, 2012 following acceptance of the 2011 Actuarial Valuation on July 10, 2012, ahead of the October 1, 2012 statutory requirement. The rates for 2016 and 2017 were certified by the Board of Trustees on September 9, 2014. The rates for 2018 and 2019 were certified by the Board of Trustees on September 13, 2016. The rates for 2020 and 2021 were certified by the Board on September 11, 2018, and the rates for 2022 and 2023 were certified by the Board on September 8, 2020.

Combined Employer Contribution Rates for Pension Plan and Medical Subsidy Plan For Fiscal Years 2014-2023 Certified by the NHRS Board

	Certified				
	2014 and 2015	**2016 and 2017**	**2018 and 2019**	**2020 and 2021**	**2022 and 2023**
Employees					
State	12.13%	12.50%	12.15%	11.93%	14.53%
Political Subdivisions	10.77	11.17	11.38	11.17%	14.06%
Teachers	14.16	15.67	17.36	17.80%	21.02%
Police					
State	25.40	26.38	29.43	28.43%	33.88%
Political Subdivisions	25.40	26.38	29.43	28.43%	33.88%
Fire					
State	27.85	29.16	31.89	30.09%	32.99%
Political Subdivisions	27.74	29.16	31.89	30.09%	32.99%

The employer contribution rates are established at levels necessary to fund both the “normal” cost and the amortization of the UAAL. Most of the contribution rates relate to the UAAL amortization. For example, for fiscal years 2022 and 2023, the UAAL portion of the employer contribution rate, as a % of covered payroll, for State Employees is 11.17%, for State police is 23.95% and State fire is 22.71%.

The remaining amortization of the initial UAAL, as a level percentage of payroll, over the current amortization period that ends in fiscal year 2039 will require increasing amounts of annual employer contributions. The 2019 Actuarial Valuation projected that the UAAL payment for the pension plan would increase from approximately $352 million in fiscal year 2021 to approximately $715 million in fiscal year 2039, the last year of the closed initial UAAL amortization period. This projection assumes a 6.75% actuarial rate of return. In addition, actual experience will likely differ from the assumptions used in each actuarial valuation and the actual amounts to be contributed with respect to "normal costs" and the UAAL amortization may be higher or lower than currently projected and, depending upon actual future circumstances, such variances could be material. The State's share of total employer contributions to the System for the years ended June 30, 2019 and 2020 was approximately 20% and is expected to remain at 20% for fiscal years 2021, 2022, and 2023. The State's share in future years may vary. See "*GASB Statements No. 67 and 68*" below.

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 Plan. Fiscal year 2011 legislation authorized the transfer of all but funds needed to pay the temporary supplemental annuity (TSA) payment due July 1, 2012 from the Special Account to the Pension Plan. Fiscal year 2012 legislation repealed the Special Account as of July 1, 2012. The purpose of the Special Account was to fund additional benefits, such as cost of living adjustments (COLAs). Special Account assets are not included in the Ten Year History of Pension Plan Funding Status table below for years prior to 2012. Fiscal year 2018 legislation authorized a TSA payment to retirees that met certain criteria. This TSA was generally funded by the State at a cost of $3.9 million and was paid to approximately 7,795 eligible retirees. Legislation enacted in 2019 (House Bill 616) granted a one-time, 1.5% COLA on the first $50,000 of an annual pension benefit to members who retired on or before July 1, 2014, or any beneficiary of such member who is receiving a survivorship pension benefit. The COLA will take effect on the retired member's first anniversary date of retirement occurring after July 1, 2020. COLAs and other supplemental allowances are not automatic every year. The Legislature must vote on what, if any, COLAs or other allowances will be granted. This is the first COLA since 2010. The COLA will be funded over 20 years through an increase in employer contribution rates that will begin in fiscal year 2022.

NEW HAMPSHIRE RETIREMENT SYSTEM
TEN YEAR HISTORY OF PENSION PLAN ACTUARIAL FUNDING STATUS
FISCAL YEARS 2011-2020
(All Dollar Amounts in Thousands)

Actuarial Valuation Date (June 30)	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio
2020	$9,447,838	$15,488,015	$6,040,177	61.0%
2019	9,121,933	15,014,165	5,892,232	60.8
2018	8,710,939	13,703,148	4,992,209	63.6
2017	8,165,684	13,208,449	5,042,765	61.8
2016	7,636,066	12,732,866	5,096,800	60.0
2015	7,280,761	12,303,636	5,022,875	59.2
2014	6,700,554	11,045,174	4,344,620	60.7
2013	6,070,681	10,708,768	4,638,087	56.7
2012	5,817,882	10,361,600	4,543,718	56.1
2011	5,740,516	9,998,251	4,257,735	57.4

Note: Liabilities were determined under the entry age normal actuarial cost method.

Source: Information for fiscal years 2016, 2018 and 2020 is shown in the Annual Financial Report Schedules and GASB 67 Plan Reporting and Accounting Schedules prepared by the NHRS actuarial consultant for each respective year. Information for fiscal year 2010 – 2015, 2017, and 2019 are shown in the respective Actuarial Valuation reports prepared by the NHRS actuarial consultant for those respective years.

NEW HAMPSHIRE RETIREMENT SYSTEM
TEN YEAR HISTORY OF MEDICAL SUBSIDY PLAN FUNDING STATUS
FISCAL YEARS 2011-2020
(All Dollar Amounts in Thousands)

Actuarial Valuation Date (June 30)	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio
2020	$38,125	$656,648	$618,522	5.8%
2019	36,646	706,339	695,424	5.3
2018	36,777	689,577	652,800	5.3
2017	38,853	696,548	657,695	5.6
2016	27,350	730,132	702,782	3.7
2015	19,515	761,342	741,827	2.6
2014	21,246	714,104	692,858	3.0
2013	21,823	731,872	710,049	3.0
2012	24,317	752,759	728,442	3.2
2011	33,218	777,572	744,354	4.3

Note: Liabilities were determined under the entry age normal actuarial cost method.

Source: Information for fiscal years 2016, 2018 and 2020 is shown in the Annual Financial Report Schedules and GASB 67 Plan Reporting and Accounting Schedules prepared by the NHRS actuarial consultant for those respective years. Information for fiscal years 2010 – 2015, 2017, and 2019 is from the Actuarial Valuation Report prepared by the NHRS actuarial consultant for those respective years.

GASB Statements No. 67 and 68

GASB Statements No. 67 and 68, issued on June 30, 2012, set forth new standards that modified the accounting and financial reporting of the State's pension obligations. The standards for governments that provide employee pension benefits require the State to report in its statement of fiduciary net position a net pension liability, defined as the difference between the total pension liability (the present value of projected benefit payments to employees based on their past service) and the assets (mostly investments reported at fair value) set aside in a trust and restricted for the payment of benefits to current employees, retirees and their beneficiaries. The standards require immediate recognition of more pension expense than was previously required. The rate used to discount projected benefit payments to their present value is based on a single rate that reflects (a) the long-term expected rate of return on plan investments as long as the plan net position is projected under specified conditions to be sufficient to pay pensions of current employees and retirees and the pension plan assets are expected to be invested using a strategy to achieve that return or (b) a yield or index rate on tax-exempt 20-year AA-or-higher rated municipal bonds to the extent that the conditions for use of the long-term expected rate of return are not met. The Plan meets the criteria in (a) and the assumed rate of return of 7.75% in place at that time as established by the Board was initially used as the discount rate. The discount rate in effect at the time the fiscal year calculations were made was 7.25%. The new standards were effective for the System in fiscal year 2014 and for the State in fiscal year 2015. (See State of New Hampshire Annual Financial Report Notes to the Basic Financial Statements: Note 1, Section U and Note 11). NHRS has reflected the new GASB 67 requirements beginning in the fiscal year 2014 Annual Financial Report that was issued in December 2014. The initial GASB 68 report was issued using June 30, 2014 data. GASB 68 reports are available on the NHRS website at: *https://www.nhrs.org/employers/employer-resources/gasb/gasb-reports.*

The Pension Plan is a cost-sharing, multiple-employer plan. Accordingly, the State's obligation with respect to the Pension Plan is a proportionate share, as determined in accordance with GASB 67 and GASB 68. For the Pension Plan as a whole, the Total Pension Liability ("TPL") and Pension Plan's fiduciary net position reported as of June 30, 2020 were approximately $15.494 billion and $9.097 billion, respectively, resulting in a Net Pension Liability ("NPL") of approximately $6.396 billion reported as of June 30, 2020. As of June 30, 2019 the TPL and fiduciary net position reported by the System were approximately $13.982 billion and $9.170 billion, respectively, resulting in an NPL of approximately $4.812 billion reported as of June 30, 2019.

GASB 67 requires that a Pension Plan's reporting date must be identical to its measurement date; however GASB 68 allows employers to have a measurement date up to one year before their reporting date, so there is a one year lag between the Plan's reporting date and the State's reporting date. For the System's NPL reported as of June 30, 2020, the portion allocable to the State was $1.192 billion and will be reported in the 2021 State Annual Financial Report. For the System's NPL reported as of June 30, 2019, the portion allocable to the State was approximately $0.904 billion and was reported in the 2020 State Annual Financial Report. For the System's NPL reported as of June 30, 2018 the portion allocable to the State was approximately $0.887 billion and was reported in the 2019 State Annual Financial Report.

The System did not experience a "crossover date" in connection with determination of the NPL and accordingly, the measurement of the State's NPL for both fiscal years 2018 and 2019 assumes a 7.25% discount rate which was the same as the expected rate of return of Plan investments for the System at that time. The fiscal year 2019 Annual Financial Report was issued before the completion of the 2016-2019 Experience Study and the 2019 Actuarial Valuation, so the expected rate of return was still at 7.25%. In fiscal year 2020, the System also did not experience a "crossover date" in connection with determination of the NPL and accordingly, the measurement of the State's NPL for fiscal year 2020 assumes a 6.75% discount rate which is the same as the current expected rate of return of Plan investments for the System. The rate of return on the market value of assets for the fiscal year ended June 30, 2018 was 8.9%, for the fiscal year ended June 30, 2019 was 5.7%, and for fiscal year ended June 30, 2020 was 1.1%.

The NPL can fluctuate up and down from year to year. The major contributors for fluctuations in the NPL are the difference between the projected and actual earnings on investments, the difference between expected and actual experience, changes in benefits and changes in assumptions.

Implementation of GASB 68 also requires setting forth the sensitivity of the NPL using an assumed discount rate that is one percentage point lower and one percentage point higher than the current rate. For the State's portion of the Plan's NPL reported as of June 30, 2020, a 1% decrease in the discount rate would increase the State's NPL from $1.192 billion to approximately $1.544 billion while a 1% increase in the discount rate would decrease the State's NPL to approximately $0.905 billion. For the Plan's reported NPL as of June 30, 2019, a 1% decrease in the discount rate would increase the State's NPL from $0.904 billion to approximately $1.211 billion and a 1% increase would lower it to approximately $0.651 billion.

While GASB 68 changes the way state and local governments report pension benefits in their financial statements it does not impact pension funding requirements or contribution amounts. To date, the State has generally contributed to the System 100% of the amounts required to be so contributed, as determined in accordance with actuarial valuations.

GASB Statements No. 74 and 75

GASB Statements No. 74 and 75, issued on June 30, 2015, set forth new standards that modified the accounting and financial reporting of the State's Postemployment Benefit Plans Other Than Pension Plans (OPEB), including the System's Medical Subsidy Plan. See "HEALTH CARE COVERAGE FOR RETIRED EMPLOYEES" for information regarding the State's OPEB liability. The following discussion in this section pertains to the System's Medical Subsidy Plan.

The new standards for governments that provide postemployment benefits other than pensions require the State to report in its statement of fiduciary net position a net OPEB liability, defined as the difference between the total OPEB liability (the present value of projected benefit payments to employees based on their past service) and the assets (mostly investments reported at fair value) set aside in a trust and restricted for the payment of OPEB to current employees, retirees and their beneficiaries. The new standards require immediate recognition of more OPEB expense than was previously required. The rate used to discount projected benefit payments to their present value is based on a single rate that reflects (a) the long-term expected rate of return on plan investments as long as the plan net position is projected under specified conditions to be sufficient to pay OPEB of current employees, retirees and beneficiaries and the OPEB plan assets are expected to be invested using a strategy to achieve that return or (b) a yield or index rate on tax-exempt 20-year AA-or-higher rated municipal bonds to the extent that the conditions for use of the long-term expected rate of return are not met. The Medical Subsidy Plan meets the criteria in (a) and the assumed rate of return of 7.25% as established by the Board was used as the discount rate. The new standards were effective for the System in fiscal year 2017 and for the State in fiscal year 2018. NHRS has reflected the new GASB 74 requirements beginning in the System's fiscal year 2017 Annual Financial Report that was issued in December of 2017 and continued into the 2018 System Annual Financial Report issued in December of 2018. In June of 2018, the initial GASB 75 report was issued with a reporting date of June 30, 2017 using June 30, 2016 data, and in January of 2019 the GASB 75 report with a reporting date of June 30, 2018 was issued. GASB 74 and 75 reports are available on the NHRS website at: ***http://www.nhrs.org/employers/employer-resources/gasb/gasb-reports.***

The Medical Subsidy Plan is a cost-sharing, multiple-employer plan. Accordingly, the State's obligation with respect to the Medical Subsidy Plan is a proportionate share, as determined in accordance with GASB 74 and GASB 75. According to the unaudited fiscal year 2020 results, for the Medical Subsidy Plan as a whole, the Total OPEB Liability ("TOL") and Medical Subsidy Plan's fiduciary net position reported as of June 30, 2020 were approximately $474.4 million and $36.7 million, respectively, which results in a Net OPEB Liability ("NOL") of approximately $437.7 million as of June 30, 2020. As of June 30, 2019, the TOL and Medical Subsidy Plan's fiduciary net position reported were approximately $475.3 million and $36.8 million, respectively, which results in a Net OPEB Liability ("NOL") of approximately $438.4 million as of June 30, 2019. GASB 74 requires that System's Medical Subsidy Plan reporting date must be identical to its measurement date; however GASB 75 allows employers to have a measurement date up to one year before their reporting date, there is a one year lag between the System's Medical Subsidy Plan reporting date and the State's reporting date. For the System's TOL reported as of June 30, 2020, the portion allocable to the State was approximately $86.9 million and will be reported in the 2021 State Annual Financial Report. For the System's TOL reported as of June 30, 2019, the portion allocable to the State was approximately $90.4 million and was reported in the 2020 State Annual Financial Report.

The System did not experience a "crossover date" in connection with determination of the NOL and accordingly, the measurement of the State's NOL for fiscal year 2018 and 2019 assumed a 7.25% discount rate, which was the same as the expected rate of return of Pension Plan investments for the System at that time. According to the unaudited fiscal year 2020 results, the System also did not experience a "crossover date" in connection with determination of the NOL and accordingly, the measurement of the State's NOL for fiscal years 2020 assumes a 6.75% discount rate which is the same as the current expected rate of return of Plan investments for the System. The rate of return on the market value of assets for the fiscal year ended June 30, 2018 was 8.9%, for the fiscal year ended June 30, 2019 was 5.7%, and for fiscal year ended June 30, 2020 was 1.1%.

The NOL can fluctuate up and down from year to year. The major contributors for fluctuations in the NOL are the difference between the projected and actual earnings on investments, the difference between expected and actual experience, changes in benefits and changes in assumptions.

Implementation of GASB 75 also requires setting forth the sensitivity of the State's NOL using an assumed discount rate that is one percentage point lower and one percentage point higher than the current rate. For the State's portion of the Medical Subsidy Plan's NOL reported as of June 30, 2020, a 1% decrease in the discount rate would increase the State's portion of the NOL from approximately $86.9 million to approximately $94.3 million while a 1% increase in the discount rate would decrease the State's NOL to approximately $80.4 million. For the NOL reported as of June 30, 2019, a 1% decrease would increase the State's portion of the NOL with respect to the Medical Subsidy Plan from approximately $90.4 million to approximately $98.1 million and a 1% increase would lower it to approximately $83.8 million. GASB 74 also requires setting forth the sensitivity of the NOL to the healthcare cost trend assumption. However, since the Medical Subsidy benefits are a fixed stipend, there is no sensitivity to change in the healthcare cost trend assumption and no such analysis is required.

While GASB 75 changes the way state and local governments report postemployment benefits other than pensions in their financial statements, it does not impact OPEB funding requirements or contribution amounts. To date, the State has generally contributed to the System 100% of the amounts required to be so contributed, as determined in accordance with actuarial valuations. The GASB 75 report issued by the System is solely limited to liabilities attributable to the Medical Subsidy Plan and does not include other medical benefit liabilities for insurance provided to State employees or retirees. See "HEALTH CARE COVERAGE FOR RETIRED EMPLOYEES."

Investments

RSA 100-A:15, I, provides separate and specific authorities to the Board 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 (the "Committee") conducted oversight and management of the investment program. Prior to January 1, 2009, the Board served as the NHRS Investment Committee. On that date, the 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 six members: three independent members and an active (non-voting) member of the retirement system appointed by the Governor and Executive Council, and two members of the Board appointed by the Chair of the Board. All are statutorily required to have significant experience in institutional investment or finance.

State law requires that the Committee provide a comprehensive annual investment report. The report for the fiscal year ended June 30, 2020 was approved and accepted by the NHRS Board of Trustees at its December 8, 2020 meeting.

The target allocation and range for each asset class, as most recently adopted by the Board on May 14, 2019 are as follows:

Asset-Class	Target Allocation	Allocation Range
Domestic Equity	30%	20 – 40%
Non-U.S. Equity	20	15 – 25
Fixed Income	25	20 – 30
Real Estate	10	5 – 20
Alternative Investments	15	5 – 25

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

Annualized Investment Returns

Asset Class	Percent of Assets	Periods Ending June 30, 2020			
		1-Year	3-Years	5-Years	10-Years
Total Fund	100.0%	1.1%	5.2%	5.9%	8.7%
Total Fund Custom Index		*4.8%*	*6.7%*	*6.9%*	*9.3%*
Domestic Equity	27.8%	0.4%	6.8%	7.8%	12.3%
*Domestic Equity Blended Benchmark**		*7.5%*	*10.7%*	*10.7%*	*14.1%*
Non-US Equity	17.9%	-4.9%	1.6%	3.0%	5.7%
*Non-US Equity Blended Benchmark**		*-4.8%*	*1.1%*	*2.3%*	*5.0%*
Fixed Income	23.2%	6.5%	4.3%	4.2%	4.5%
*Fixed Income Blended Benchmark**		*7.9%*	*5.2%*	*4.4%*	*4.1%*
Real Estate	10.7%	3.5%	7.0%	8.7%	11.1%
*Real Estate Blended Benchmark**		*1.3%*	*4.7%*	*6.3%*	*9.8%*
Alternative Investments	19.0%	0.5%	6.0%	6.5%	6.9%
*Alternative Investments Blended Benchmark**		*7.1%*	*8.4%*	*8.2%*	*12.1%*
Cash	1.4%	1.8%	1.9%	1.3%	0.7%
91 Day Treasury Bills		*1.3%*	*1.7%*	*1.1%*	*0.6%*

* 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. Based on actuarial principles, 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 and market value rates of return and asset values. Assets are 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. Prior to June 30, 2012, total plan assets included the Special Account assets that were available pursuant to RSA 100-A:16, II(h) to provide additional benefits such as cost-of-living adjustments. The Special Account was repealed in the 2011 legislative session. The Special Account assets were not used in calculating the funded ratios of the Pension and Medical Subsidy Plans prior to June 30, 2012 because those assets were not available to pay the corresponding liabilities. Accordingly, Special Account assets are not included in the Ten Year funding status tables found in the "Results of Actuarial Valuation" section for years prior to 2012.

New Hampshire Retirement System
Pension and Medical Subsidy
Actuarial Value vs. Market Value
Fiscal Years 2011 to 2020

Fiscal Year	**Actuarial Rate of Return**	**Actuarial Value of Assets**	**Market Value Rate of Return**	**Market Value of Assets**
	(Per Actuarial Valuation Reports)[1]	(in thousands)	(NHRS Annual Financial Reports)	(in thousands)
2020	5.54%	$9,485,964	1.1%	$9,134,076
2019	6.55	9,158,579	5.7	9,207,615
2018	8.40	8,747,715	8.9	8,874,175
2017	9.11	8,204,537	13.5	8,293,261
2016	6.83	7,663,416	1.0	7,460,945
2015	10.72	7,300,276	3.5	7,530,056
2014	12.28	6,721,799	17.6	7,414,062
2013	7.12	6,092,504	14.5	6,428,009
2012	3.22	5,846,570	0.9	5,774,343
2011	6.90	5,798,249	23.0	5,891,179

(1) Fiscal years 2016 and later actuarial information in the table above is from the respective Annual Financial Report & GASB 67 Plan Reporting & Accounting Schedules. The fiscal year 2015 actuarial information is from the June 30, 2015 Actuarial Valuation Report with assumptions updated from the 2015 Experience Study. Both reports were prepared by the System's actuarial consultant.

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. Investment results since June 30, 2009 have improved, and despite market selloff in 2020 in response to the COVID-19 pandemic, the market value of net assets available for benefits has recovered to $9.1 billion as of June 30, 2020. (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.) For the twelve months ending June 30, 2020, the System's total fund net-of-fees investment return (at market) was 1.1%. For the twelve months ending December 31, 2020, the System's total fund net-of-fees investment return (at market) was 10.2%. 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.

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.

The 2021 legislative session is under way, and there have been some proposals that if passed would impact the System. The most significant active proposal is potential legislation that would:

- Provide that the state shall pay fifteen percent of local employer contributions for Group I teachers and Group II police and fire members

The System cannot predict if this proposal will be enacted into law or what additional changes, if any, may be proposed.

During the 2020 legislative session, no legislation modifying NHRS statutes was enacted.

The 2019 legislative session included, but was not limited to, legislation that:

- Granted a 1.5% cost-of-living adjustment (COLA) on the first $50,000 of the pension benefit to retirees who retired on or before July 1, 2014, or any beneficiary of such member who is receiving a pension benefit. The COLA will take effect on the retired member's first anniversary date occurring after July 1, 2020.
- Required that the annual costs to the retirement system of preparing statutorily required fiscal analysis of proposed legislation be reimbursed to NHRS by the state. These costs relate mainly to actuarial fees.
- Classified annual attendance stipends or bonuses as earnable compensation for NHRS provided that they are paid pursuant to a collective bargaining agreement, personnel policy, or other agreement applicable to substantially all employees and the amount of which is determined by reference to the amount of sick days an employee used in the calendar or fiscal year. The legislation also enabled summer adjunct wages earned by full-time community college faculty to be included as earnable compensation.

NHRS cannot predict what additional changes, if any, may be proposed or enacted into law in the current or future legislative sessions.

HEALTH CARE COVERAGE FOR RETIRED EMPLOYEES

In addition to pensions, many state and local governmental employers provide Other Post-Employment Benefits (OPEB) as part of the total benefit component of compensation offered to attract and retain the services of qualified employees. OPEB includes post-employment healthcare, as well as other forms of post-employment 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.

GASB Statement No. 74 and 75 were promulgated to address the reporting and disclosure requirements for OPEB. GASB Statement No. 74, Financial Reporting for Post-Employment Benefit Plans Other Than Pension Plans, requires the NHRS to disclose its post-employment health benefit medical subsidy program (“Medical Subsidy Plan”) on its financial statements. GASB Statement No. 75, Accounting and Financial Reporting by Employers for Post-Employment Benefits Other Than Pensions, paragraph 4, requires the State to disclose its actuarial determined, long-term, self-insured cost of retirement health care obligations (Total OPEB Liability) for the employee and retiree health benefit program (“State OPEB Plan”) on its balance sheet if assets are not accumulated in a trust.

In calculating the Total OPEB Liability recorded as of June 30, 2020, the State used a measurement date of June 30, 2019, which was determined based upon the results of the actuarial valuation as of December 31, 2018 with updated assumptions required under GASB Statement No. 75, including the use of the Municipal Bond Index rate as the discount rate of 3.50% as of June 30, 2019, resulting in a Total OPEB Liability of just under $1.8 billion. The State OPEB Plan is a single employer, primary government with component units plan, therefore, the State, as the primary government, has recorded a Total OPEB Liability on its balance sheet of $1.7 billion as of June 30, 2019. The remaining amount of $93 million is allocable to component units of the State.

GASB Statement No. 75 also requires the State to record its proportionate share of the Net OPEB Liability (NOL) of the NHRS Medical Subsidy Plan discussed earlier. NHRS administers a cost-sharing multiple employer defined benefit post-employment healthcare plan for qualified retired members. This plan has assets accumulated in a trust that meet the criteria in paragraph 4 of GASB Statement No. 75. Therefore, the State has recorded a NOL of $90.4 million as of June 30, 2020 for its share. The State’s proportionate share of 20.6% represents the projected long-term share of contributions to the Medical Subsidy Plan relative to the projected contributions of all participating entities, as determined by NHRS actuaries.

The State OPEB Plan is administered under State law which provides health care benefits for certain retired State employees. Substantially all of the State’s Group I employees hired on or before June 30, 2003 may become eligible for these benefits at 60 years of 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 and be 60 years of age (65 if hired on or after July 1, 2011) in order to be eligible for retiree health benefits. Group II (Police and Fire) employees are subject to somewhat different age and creditable service requirements, as are certain Group I employees with 30 years of creditable service. Group I and Group II employees, or surviving spouses if applicable, may also qualify for retiree health benefits as the result of job-related accidental disability or death or non-job related disability or death. Similar benefits for active employees are authorized by RSA 21-I:30 and are provided through the Fund.

By law, the Plan is required to be administered within the limits of the funds appropriated. Each year, the State works with its actuary to develop working rates, or premiums, that are projected to cover the cost of retiree health care for the calendar year. The State collects the working rates from the appropriate State agencies and other statutorily authorized groups, as well as from other sources, and deposits all revenues into the Employee and Retiree Benefit Risk Management Fund (the "Fund"), established in October 2003, which finances the State OPEB Plan on a pay-as-you-go basis. As required by RSA 21-I:30-b, (I)a, the Fund includes a reserve equal to at least 3% of the estimated annual self-insured claims and administrative expenses. However, to account for claims volatility, the State currently maintains a statutory reserve of approximately 5% of estimated annual self-insured claims and administrative expenses for the Retiree Health account. In addition, as required by law, the State maintains an incurred but not reported (IBNR) amount that is calculated by the State's actuary. The State maintains amounts that exceed the statutorily required reserve and IBNR as a cash flow reserve. The State monitors total reserve balances and, if appropriate, implements a working rate holiday or adjusts the working rate in order to spend-down the cash flow reserve.

To comply with GASB Statement No. 75, Segal, the State's current health benefit consultant and actuary, provided the State with a GASB Statement No. 75 Accounting Valuation Report for Reporting Date June 30, 2020. GASB Statement No. 75 does not mandate the prefunding of post-employment benefit liabilities. The State currently plans to only partially fund Retiree Health Benefits on a pay-as-you-go basis, at an actuarially determined rate. The pay-as-you-go contributions made in fiscal year 2020 were $44.6 million on an accrual basis. Those contributions do not include NHRS medical subsidy and other sources as presented in the table entitled "State Retiree Health Funding Sources" on the following page. NHRS medical subsidy payments are not included because the related obligation is excluded from the calculation of the Net OPEB Liability for the Retiree Health Benefit Plan. In addition, Employer Group Waiver Plan Subsidies (EGWP), the federal subsidies received for sponsoring a Medicare Prescription Drug Plan (Part D), are excluded pursuant to guidance promulgated by GASB Statement No. 75. Other small differences will exist because of timing between cash and accrual basis of accounting.

In accordance with GASB 75, the Total OPEB Liability for the State's primary government and component units, which was measured as of June 30, 2019 was $1.8 billion. With no actuarial value of assets, this results in a Net OPEB Liability of $1.8 billion, as compared to a Net OPEB Liability as of June 30, 2018, updated under GASB 75, of $1.9 billion. The decrease in the Net OPEB Liability is attributed to changes in assumptions as well as projected changes in demographics and plan payments primarily due to the implementation of a fully insured Medicare Advantage Plan effective January 1, 2019. The GASB 75 updated report assumes a salary scale, mortality, disability, turnover and retirement rates consistent with NHRS based on its 5-Year Experience Study of July 1, 2010 through June 30, 2015. This amount does not include the State's share of the UAAL from the NHRS Medical Subsidy plans discussed below. NHRS completed its most recent Experience Study a year earlier than expected resulting in a decrease in Total OPEB liability as of June 30, 2019 by approximately $558,000 or 0.03%.

During December 2019, the State issued its biennial OPEB valuation report for the State Retiree Health Plan as of December 31, 2018. The actuarial valuation reflects a Net OPEB Liability for the State and component units of $1.8 billion, which was reported in the State's annual financial statements for the fiscal year ending June 30, 2020. This is a $0.1 billion decrease from the Net OPEB Liability reported in the State's annual financial statements for the fiscal year ended June 30, 2019. The most recent complete State OPEB Plan liability actuarial valuation as of December 31, 2018, dated December 20, 2019, is posted to the State's website at *https://das.nh.gov/documents/rmu/reports/GASB-75/GASB-75-Accounting-Valuation-Report-for-Reporting-Date-June-30-2020.pdf.*

As described above under "STATE RETIREMENT SYSTEM," the NHRS currently provides medical subsidy payments to the State Retiree Health Benefit Plan 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. As of June 30, 2019 the NHRS Medical Subsidy Plan was 5.6% funded; 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 to the Retiree Health Benefit Plan. In the June 30, 2020 Annual Financial Report, the State reported a net OPEB liability of $90.4 million for its proportionate share of the NHRS Medical Subsidy Net OPEB liability, which was reported by NHRS as of June 30, 2019.

State Retiree Health Funding Sources
($ in millions)

Fiscal Year	General Fund	Self-Supporting Agencies	NHRS Medical Subsidy	Other Sources (i.e. Rebates, Rx Subsidies, Retiree Contrib.)	Total Revenue	Total Costs
2020	$30.7	$16.2	$11.0	$35.4	$93.3	$88.6
2019	31.1	17.5	11.4	27.8	87.8	90.6
2018	35.6	20.7	12.0	24.9	93.2	88.4
2017	33.3	19.9	12.3	23.4	88.9	84.8
2016	32.5	19.3	12.8	19.4	84.0	85.4
2015	33.8	16.3	13.1	16.7	79.8	79.0
2014	33.3	16.3	12.3	10.5	72.4	71.6
2013	34.2	15.2	12.4	10.8	72.6	70.9
2012	33.8	15.7	14.3	12.5	76.3	73.5
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

The State Retiree Health Plan Commission was established pursuant to RSA 100 A:56 to determine the actuarial assumptions to be used in the OPEB valuation of the State's OPEB liability and to ensure the OPEB Valuation Report is submitted to the Speaker of the House, Senate President, and Governor in accordance with the law.

In preparation for the fiscal year 2018 Annual Financial Report OPEB reporting under GASB 75, the Retiree Health Commission reconvened on July 25, 2018, to review the updated assumptions that the State's actuaries used to update the State's OPEB valuation as of December 31, 2016 for the fiscal year 2018 Annual Financial Report. GASB 75 requires changes to the discount rate assumption (from the long-term expected yield on the State's assets to the yield for a 20-year, tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher) and the actuarial calculation method assumption that were approved at the prior Retiree Health Commission meeting on June 28, 2017. Additionally, the State's actuaries suggested a lower prescription drug trend (11% to 9%) assumption due to lower prescription drug trends industry wide. The lower prescription drug trend is consistent with the State's recent prescription drug experience and the Retiree Health Benefit fiscal years 2020-2021 Budget Rates. The Retiree Health Commission members voted unanimously to accept the updated OPEB assumptions for the fiscal year 2018 Annual Financial Report. The Commission reconvened on October 15, 2019 to review and approve the updated assumptions and methodology that the State's actuaries used to prepare the GASB 75 Accounting Valuation Report for the fiscal year 2019 Annual Financial Report, as well as to approve the assumptions and methodology to be used in calculating the State's OPEB valuation as of December 31, 2018.

STATE RETIREE HEALTH BENEFITS PLAN CHANGES

Over the last few years, the State has successfully managed and addressed funding challenges for Retiree Health Benefits. In June 2015, DAS projected a $10.6 million deficit in the Retiree Health Benefits budget based off of a $5.6 million budget shortfall, an unanticipated $4 million projected increase in pharmacy costs following an industry-wide increase in pharmacy cost trends from 8% to 13%, and an unanticipated decrease of approximately $1 million in Employer Group Waiver Program (EGWP) revenues, in this case federal Medicare prescription drug subsidies. Between July and October 2015, DAS worked with the Joint Legislative Fiscal Committee over the course of five Fiscal Committee meetings to manage this projected deficit. Only the legislature and the Joint Legislative Fiscal Committee have the authority to make changes to the premium contribution amount which is the portion or percentage of the health benefit working rate or premium that retirees are required to pay. In October

2015, the Fiscal Committee approved: (1) prescription drug plan copay and maximum out-of-pocket increases projected to save a total of $2 million, and (2) an increase in the Non-Medicare eligible retiree premium contribution from 12.5% of premium to 17.5 % of premium projected to save $2.8 million.

The remaining budget shortfall of $5.8 million plus the cost to conduct a Retiree Health Long Term Study ($0.3 million) resulted in an estimated $6.1 million budget shortfall for fiscal years 2016-2017. To address this shortfall, the Fiscal Committee approved transfers in fiscal years 2016 and 2017 totaling $150,000 in General Funds from the DAS budget to the Retiree Health Benefit Plan and the release of $800,000 from the Retiree Health Benefit Reserve account into the cash flow reserve. This was possible because the Retiree Health Benefit Plan held a $5.4 million dollar cash flow reserve that had slowly accrued since calendar year 2012 due to better than projected claims experience that was available to close the gap.

As contemplated, DAS did use cash flow reserve funds during fiscal years 2016-2017 to meet retiree health expenses. In fiscal year 2016, DAS used $574,000 in cash flow reserve to account for a deficit of General Funds in the Retiree Health account. Similarly, in fiscal year 2017, DAS used $1.772 million in cash flow reserve to cover a deficit in General Funds.

On February 8, 2017, New Hampshire Department of Administrative Services submitted a draft Long Term Study of Retiree Health Benefits prepared by Segal to the members of the Joint Legislative Fiscal Committee. This study identified the following strategies for managing the state's short-term and long-term Retiree Health Benefits costs: (1) implementing a private Medicare exchange with a defined contribution to a Health Reimbursement Account, (2) implementing a Medicare retiree premium cost share, (3) eliminating the Medicare retiree prescription drug plan, (4) eliminating Retiree Health Benefits for new hires or for spouses of future hires, (5) implementing a Medicare Advantage Plan, and (6) implementing a defined dollar amount for non-Medicare retirees. The Long Term Study of Retiree Health Benefits is available at https://das.nh.gov/riskmanagement/rmu-reports.aspx.

After review of the proposed strategies in the Long-Term Study, the Legislature made further Retiree Health Benefit Plan changes in the fiscal year 2018 – 2019 budget and accompanying trailer bills to help manage the growing cost of the Retiree Health Benefit Plan. HB 517 amended RSA 21-I: 30 (Laws 2017 Chapter 156:6-10) effective January 1, 2018 to include a first-time ever 10% monthly premium contribution for Medicare retirees born on or after January 1, 1949. HB 517 also increased the monthly premium contribution percentage paid by Non-Medicare retirees from 17.5% to 20% effective October 1, 2017.

The fiscal years 2018-2019 Retiree Health Benefits budget totaled $171.4 million, an increase of $25.4 million over fiscal year 2017. The fiscal years 2018-2019 budget estimates were based on medical and pharmacy trends for the Medicare eligible and non-Medicare eligible Retiree Health Benefit Plans and a projected annual increase in plan enrollment. The $25.4 million increase included a $14 million increase in General Funds, $8 million increase in retiree premium contributions, and $3.4 million increase in other funds.

Fiscal years 2018 and 2019 claims experience were lower than projected and the Retiree Health Budget lapsed approximately $14.8 million to the General Fund at the end of the biennium. Additionally, the favorable claims experience resulted in cash flow reserves of approximately two months of projected annual self-insured expenses. Considering the historical increase in the Retiree Health Benefit cash flow reserve and projected claims through the end of calendar year 2018, the State implemented a one time, one month, working rate (premium) holiday for the Retiree Health Benefit Plan in October 2018. The Retiree Health Benefit Plan holiday spent down a total of $5.4 million in retiree cash flow reserves which equaled approximately $1.7 million General Fund savings, $2.95 million Other State agency savings, $700,000 retiree premium contribution savings, and $77,000 savings to Legislators, retired Judges, and other self-payers enrolled in the Retiree Health Benefit Plan. In addition to the premium holiday, the calendar year 2019 non-Medicare working rates included an adjustment of $3 million to decrease the calendar year 2019 working rate in an effort to reduce the retiree health cash flow reserve.

DAS continuously explores cost containment strategies for the Retiree Health Benefit Plan. As such, in early 2018, Anthem, the State's medical third party administrator (TPA), informed the State that their Medicare Advantage network expanded to an open-network enabling all providers who accept Medicare to provide care for State of New Hampshire retirees living nationwide. The State worked with Anthem and Segal to assess the feasibility of a Group Medicare Advantage plan. On June 20, 2018, Governor and Executive Council approved an amendment to the State's existing contract with Anthem authorizing the State to replace the self-funded Medicare supplemental coverage with a fully-insured Medicare Advantage Plan (Medicare Part C plan) effective January 1, 2019. The retiree Medicare Part D (EGWP) prescription drug plan, currently through Express Scripts, is excluded from the Medicare Advantage Plan and remains self-funded.

The transition to fully insured Group Medicare Advantage plan enabled the State to maximize federal funding while maintaining the same level of coverage for the retirees resulting in an estimated $11.8 million in savings over calendar years 2019 and 2020. This federal funding will help mitigate future increases in the Retiree Health Benefits budget that are driven by increasing numbers of retirees and increases in medical costs. The longer term impact from the change in funding mechanism decreased the Total OPEB liability by approximately $183 million dollars as of June 30, 2019.

The fiscal years 2020-2021 Retiree Health Benefits budget totaled $154.4 million, a decrease of $26.4 million over fiscal year 2019. The fiscal years 2020-2021 budget estimates were based on medical and pharmacy trends for the Medicare and non-Medicare eligible Retiree Health Benefit Plans and projected increase in plan enrollment. The $26.4 million decrease included a $15.5 million decrease in General Funds, $9.4 million decrease in retiree premium contributions, and $1.5 million decrease in other funds. Fiscal year 2020 claims experience came in lower than projected due to the hold put on elective procedures as well as the overall decrease in utilization due patients not seeking care as a result of the COVID-19 l pandemic, which decrease was compounded by a low COVID-19 case rate. The lower claims experience resulted in a cash flow reserve of approximately two and one-half months of projected annual self-insured expenses at the close of fiscal year 2020. As of the first quarter in fiscal year 2021, COVID-19 is still impacting claims experience; however, in August 2020, claims began to increase as elective procedures were booked and patients began seeking services again. Through November 2020, claims continued to return to pre-COVID-19 levels; however, as the number of cases of COVID-19 increases, the number of claims may be impacted.

The State's current medical TPA contract with Anthem expires on December 31, 2020. Through a successful procurement process and Governor and Council approval, effective January 1, 2021, the State is transitioning all Medicare retirees to a new Aetna Group Medicare Advantage plan. The three year contract provides the same level of benefits at a $0 premium to the State. The contract is projected to save the State a total of $45.2 million, or $20.8 million General Funds.

<u>STATE RETIREE HEALTH BENEFIT BUDGET FOR FISCAL YEAR 2020 AND 2021 AND TREND ASSUMPTIONS</u>

The Retiree Health Plan in the approved operating budget for fiscal years 2020-2021 totals $154.4 million, a decrease of $26.4 million from fiscal year 2019. The updated projection and budget need as compared to fiscal year 2019 is presented in the chart below:

	FY19 Authorized Budget	FY20 Budget	*$ Decrease FY19 to FY20*	FY21 Budget	*$ Decrease FY19 to FY21*	**$ Decrease Total Biennium**
GF	$42,778,200	$33,746,000	*($9,032,200)*	$36,320,800	*($6,457,400)*	**($15,489,600)**
Other Funds	$47,629,000	$40,980,900	*($6,648,100)*	$43,360,600	*($4,268,400)*	**($10,916,500)**
Total	$90,407,200	$74,726,900	*($15,680,300)*	$79,681,400	*($10,725,800)*	**($26,406,100)**

The fiscal year 2022-2023 proposed Retiree Health Benefit Plan Budget is based on budget rates using enrollment as of January 2020 and assumes 4% increase in total enrollment for the Medicare Eligible Retiree Plan and the Non-Medicare Eligible Retiree Plan is assumed to remain flat. The budget rates assume a prescription drug trend decrease of 15.4% for the Non-Medicare Retiree Plan and a decrease of 1.3% for the Medicare Retiree Plan and a medical trend increase of 6.3% for the Non-Medicare Retiree Plan. The budget rates assume the contracted fully insured Medicare Advantage rates for calendar year 2021 through calendar year 2023

The proposed fiscal year 2022-2023 Retiree Health Benefit Plan Budget is $132.4 million which is a $27.0 million decrease compared to fiscal year 2021. The savings is primarily due to Medicare Advantage Plan contract with Aetna. In addition, a lower projected prescription drug trend for Medicare Eligible Retirees and Non-Medicare Eligible Retirees contributed additional savings.

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, or Circuit court judges employed within the State. As of January 1, 2020, the date of the most recent actuarial valuation, there were 57 active participants and 73 retirees, beneficiaries and other persons due benefits.

In connection with the establishment of the plan, the State engaged a consultant to prepare an actuarial valuation as of January 1, 2005, based on the final plan provisions and reflecting an initial funding payment of $42.8 million, which amount was provided from the proceeds of general obligation bonds issued by the State. The initial valuation determined the total accrued liability of the plan as of January 1, 2005, to be $43,669,534 and the value of the net assets of the plan to be $42,800,000, which amount was almost equal to the proceeds of the State's bonds. This valuation resulted in an unfunded actuarial liability as of January 1, 2005, of $869,534. As of June 30, 2015, none of the bonds issued by the State for this purpose remained outstanding.

Additional information regarding the Judicial Plan is contained in the 2019 State Annual Financial Report at note 11 and on page 80. The Judicial Plan's audited financial statements for the period ended December 31, 2018 are included in the 2019 State Annual Financial Report in the portions pertaining to the State's Fiduciary Funds on pages 45 and 46, although the information regarding the Judicial Plan is combined with information pertaining to the Pension Plan. There are combining schedules for these statements on page 134 and the Judicial Plan is separately presented on pages 126 and 127.

The Judicial Plan issues publicly available financial reports that may be obtained upon written request addressed to Charles G. Douglas, III, Esq.; Executive Director, 14 South Street, Concord, NH 03301. Currently available reports include the Judicial Plan's Financial Statements and Required Supplementary Information as of December 31, 2018 and the most recent Actuarial Valuation Report dated as of January 1, 2020 (the "2020 Judicial Actuarial Valuation"). Similar reports for prior years are also available from the Judicial Plan at the address set forth above.

The actuary for the Judicial Plan has prepared actuarial computations under GASB 67 and 68 with respect to the Judicial Plan for the year ended December 31, 2019. The report shows a total pension liability as of December 31, 2019 of $102,253,235, a fiduciary net position (market value of assets) of $65,186,041, and a resulting net pension liability (analogous to the unfunded accrued liability) of $37,067,194. The report further notes that the Judicial Plan decreased the discount rate to calculate its liabilities from 7.00% to 6.675%. A 1% decrease or 1% increase in the 6.675% discount rate would increase or decrease the net pension liability to $46,407,717 or $28,982,206, respectively. The actual net pension liability as of future dates will, of course, vary from these amounts and the variances may be material. In September 2020, the Judicial Plan adopted a discount rate of 6.5%.

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

New Hampshire 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
2012	41,547,067	29,758,435	58	64.50	FY 14-15
2014	41,136,968	39,575,961	51	70.90	FY 16-17
2016	48,088,712	45,529,454	51	75.40	FY 18-19
2018	56,819,438	38,592,810	60	69.40	FY 19-20
2020	63,478,476	44,172,320	59	77.6	FY 21-22

The State contributions expected to be paid in the 2021-2022 biennium to the Judicial Plan total $7,521,152 annually. Chapter 257, Laws of 2011, extended the amortization period for the unfunded accrued liability from 15 to 30 years. An actuarial valuation using January 1, 2019 data was issued in October 2020.

The market value of assets as of the January 1 valuation dates is shown below.

January 1, 2008	$51,857,186
January 1, 2010	$36,678,291
January 1, 2012	$36,303,522
January 1, 2014	$43,938,985
January 1, 2016	$46,905,875
January 1, 2018	$57,931,041
January 1, 2020	$65,186,041

The actuary for the Judicial Plan used several actuarial assumptions in the 2020 Judicial Actuarial Valuation including the investment return rate at 6.675% and an annual wage inflation rate and cost of living increase of 2.75%. 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 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. However, the use of the corridor in the January 1, 2020 actuarial valuation did not affect the actuarial value of assets that would have been established in its absence.

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 2018 Judicial Actuarial Valuation.

New Hampshire Judicial Retirement System
Actuarial Assumptions

Actuarial Cost Method	Entry age normal
Amortization Method	Level dollar
Amortization Period	Closed 30 years From 01/01/2010
Asset valuation method	5-year smoothed market
Investment rate of return	6.675%
Wage and Cost of Living Inflation	2.750%

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 9,200 employees in some thirty bargaining units. The employees of the University System, the Community College System of New Hampshire and the New Hampshire Retirement System are not classified State employees and are not included in any of these bargaining units. The sworn non-commissioned and commissioned employees of the Division of State Police are represented by the New Hampshire Troopers Association (the "NHTA") and the NHTA – Command Staff. Fish & Game Conservation Officers Fish & Game Conservation Officer Supervisors, Probation Parole Officers, Probation Parole Officer Supervisors and Liquor Enforcement Officers are represented by the New England Police Benevolent Association (the "NEPBA"). The Teamsters are the exclusive representative of the uniformed Corrections Officers and Corrections Corporals of the Department of Corrections.

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 Public Employee Labor Relations Board ("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 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 NEPBA or whether they would continue to be represented by their current union, 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. On October 4, 2012, the Teamsters Local 633 were certified by the Public Employee Labor Relations Board (PELRB) and in accordance with RSA 273-A:10 were selected to represent the NH State Corrections Officers and Corrections Officer Corporals. In 2014, the State Police Command Staff decertified from the SEA and created the NHTA – Command Staff bargaining unit.

The State began negotiations with the SEA, NHTA, NEPBA and the Teamsters in October, 2018. The Collective Bargaining Agreements expired on June 30, 2019 and remain in effect until new agreements are reached. The parties reached impasse during negotiations and went to fact finding, as provided for under State law. The fact finder released her report on November 12, 2019, and a 10-day confidential period where the parties discuss the report and try to reach an agreement expired on November 22, 2019. The parties met on November 21, 2019 to discuss the fact finder's reports and to try to reach an agreement. The State has reached an executed agreement with the Teamsters and the NEPBA Local 260 Liquor Investigators. With respect to the remaining unions, the parties did not reach an agreement and the 2019-2021 contract remained in evergreen. The State and the remaining unions commenced negotiations for a new contract for 2021-2023 in November 2020. To date, no agreements have been reached with the remaining unions.

CYBERSECURITY RISKS

The State relies on the use of information technology as a critical enabling factor to support citizens, businesses, and all aspects of State government. The State also relies on its access to the Internet to conduct essential operations.

The State faces the same external cyber threats as any other entity connected to the Internet, including phishing attacks, ransomware, malware-embedded emails, denial of service and network based attacks. Internal cyber threats (commonly referred to as "Insider Threat") also exist, and the most common result is a breach of confidential or sensitive information.

In order to counter known and unknown cyber threats, the State employs a wide variety of defensive strategies. These include products deployed at every level of the enterprise architecture, from network perimeter devices to the user desktop, as well as hardware and software protections focused on the most prevalent cyber-attacks against the email system, web and application servers, databases, and user endpoint devices.

The State administers a comprehensive cybersecurity training and awareness program, which all employees are required to complete annually. The State coordinates and shares cyber event information with state and federal entities, such as the Department of Homeland Security and also with cyber-focused public organizations such as the Multi State Information Sharing and Analysis Center (MS-ISAC) and the National Association of State Chief Information Officers (NASCIO). In 2018, the State conducted a series of cyber incident response exercises that involved multiple State agencies, the New Hampshire National Guard, and local critical infrastructure organizations. As a result of this exercise program, the State completely revised its Cyber Disruption Plan, which outlines incident escalation and de-escalation points, procedures, roles and responsibilities, and operational resources in the event of a cyber-incident. In late 2019, the Department of Information Technology ("DoIT"), in conjunction with the Division of Homeland Security and Emergency Management, has completed a document that outlines Emergency Support Function 17 (Cybersecurity) ("ESF-17"), which describes the concept of operations, response actions and responsibilities for major cyber events in a manner similar to other state emergency support functions. The functions of ESF-17 have already been incorporated into the state Cyber Disruption Plan. In 2020, DoIT took major strides to strengthen and expand its cybersecurity defense posture, despite the disruptive effects of the COVID-19 pandemic. So far in 2020, DoIT upgraded and implemented a new network firewall, intrusion defense/prevention system, and security information and event management (SIEM) capability. Although a large percentage of the State workforce began and continues to work remotely from home due to the pandemic, these major equipment upgrades collectively provide a significant increase in the cybersecurity posture of State networks, systems and information.

The most notable cyber breach in recent years occurred in 2015, when the State experienced one significant internal data breach that involved the unauthorized access and public posting of certain personal information for as many as 15,000 clients of one state agency. The breach was contained and mitigation measures put in place to address the conditions that allowed the breach to occur. In the follow-up to the breach, the State found no evidence that the information had been misused or further distributed before it was contained and removed from public access.

The DoIT recently concluded a contract for an independent, Comprehensive Cybersecurity Risk Assessment, which was approved by the Governor and Executive Council in October 2019. The DoIT Cybersecurity Risk Assessment took place from November 2019 through June 2020, and was primarily a technical security assessment, focused on a survey of all IT assets, followed by security assessments of the state's network architecture, servers and endpoints, applications and data, and it concluded with an assessment of the State's cybersecurity program. The information gathered from the cybersecurity assessment contains detailed and highly sensitive network or vulnerability information. As a result, the DoIT reserves the right to invoke an exemption to RSA 91-A:5 (XI), in order to shield and protect information from public disclosure which could otherwise aid an adversary in an attempted security breach of the State's IT infrastructure.

While there can be no guarantees against a future cyber-attack resulting in some impact, the State has taken an expansive, multi-pronged approach to protect against, detect, respond to, and recover from a potential cyber event. The State has also obtained an insurance policy for "Data Security and Privacy Cyber Liability" (the current policy extends coverage through August 23, 2021). This policy includes coverage for privacy/media liability, incident (breach) response, network extortion, digital data recovery, business interruption costs, terrorism, and prior acts. The "prior acts" coverage extends coverage to claims for unknown data breaches that occurred prior to the inception of the policy. Notwithstanding the planning and actions taken to date, the State cannot assure that future incidents or possible unknown prior events will not have a potential material impact on the State's operations or financial condition.

LITIGATION

The State and certain of its agencies and employees are defendants in numerous 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:

Woods, et al. v. Commissioner of Department of Corrections. Four female New Hampshire inmates filed a class action lawsuit, in state court, seeking declaratory and injunctive relief to remedy claimed violations of their constitutional, statutory and judicially decreed right to facilities, conditions of confinement, programs, and services that are on parity with those that the State of New Hampshire provides to male New Hampshire prison inmates. Plaintiffs claim that female inmates do not have access to vocational training, education, and other programs, services and facilities comparable to what is provided to male inmates, and claim that Defendant has therefore violated: (1) their rights under New Hampshire's Equal Rights Amendment, Part I, Article 2 of the State Constitution; (2) the Equal Protection Clause of the New Hampshire Constitution, Part I, Article 12; and (3) RSA 622:33-a, III; and (4) RSA 21-H:11. The State filed an answer on November 2, 2012. Petitioners filed a motion for class certification in February 2013. The State filed an objection in March 2013. The case has been stayed given the construction of a new women's prison on the grounds adjacent to the Men's Prison –Concord. The groundbreaking ceremony occurred on August 18, 2014. The new women's prison is now complete and housing the women inmates, but the parties continue to discuss how the implementation of programs will be monitored going forward. The parties have reached a settlement arrangement under which the case is stayed for a period of years subject to the Department of Corrections meeting certain benchmarks with respect to the new women's prison. If those benchmarks are met, the case will be dismissed with prejudice. If those benchmarks are not met, the plaintiffs have the ability to re-open the matter. In the event the matter is re-opened, it will be amended and restructured.

Contoocook Valley School District v. State et al. On March 13, 2019, several plaintiffs, including a school district and three individuals, sued the State claiming that it has failed to meet its obligations to fund an adequate education. The plaintiffs asserted that certain costs like transportation costs, school nurse costs, food services costs, facilities costs, teacher benefits, and superintendent costs, must, as a matter of constitutional law, be funded by the State and were not being funded by the State. The plaintiff requested that $16,961,843.75 be provided to the school district by April 1, 2019.

On June 5, 2019, the trial court issued an order finding that RSA 198:40-a, II, the statutory mechanism the State uses to make adequate education payments to school districts is unconstitutional. The court did not, however, require the State to pay the plaintiffs any amount of money, and denied the plaintiffs' claims to that effect. Instead, the trial court required the legislature to fix the statute on a prospective basis. The State timely appealed the trial court's order. The case remains pending on appeal. Oral argument occurred in the case on September 24, 2020.

On March 23, 2021, the New Hampshire Supreme Court issued an opinion in this matter. The court (1) reversed the trial court's grant of summary judgment to the plaintiffs, and (2) remanded the case to the trial court for discovery and trial on the issue of whether the amount of adequacy aid the State provides is sufficient to fund the adequate education the State has defined by statute. The State expects that within the next 30 to 45 days, the trial court will hold a hearing to structure and schedule the litigation, which is expected to consume a significant amount of time in the discovery and expert disclosure phases before trial.

New Hampshire Lottery Commission v. William Barr, Attorney General. In January 2019, the United States Department of Justice ("USDOJ") issued a memorandum adopting as an official position of the agency a very broad interpretation of the federal Wire Act, 18 U.S.C. § 1084. This interpretation reverses a prior interpretation of the USDOJ from 2011 finding that the Wire Act applies only to sports betting and therefore does not prohibit States from selling lottery tickets over the Internet. The USDOJ's recent reversal of the 2011 interpretation appears to prohibit the use of wire transmissions to engage in state conducted lottery activity. The New Hampshire Lottery Commission has sued the Attorney General and the USDOJ in the United States District Court for the District of New Hampshire to declare this new interpretation of law erroneous and for a declaration that the Wire Act does not extend to state-conducted lottery activity. If the USDOJ's new interpretation is correct, and the Wire Act does extend to state-conducted lottery activity, New Hampshire may lose substantial revenues. Under the narrowest interpretation of the USDOJ's opinion, the State would face a loss of approximately $6-8 million. Under the broadest interpretation of the USDOJ's opinion, the State could face a loss of approximately $90 million. The case was briefed by April 8, 2019 and oral argument subsequently occurred

On June 3, 2019, the federal district court issued an order setting aside the USDOJ's new interpretation of the Wire Act under the federal Administrative Procedure Act. The USDOJ appealed to the First Circuit Court of Appeals. The First Circuit affirmed the district court's interpretation of the Wire Act and its decision entering declaratory relief in the Commission's favor. The USDOJ may seek rehearing or a writ of certiorari with the U.S. Supreme Court.

State v. Purdue Pharma; State v. Janssen/Johnson & Johnson; State v. McKesson Corp and Cardinal Health; State v. Mallinckrodt; State v. Richard S. Sackler, et al.; State v. McKinsey & Company. The State has filed suit against three opioid manufacturers (Purdue Pharma, Janssen, and Mallinckrodt), as well as against two opioid distributors (McKesson and Cardinal Health) and on September 16, 2019 the State filed against four members of the Sackler family, owners of Purdue Pharma, alleging unfair or deceptive business practices, nuisance and other common law counts. The Sackler complaint includes a fraudulent conveyance count. All cases are in Merrimack County Superior Court. The Purdue, Janssen and Distributors' cases have survived motions to dismiss by the defendants and discovery is on-going. The Mallinckrodt defendants filed for bankruptcy protection on October 11, 2020 Trial in the Purdue Pharma case was scheduled for June 2020, however, on September 14, 2019, Purdue file bankruptcy in the southern district of New York. Both the Purdue litigation and the litigation against the Sacklers has been stayed by the bankruptcy court. A trial was scheduled in the Janssen/Johnson & Johnson case for January, 2021 but will be continued due to the disruptions caused by the COVID-19 pandemic. The trial in the Distributors' case is not yet scheduled because of COVID delays in the court system. In February, 2021, the State joined a multistate settlement that resolved allegations against McKinsey & Company for their role in working for opioid companies, helping those companies promote their opioids, and profiting from the opioid epidemic. New Hampshire will receive $3.3 million over 5 years. The State continues to participate in other multistate settlement discussions, along with other attorneys general, aimed at a global resolution with all opioid related defendants (manufacturers, distributors and major pharmacy chains). It is not possible at this stage to predict any recovery amounts that would come to the State.

NHHA v. Centers for Medicare and Medicaid Services (Azar). On August 10, 2017 the New Hampshire Hospital Association (NHHA) filed a new lawsuit against Centers for Medicare & Medicaid Services (CMS) seeking to challenge the validity of the recent adoption by rule on June 2, 2017 of the policies in FAQ's 33 and 34, which had been previously challenged and enjoined in *N.H. Hosp. Ass'n v. Burwell.* The rule requires hospitals to exclude any payment related to Medicaid recipients from third parties (TPL), including Medicare or private insurance, from claimed uncompensated care. The Hospitals argue that CMS failed to comply with the Regulatory Flexibility Act and other statutes that require financial impact analysis during rulemaking and that the substance of the rule is not authorized by the CMS statute. CMS answered and a briefing schedule was set, however oral argument set for April 17, 2018, but was canceled by the court given decisions in other courts.

Similar litigation was brought against CMS in several other jurisdictions, on February 9, 2018, the court for the Western District of Missouri issued a decision ruling against CMS on this issue and enjoining CMS from enforcing the Final Rule. On March 6, 2018, the D.C. District Court issued a decision which also found the rule exceeds the statutory authority and is invalid. In addition, the D.C. Court considered nationwide impact and vacated the rule. CMS appealed the Missouri and D.C. court decisions. CMS acknowledged that, while the D.C. decision stood, it could not impose the rule anywhere. CMS requested that oral argument and decision in the New Hampshire federal litigation go forward. However, on September 25, 2018, the New Hampshire District Court issued an order denying the cross motions for summary judgment, finding the case moot in light of the decisions from other districts, and dismissing the case. Judgment has been entered against CMS. However, on August 13, 2019 the U.S. Court of Appeals for the District of Columbia issued a decision upholding the CMS rule and reversed the order invalidating the rule. A motion for rehearing was denied on November 8, 2019 and the mandate issued on November 19, 2019. It is unclear what impact this will have on the New Hampshire litigation or whether there will be a further appeal.

No stay was obtained by CMS of the D.C. District Court order. Therefore, the CMS rule did not apply at the time the MET and DSH payments were made in April and May 2018 or 2019. The possible impact to the State budget going forward of the CMS rule being invalidated could have been similar to the impact of the preliminary and permanent injunction of up to approximately $30 million. However, in May 2018, the Hospitals and the State entered a new seven year agreement regarding payment of MET and DSH, which included resolution of MET and DSH payments for 2018 and replaced the June 2014 Agreement. Because the May 2018 settlement results in the total level of DSH or other payments generated from the MET tax no longer being dependent on the federal definition of uncompensated care, the outcome of this case should not impact the state obligation to pay DSH or state budget. Therefore, while it is not possible to predict the outcome of this case at this time, it is unlikely that it could have a significant effect on State's obligations under the May 2018 settlement which will be in place until 2024.

Christopher Willott, Individually and as Administrator of the Estate of Sadence Willott v. DCYF. In August 2018, the plaintiff filed a lawsuit for the wrongful death of Sadence Willott, as well as loss of consortium. The plaintiff also alleges negligence stemming from incidents of assault prior to her death. Sadie was murdered by her mother in September 2015. The plaintiff (Sadie's biological father), claims that DCYF was negligent in handling her case, which caused her death in September 2015, as well as various injuries that predate her death. While this case would typically be subject to the statutory cap on damages—and the $50,000 statutory cap for loss of consortium—the plaintiff alleges the estate is entitled to damages for multiple incidents of harm. DCYF has filed motions to dismiss based on statute of limitations and sovereign immunity defenses. Those motions were initially denied. DCYF moved for reconsideration on one of them, which was granted, and further briefing on that motion to dismiss has been submitted to the court. DCYF subsequently won the motion to dismiss, leaving only the wrongful death claim in the case, which is capped at $475,000. Interlocutory appeal of the dismissal was sought and granted by the New Hampshire Supreme Court. The New Hampshire Supreme Court subsequently vacated and remanded to the trial court in light of its decision in another pending matter. At present, it is not possible to predict an outcome in this case.

Additional litigation and threatened litigation relating to the Department of Health and Human Services, Division of Children, Youth, and Families ("DCYF"). DCYF is currently defending or has been advised of several claims relating to physical and sexual abuse of children either directly or indirectly under the supervision of DCYF. None of these claims appear to individually exceed $2 million; however, the aggregate of the claims may be more than $2 million cumulatively. Four of these lawsuits have been filed in Merrimack County Superior Court: *A.A., et al. v. DCYF*, et al., 217-2019-CV-676, *C.M. p/n/f of M.M. & J.M. v. DCYF, et al.*, 217-2019-CV-677, *C.W. v. DCYF*, 217-2019-CV-680, and *Willmonton v. DCYF*, 217-2019-CV-678. They were stayed for a period of time, but will now move forward. At present, it is not possible to predict an outcome in these cases.

Charles F. v. N.H. Youth Development Center. On August 2, 2019, the New Hampshire Attorney General's Office received notice that an individual known as Charles F. was seeking to recover damages against the N.H. Youth Development Center for personal injuries sustain from 1994-1995. Though unknown at this time, the allegations could include numerous sexual assault injuries. Depending on the number of incidents involved that the plaintiff might choose to seek recovery on, potential liability in the case could exceed $2 million. This matter is related to the *Meehan v. N.H. Dept. of Health and Human Services* matter referenced directly below.

David Meehan v. NH Dept. of Health and Human Services, et al. On January 11, 2020, the plaintiff filed a class action lawsuit against DHHS and others alleging physical, sexual and mental/emotional abuse, solitary confinement, and deprivation of education while he resided at the Youth Development Center from December 1, 1995 to 1999. The putative class is alleged to consist of men and women who, while minors in the care custody and control of the defendants were victims of the same stated acts and treatment at the hands of defendants, their agents, employees, and/or contractors. The State has filed a motion to dismiss. At present, it is not possible to predict an outcome in this case.

Isaacs v. Dartmouth Hitchcock Medical Center and *Isaacs v. USC Keck School of Medicine*. In these cases, filed in the United States District Court for the District of California, Mr. Isaacs seeks $18.5 million in damages under the Racketeer Influenced and Corrupt Organizations Act ("RICO") against multiple different defendants, including the New Hampshire Board of Medicine. The plaintiff also asserts a 42 U.S.C. § 1983 claim and two state law tort claims against the New Hampshire Board of Medicine. In the first case, a default entered against the New Hampshire Board of Medicine. The New Hampshire Board of Medicine, however, has moved timely to lift the default and press its defenses, including many jurisdictional defenses such as improper service of process, lack of personal jurisdiction, Eleventh Amendment sovereign immunity, failure to state a claim, and other defenses. The plaintiff voluntarily dismissed the first action, but is attempting to keep the New Hampshire Board of Medicine in that action. That attempted has failed and the action, including the default, have been dismissed. The plaintiff may be attempting to appeal this issue. The plaintiff refiled what appears to be the identical same action in the same court. Service of process has been accepted and the action is being defended. The action was dismissed. The plaintiff has appealed to the Ninth Circuit Court of Appeals. At present, it is not possible to predict an outcome in this case.

Town of Hampton, New Hampshire v. State of New Hampshire. On February 14 2018, the Town of Hampton filed this lawsuit against the State, seeking various forms of declaratory, injunctive, and monetary relief. According to the complaint, the lawsuit arises out of a 1933 deed in which a portion of Ocean Boulevard in Hampton was transferred from the Town to the State, as well as a series of "long standing issues affecting the Town from the presence of the [State's] property and operations occurring in Hampton." The Town seeks "a determination of the respective rights and obligations of the Town and the State with respect to a number of aspects of the State's activities."

The Town's complaint contains five separate counts. Through those counts, the Town seeks declarations and related injunctive relief that the State is liable for all maintenance of Ocean Boulevard, including maintenance for the sidewalks, crosswalks, and the "proper drainage of water that runs off of Ocean Boulevard and its sidewalks," the recovery of monetary damages from the State based on the State's collection of revenues from certain paid parking spaces in the Town, monetary damages representing the fair value of various municipal services (including fire, police, and public works) provided by the Town, and monetary damages based on a "fair share of the revenues received over the last three years" from the State's operation of business activities on the subject property. The Town also claims, on equal protection grounds, that the State's distribution to municipalities of Meals and Rooms Tax revenues pursuant to RSA chapter 78-A is unconstitutional as applied to the Town. The Town seeks a declaration that it is entitled to a greater distribution based on the Town's "large seasonal visitor population" as opposed to the Town's smaller "year-round population."

On May 1, 2018, the State filed a motion to dismiss the Town's lawsuit in its entirety. The Town subsequently filed a motion to compel responses to certain discovery requests, which the Town contended were needed in order to adequately respond to the State's motion to dismiss. In July 2018, the court denied the Town's motion to compel. The Town thereafter filed a voluntary nonsuit without prejudice, and indicated that it intends re-file the lawsuit at a later date. It is not possible to predict the outcome of the threatened litigation at this time.

Richard Simone, Jr. v. Andrew Monaco, et al On May 11, 2016, Mr. Simone led police on a multi-state vehicle chase, ending in Nashua, NH. After Mr. Simone stopped and exited his vehicle, a NH State Trooper, Andrew Monaco, and a Massachusetts State Trooper, Joseph Flynn, used excessive force in arresting Mr. Simone. Those two troopers have been convicted of crimes associated with their use of force. Mr. Monaco is no longer a NHSP Trooper. Mr. Simone brought a civil lawsuit relating to the incident, naming the NHSP Colonel and two NHSP Troopers as defendants. While Mr. Monaco is also named as a defendant, the State is not providing defense or indemnification for him. The State is defending the New Hampshire State Police Colonel, and two Troopers that did not participate in the use of force, but were alleged to be present at the scene of the arrest. Mr. Simone alleges that the State Police Defendants failed to intervene to stop the use of force, and therefore are liable under 42 U.S.C. § 1983. Similarly, Mr. Simone alleges that the State Police Colonel is liable under 42 U.S.C. § 1983 for a failure to properly train NHSP Troopers. The U.S. District Court dismissed the Colonel from the case and dismissed all claims that are brought against the State Defendants that are alleged in their official capacity. The Court denied the State's Motion to Dismiss for failure to timely effect service on and failure to state a claim with respect to the two State Troopers. If Mr. Simone is successful in his claims against the Troopers in their individual capacities, he is seeking damages, punitive damages, and attorneys' fees. Motions for Summary Judgment are due before July 15, 2021 and trial is set for March 2022. It is not possible to predict an amount of liability at this time.

Estate of Champney v. Department of Safety. There is the potential for litigation, brought on behalf of the estate of Jesse Champney, arising from an officer-involved fatal shooting. On December 24, 2017, Mr. Champney fled from State Police during a pursuit related to an alleged stolen vehicle. After Mr. Champney's vehicle came to a stop off the road, a State Police officer attempted to take him into custody, and Mr. Champney fled on foot. Mr. Champney refused to surrender and threatened to shoot the Trooper. The officer shot him, and he died at the scene. The State has not been served with, and is not presently aware of, a lawsuit in connection with this matter. The statute of limitations expired on December 24, 2020 and therefore the risk of liability in connection with this incident is low.

Threatened litigation from the ACLU against State Police – The N.H. ACLU and the Seacoast Online Newspaper have made a Right to Know Request of NHSP, pursuant to RSA 91-A. They are seeking records related to the NHSP's Mobile Enforcement Team ("MET"), which has been tasked with detecting serious crimes on the highways, such as drug trafficking and human trafficking. The ACLU's requests include a request for policies and procedures on pre-textual motor vehicle stops, and for records of stops that did not result in criminal charges. The ACLU has indicated that the purpose of their request is to secure records which support the position that the NHSP MET disproportionately stops people of color. NHSP is cooperating with the ACLU to identify and provide the records they are seeking and to engage with them constructively with hopes of reviewing existing practices and procedures in order to avoid litigation. Although no lawsuit has been filed, the ACLU has threatened litigation. It is not possible to predict the amount of potential liability at this time.

John Doe, on behalf of himself and all others similarly situated v. Commissioner Jeffrey Myers, Southern New Hampshire Medical Center, and the New Hampshire Circuit Court District Division. An individual, who was admitted to Southern New Hampshire Medical Center's Emergency Department after a suicide attempt, sued in the Federal District Court for the State of New Hampshire alleging habeas corpus relief, declaratory judgment, and appointment of a class for unconstitutional deprivation of liberty interests and lack of procedural due process based on an alleged systemic practice where individuals who may be experiencing mental health crises are involuntarily detained in hospital emergency rooms without the State providing them with due process, appointed counsel, or an opportunity to contest their "detention." This practice is sometimes referred to as "psychiatric boarding." Plaintiff is represented by the New Hampshire American Civil Liberties Union ("ACLU") who is also asking for class certification for similarly situated individuals in New Hampshire. The ACLU alleges that, as of October 31, 2018, approximately 46 adults and 4 minors were "boarded" in emergency rooms. The State will be defending both the Commissioner and the Circuit Court system.

The complaint includes 4 counts requesting relief: Count I, a class action claim alleging violations of the Fourteenth Amendment to the United State Constitution for deprivation of liberty; Count II, a class action procedural due process claim under the New Hampshire Constitution Part I, Article 15; Count III, a class action claim alleging violations of RSA 135-C:31, I; and Count IV, an individual claim on behalf of John Doe for habeas corpus relief. On November 13, 2018, Count IV was voluntarily dismissed by Plaintiff as he moved to a voluntary stay status at the hospital. The overall relief requested is declaratory judgments regarding the various counts and injunctions to discontinue the alleged violations. There is also an accompanying motion for class certification.

The New Hampshire Hospital Association and numerous other hospitals intervened in the matter. They filed a complaint-in-intervenor asserting a Fifth Amendment takings claim against the State, a Fourteenth Amendment due process claim, and other state-law based claims.

The State moved to dismiss the original complaint and the complaint-in-intervenor for lack of State action and for failure to state a claim. The State also objected to the motion for class certification. In response, the plaintiff and the intervenors amended their complaints. More plaintiffs entered the case through the amended complaint and asserted claims against certain of the intervenor hospitals for false imprisonment. The intervenor hospitals added a Fourth Amendment unreasonable seizure claim into their complaint against the State.

The State subsequently moved to dismiss the amended complaint and amended complaint-in-intervenor on substantially the same grounds on September 16, 2019. Thereafter, three of the four hospitals that had been sued for false imprisonment answered the plaintiffs' amended complaint. Two of those hospitals included cross-claims for indemnification, contribution, and a violation of certain provisions of NH RSA 135-C. The cross-claims have been dismissed on Eleventh Amendment immunity grounds. The motions to dismiss were finally briefed on January 17, 2020. On April 30, 2020 and May 1, 2020, the district court denied the Commissioner's motions to dismiss and subsequently granted the plaintiffs' class certification. In doing so, the district court interpreted RSA 135-C in a manner contrary to how it has been implemented by the State. As a result, different State courts have begun reading the statute differently and reaching different outcomes as to whether a person has timely received a probable causes hearing under the involuntary emergency commitment statutes.

Settlement discussions were occurring, but ultimately stalled. The State moved to dismiss on Eleventh Amendment immunity grounds and for lack of standing. The plaintiffs and intervenor plaintiffs dropped certain claims in response to that motion. The District Court denied the remainder of those motions. The State has appealed the Eleventh Amendment immunity issues to the First Circuit Court of Appeals and has moved to stay the underlying federal district court action pending the appeal.

A case involving the same legal issue arose in State court on a writ of habeas corpus. That case is now on appeal to the New Hampshire Supreme Court. The result of that action could moot or otherwise alter the federal court proceeding. At present, it is not possible to predict the outcome of this case.

Conservation Law Foundation, Inc. v. New Hampshire Fish and Game Department, et al. On October 31, 2018, the Conservation Law Foundation ("CLF") filed its Complaint pursuant to Section 505 of the Federal Water Pollution Control Act ("Clean Water Act") alleging violations by the Powder Mill State Fish Hatchery of the hatchery's federal National Pollutant Discharge Elimination System ("NPDES") Permit. Specifically, the suit alleges the following violations: (1) discharging effluent that has resulted in state water quality standards violations in the receiving waters; (2) discharging effluent that has impaired the use of receiving waters; (3) discharging formaldehyde in concentrations exceeding the limits stated in the facility's NPDES permit; (4) discharging effluent causing violation of the pH limits stated in the facility's NPDES permit; (5) discharging cleaning water in violation of the NPDES permit; and (6) failing to implement and maintain a best management practices plan as required by the NPDES permit. The suit names the Department, the Executive Director, the Fish and Game Commission, and each of the Fish and Game Commissioners. CLF alleged that each separate violation of the Clean Water Act subjects NHFG to a penalty of up to $51,570. In addition to civil penalties, CLF sought declaratory relief and injunctive relief to prevent further violations of the Clean Water Act. CLF also seeks injunctive relief to remediate past effluent and seeks recovery of costs and fees associated with this matter. Following briefing on NHFG's partial motion to dismiss, CLF voluntarily dropped the Department and the Commission from the suit. After a hearing, the Court determined that civil penalties were barred on Eleventh Amendment grounds, but denied the State's motion to dismiss without prejudice to raising the remaining issues at summary judgment.

The Parties filed cross-motions for summary judgment on November 27, 2019. CLF sought summary judgment on all counts, while the State sought summary judgment on Counts II, III, VI, and VII, as well as on CLF's request for injunctive relief to remediate past effluent on 11th amendment grounds. The judge dismissed counts related to contamination already in sediment, dismissed Count III regarding formaldehyde discharges, issued preliminary orders to NHFG to limit pH issues, and scheduled other issues for trial in October 2020. NHFG addressed the pH issues at the hatchery in compliance with the Order.

On October 13, 2020, EPA issued a final NPDES permit for the hatchery to become effective on January 1, 2021. The new permit included numeric effluent limits for phosphorus. The State sought dismissal of the case as moot. However, on January 28, 2021 the Court denied the State's motion and allowed CLF to amend its complaint to reassert its claims under the new permit. CLF filed an amended complaint on February 10, 2021 re-alleging its claims (excepting the dismissed formaldehyde claim) and adding two new claims alleging violation of the new phosphorus effluent limits in the 2021 Permit. The State has filed a motion to dismiss the new claims. EPA has indicated an intent to issue an administrative order to include a compliance schedule, which may render the case moot.

State v. National Foam Inc., et al. (AFFF PFAS) – On May 30, 2019, the State filed suit against National Foam and several other manufacturers of Aqueous Film Forming Foam ("AFFF") which contains one or more fluorinated substances that have caused contamination of the State's groundwater and surface water. The case was removed to federal court and is now in the MDL court in South Carolina. The defendants have been given extensions of time with respect to filing an answer. The MDL parties are engaged in discovery, which is anticipated to continue for several months. The State's experts have not yet been able to quantify damages.

State v. 3M, et al. (PFAS) – On May 30, 2019, the State filed suit against manufacturers of various fluorinated chemicals for statewide contamination of the State's groundwater and surface water. The case is in Hillsborough Superior Court (North). The defendants filed partial motions to dismiss on the State's trespass and enhanced compensatory damages claims, and challenged venue. The case was transferred to Merrimack County, the trespass claim was dismissed, and the compensatory damages request will be allowed to remain part of the case. The State amended its complaint to add additional defendants related to DuPont's corporate reorganization. The Defendants filed a second round of motions to dismiss the State's public trust claim and the new defendants. Those motions remain pending.

State v. Monsanto Corp. et al (PCBs) – The State filed suit against the manufacturers of PCBs which have impaired over 90 State water bodies. Defendants have filed an answer and the State has made automatic disclosures. The State's experts have not yet been able to quantify damages.

Conservation Law Foundation, Inc. v. Pease Development Authority, et al and Notice of Intent to File Suits Against PDA. On November 10, 2016, CLF filed its Complaint pursuant to Section 505 of the Federal Water Pollution Control Act ("Clean Water Act") alleging the following violations: (1) discharging stormwater from systems of conveyances to the waters of the United States without a permit; (2) failure to obtain coverage under the required Clean Water Act National Pollutant Discharge Elimination System ("NPDES") permit; and (3) failure to comply with the specific requirements of any such permit. CLF alleged that each separate violation of the Clean Water Act subjects PDA to a penalty of up to $37,500 per day per violation for all violations occurring from January 12, 2009 through November 2, 2015 and $51,570 for penalties that are assessed on or after August 1, 2016, for violations that occurred after November 2, 2015. CLF sought the full penalties allowed by law. In addition to civil penalties, CLF sought declaratory relief and injunctive relief to prevent further violations of the Clean Water Act. CLF seeks an order from the court requiring PDA to correct all identified violations by implementing permitting requirements; and seeks recovery of costs and fees associated with this matter. On February 8, 2017, PDA filed a motion to dismiss the Complaint on 11th amendment grounds. The Court granted PDA's motion to dismiss as to all retrospective relief. The claim for prospective injunctive relief remains. The parties reached a settlement agreement in January, 2019, and this case was administratively closed as of March 22, 2019. This matter is now closed.

NHHA v. Sylvia Matthews Burwell, USDC 15-cv-460-LM: New Hampshire Hospital Association ("NHHA") filed a lawsuit against Centers for Medicare & Medicaid Services (CMS) seeking to prevent the application of CMS answers to FAQ's 33 and 34 concerning audit requirements that require hospitals to exclude any payments related to Medicaid recipients from third parties (TPL), including Medicare or private insurance, from claimed uncompensated care, arguing CMS' had engaged in illegal informal rulemaking and that the substance was not authorized by the CMS statute. NHHA requested that the application of the audit requirements related to uncompensated care be enjoined prospectively to future years disproportionate share reporting and calculations and retroactively to the then pending 2011 audit findings that several million dollars would have to be recouped from the critical care hospitals and several of the major hospitals. The State was not a party to this lawsuit, but has acknowledged that it would be bound by any order issued to CMS, as the State has adopted the CMS requirements for calculation of uncompensated care as the basis for how disproportionate share (DSH) payments are made.

Following a Preliminary Injunction hearing in January 2016, on March 11, 2016 the New Hampshire Federal District Court enjoined CMS from enforcing these audit requirements on procedural grounds for failure to use formal rulemaking and also found a likelihood of success on the merits.

In August 2016, CMS filed a notice of rulemaking to adopt a rule that would memorialize its position. On April 3, 2017 CMS published notice adopting the final rule, which became effective on June 2, 2017.

As a result of the Court's order, not only is recoupment of the 2011 overpayments based on TPL enjoined, but the hospitals were allowed in the current year, and will need to be allowed going forward as long as the injunction is in place, to claim uncompensated care without deducting these third party payments. In the last fiscal year, this resulted in approximately a $17 million increase in the DSH payments owed to hospitals. The State has filed a motion for permissive intervention indicating that it supports CMS statutory authority to adopt the substance of FAQ 33 and 34. That motion was denied.

On March 3, 2017, the federal court granted the hospitals' summary judgment motion in part, finding that CMS did not have authority to adopt these substantive interpretations by FAQ. This final order assumed that CMS could adopt its interpretation through rulemaking. A permanent injunction has been entered. The court rejected a request by the Hospitals to challenge the validity of the newly enacted rule in this action. CMS appealed to the First Circuit Court of Appeals the portion of the decision rejecting their authority to enforce the FAQ's. Briefs were filed, and oral argument was held on January 9, 2018. Although CMS has indicated it does not seek to enforce the FAQ's retroactively against the New Hampshire Hospitals, if CMS were to prevail on its appeal, it is unclear whether they would have the legal option to do so. The State filed an amicus brief in partial support of CMS's authority for the policies. On April 4, 2018 the First Circuit issued the decision upholding the trial court decision. CMS's has not filed an appeal to the United States Supreme Court, so this case is closed.

Michael Gill v. New Hampshire Department of Revenue Administration; The Mortgage Specialists, Inc. v. New Hampshire Department of Revenue Administration. The New Hampshire Supreme Court affirmed a consolidated lower court decision granting summary judgment in favor of the State in this appeal of administrative decisions that Mr. Gill and The Mortgage Specialists owe taxes. The total amount owed, with penalties and interest, is approximately $3.9 million. At this time, the State does not believe there is any likelihood it will recover that amount. In 2017, the State collected about $306,000 and believes an additional recovery in the range of $750,000 is possible in late 2018 or in 2019 with no further collections thereafter. Other creditors are also seeking the assets of Mr. Gill and Mortgage Specialists, Inc. The State has now sold the attached Gill properties at auction and has received $750,000. This case is now closed.

Cianbro Corporation v. NHDOT and MDOT. This matter was a contract dispute concerning the Sarah Mildred Long Bridge which connects Maine and New Hampshire over the Piscataqua River. Cianbro is the prime contractor on the bridge replacement project, and filed a Request for Equitable Adjustment through the MDOT internal adjudication process. Cianbro sought an additional $16.9 million and 164 additional days to complete the work. Cianbro alleged that the construction delays and cost overruns all stem from faulty design plans. Although MDOT has administered the project, both MDOT and NHDOT have traditionally each contributed 50% of all construction costs. However, pursuant to the interstate agreement, MDOT is responsible for costs that are primarily related to design issues. After a mediation, MDOT, NHDOT and Cianbro settled this claim for a total of $5.0 million. The NHDOT share of this settlement was $1,817,500 (36% of the total) which was believed to be the cost to litigate the claim. The funding source for the settlement was Consolidated Federal Aid, Highway Contract Payments.

G.K., by their next friend, Katherine Cooper, et al. v. Sununu, et al. Four minor children in the state foster care system with mental disabilities brought an action in federal district court on behalf of themselves and all others similarly situated challenging the State's foster care system as unconstitutional in certain respects in violation of the Adoption Assistance and Child Welfare Act of 1980, Title II of the Americans with Disabilities Act, Section 504 of the Rehabilitation Act of 1973. At present, it is not possible to predict the outcome of this action.

Price, et al. v. Commissioner of the New Hampshire Department of Health and Human Services. Three persons with disabilities enrolled in the New Hampshire Choices for Independence Medicaid Waiver ("CFI Waiver") filed suit in federal district court alleging that the N.H. Department of Health and Human Services has failed to provide them with community-based, long-term care services available through the CFI Waiver in violation of the Fourteenth Amendment of the United States Constitution, Title II of the Americans with Disabilities Act, Section 504 of the Rehabilitation Act, and the Medicaid Act. At present, it is not possible to predict the outcome of this action.

FINANCIAL STATEMENTS

Fiscal Year 2015. The State issued the financial statements for the fiscal year ended June 30, 2015 on January 15, 2016 with an unqualified auditor's opinion from KPMG. In March, the State received a statewide management letter from KPMG detailing concerns identified during the fiscal year 2015 audit. The management letter identified certain significant deficiencies and other findings (not material weaknesses). The State has remedied some of these issues already and continues to work diligently on the remaining issues identified. The management letter is available at ***http://www.gencourt.state.nh.us/LBA/AuditReports/contractedaudits.aspx.***

In the audit of the Liquor Commission, the State received a management letter identifying a material weakness and several significant deficiencies regarding financial management and certain internal controls. The State had received a similar letter for fiscal year 2014. The State has continued to experience turnover of Liquor Commission financial personnel but it continues to pursue internal control improvement efforts.

Also, as a result of the fiscal year 2015 audit conducted over the State Revolving Fund ("SRF") by the Audit Division of the Office of Legislative Budget Assistant, the State received a management letter identifying a material weakness and several significant deficiencies regarding financial management and certain internal controls. The management letter is available at ***http://www.gencourt.state.nh.us/LBA/AuditReports/financialreports.aspx.***

Single Audit. The fiscal year 2015 Single Audit of Federal Financial Assistance Programs conducted by KPMG resulted in certain compliance findings (material weaknesses and significant deficiencies) identified during the audit and can be found within the audit report located on the State's website at *http://www.gencourt.state.nh.us/LBA/AuditReports/contractedaudits.aspx.*

Fiscal Year 2016. The State issued the financial statements for the fiscal year ended June 30, 2016 on January 31, 2017 with an unqualified auditor's opinion from KPMG. In May 2017, the State received a statewide management letter from KPMG detailing concerns identified during the fiscal year 2016 audit. The management letter identified certain control deficiencies and other observations (not material weaknesses). Subsequent to the audit, the State experienced turnover in some key financial management positions, but has implemented additional internal controls to remedy some of these issues and continues to work diligently on the remaining issues identified. The management letter is available at *http://www.gencourt.state.nh.us/LBA/AuditReports/contractedaudits.aspx.*

In the audit of the Liquor Commission, similar to fiscal years 2014 and 2015, the State received a management letter identifying a material weakness and several significant deficiencies regarding financial management and certain internal controls. The Liquor Commission has taken steps to strengthen its financial reporting controls, including engaging financial consultants to assist in the preparation of the fiscal year 2017 financial statements, as well as assist in other internal control improvement efforts.

Also, as a result of the fiscal year 2016 audit conducted over the State Highway Fund by the Audit Division of the Office of Legislative Budget Assistant, the State received a management letter identifying a material weakness and several significant deficiencies regarding financial reporting and certain internal controls. The management letter is available at *http://www.gencourt.state.nh.us/LBA/AuditReports/financialreports.aspx.*

Single Audit. The fiscal year 2016 Single Audit of Federal Financial Assistance Programs conducted by KPMG resulted in certain compliance findings (material weaknesses and significant deficiencies) identified during the audit and can be found within the audit report located on the State's website at *http://www.gencourt.state.nh.us/LBA/AuditReports/contractedaudits.aspx.*

Fiscal Year 2017. The State issued the financial statements for the fiscal year ended June 30, 2017 on December 22, 2017 with an unqualified auditor's opinion from KPMG. The 2017 audited financial statements were filed with the Municipal Securities Rulemaking Board through its Electronic Municipal Market Access System on December 27, 2017.

The State received a statewide management letter from KPMG in March 2018 detailing concerns identified during the fiscal year 2017 audit. The management letter identified certain control deficiencies and other observations (not material weaknesses). The State has implemented additional internal controls to remedy some of these issues already and continues to work diligently on the remaining issues identified. The management letter is available at *http://www.gencourt.state.nh.us/LBA/AuditReports/contractedaudits.aspx.*

In the audit of the Liquor Commission, similar to fiscal years 2014 through 2016, the State received a management letter identifying a material weakness and significant deficiencies regarding financial management and certain internal controls. The Liquor Commission has continued to take steps to strengthen its financial reporting controls, including engaging financial consultants to assist in the preparation of the fiscal year 2017 financial statements, as well as assist in other internal control improvement efforts. Additional internal controls have been implemented to remedy several prior year issues and the Commission continues to pursue internal control improvement efforts in order to address the remaining issues identified. The management letter is available at *http://www.gencourt.state.nh.us/LBA/AuditReports/financialreports.aspx*

Single Audit. The fiscal year 2017 Single Audit of Federal Financial Assistance Programs conducted by KPMG resulted in certain compliance findings (material weaknesses and significant deficiencies) identified during the audit and can be found within the audit report located on the State's website at *http://www.gencourt.state.nh.us/LBA/AuditReports/contractedaudits.aspx.*

In addition to the Single Audit of Federal Financial Assistance Programs, KPMG was engaged to examine the State's assertions regarding the amounts of payroll costs charged to various federal programs administered by the United States Department of Education (US DOE). The examination was required by the US DOE based on a review of state compliance performed by the US DOE Office of State Support. The subsequent report issued on September 6, 2018 is available on the State's website at *http://www.gencourt.state.nh.us/LBA/AuditReports/ContractedAudits/DOE%20Payroll%20Cost%20Audit.pd*.

The report identifies $3.38 million of unsupportable payroll costs spanning State fiscal years 2014 through 2016. The final determination regarding the ultimate liability to the State for the unsupportable costs are dependent on language in the US DOE's rules.

Fiscal Year 2018. The State has issued financial statements for the fiscal year ended June 30, 2018 on December 27, 2018 with an unqualified auditor's opinion from KPMG. The 2018 audited financial statements were filed with the Municipal Securities Rulemaking Board through its Electronic Municipal Market Access System on December 28, 2018.

The State received a statewide management letter from KPMG in March 2019 detailing concerns identified during the fiscal year 2018 audit. The management letter identified certain control deficiencies and other observations (not material weaknesses). The State has implemented additional internal controls to remedy these issues and will continue to work diligently on the issues identified. The management letter is available at *http://www.gencourt.state.nh.us/LBA/AuditReports/contractedaudits.aspx.*

In the audit of the Liquor Commission, similar to fiscal years 2014 through 2017, the State received a management letter identifying a material weakness and significant deficiencies regarding financial management and certain internal controls. The Liquor Commission has continued to take steps to strengthen its financial reporting controls, including engaging financial consultants to assist in the preparation of the fiscal year 2018 financial statements, as well as assist in other internal control improvement efforts. Additional internal controls have been implemented to remedy several prior year issues and the Commission continues to pursue internal control improvement efforts in order to address the remaining issues identified. The management letter is available at *http://www.gencourt.state.nh.us/LBA/AuditReports/financialreports.aspx*.

Single Audit. The fiscal year 2018 Single Audit of Federal Financial Assistance Programs was conducted by KPMG and resulted in certain compliance findings (material weaknesses and significant deficiencies) identified during the audit and can be found within the audit report located on the State's website at *http://www.gencourt.state.nh.us/LBA/AuditReports/contractedaudits.aspx*.

Fiscal Year 2019. The State issued financial statements for the fiscal year ended June 30, 2019 on December 20, 2019 with an unqualified auditor's opinion from KPMG. The 2019 audited financial statements were filed with the Municipal Securities Rulemaking Board through its Electronic Municipal Market Access system on December 23, 2019.

In connection with its audit of the State's financial statements for the fiscal year ended June 30, 2019, KPMG also issued a separate report on internal control over financial reporting and on compliance and other matters. The report may be accessed at http://www.gencourt.state.nh.us/LBA/AuditReports/ContractedAudits/State_ML_2019.pdf. The report cited two significant deficiencies in internal control, the more notable of which pertains to a longstanding policy of the State regarding how it accounts for excess business taxes paid, as reported annually by the Department of Revenue Administration at https://www.revenue.nh.gov/publications/reports/index.htm. These amounts or "credit carryovers" represent the amount of overpaid BPT and BET amounts that taxpayers elect to apply to future taxes owed rather than requesting a refund. The State's policy to date has been to record a tax refund payable for accumulated credit carryovers only to the extent the aggregate credit carryovers in a particular fiscal year exceed estimated additional tax revenues attributable to that fiscal year but arising from future audits of taxpayers.

The State initially estimated the gross amount of credit carryovers as of June 30, 2019 to be approximately $224 million and the incremental fiscal 2019 tax revenues to be generated by audits to be approximately $214 million, resulting in a net tax refund payable (liability) of $10 million. Further review resulted in an adjusted credit carryover estimate of $85 million. KPMG recommended in its report that the State discontinue its practice of offsetting credit carryovers with future tax audit revenues and analyze the impact on the General Fund and Education Fund of recognizing related refunds of BPT and BET revenues in those funds.

The State's response to this issue is included in the KPMG report. The State notes that it has reviewed this issue each year since fiscal 2011 but to date has not generally adjusted its cash basis tax revenues to account for the full credit carryover amounts. In any year where the calculated credit carryover liability exceeds the calculated future audit revenues, the State has recorded a net liability at the General Fund level, which impacts the budgetary surplus. In response to the KPMG report, the State intends to further refine its analysis of the credit carryover balances as of the end of each fiscal year and evaluate whether other changes should be made to its accounting policies, consistent with current budget practices. Any changes in the State's accounting policies related to this issue, if determined to be desirable, are currently expected to be implemented for the fiscal 2020 financial statements. However, the State has made no decisions yet on any such changes nor can it predict how KPMG may view any changes.

Fiscal Year 2020. The State issued financial statements for the fiscal year ended June 30, 2020 on December 22, 2020 with an unqualified auditor's opinion from KPMG. The fiscal year 2020 audited financial statements were filed with the Municipal Securities Rulemaking Board through its Electronic Municipal Market Access system on December 24, 2020.

The State received the statewide report on internal control over financial reporting and on compliance and other matters (Yellow book letter) on December 22, 2020 from KPMG, detailing one significant deficiency (not material weaknesses) identified during the fiscal year 2020 audit related once again to the prior year credit carryover concerns. The State will continue to work diligently to ensure that additional internal controls are implemented to remedy these issues.

The State anticipates receiving a statewide management letter from KPMG by March 31, 2021, detailing concerns identified during the fiscal year 2020 audit. The management letter will identify certain control deficiencies and other observations (not significant deficiencies or material weaknesses). The State will continue to implement additional internal controls to remedy any issues.

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.

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.

This Information Statement contains forecasts, projections and estimates that are based on current expectations. In light of the important factors that may materially affect the financial condition of the State of New Hampshire generally and other economic and financial matters, the inclusion in this Information Statement of such forecasts, projections and estimates should not be regarded as a representation by the State that such forecasts, projections and estimates will occur. Such forecasts, projections and estimates are not intended as representations of fact or guarantees of results.

This 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 of New Hampshire 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.

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.

References to web site addresses presented herein are for informational purposes only and may be in the form of a hyperlink solely for the reader's convenience. Unless specified otherwise, such web sites and the information or links contained therein are not incorporated into, and are not part of, this Information Statement.

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 is 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

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, Monica I. Mezzapelle, State Treasurer, State House Annex, Concord, New Hampshire.

EXHIBIT A

STATE OF NEW HAMPSHIRE

AUDITED FINANCIAL STATEMENTS

FOR FISCAL YEAR 2020

(Included by Reference and Filed with the Municipal Securities Rulemaking Board)

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