



STATE OF NEW HAMPSHIRE
Department of Transportation

ANNUAL REPORT
With Respect to
TURNPIKE SYSTEM REVENUE BONDS

February 22, 2013

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This Annual Report dated February 22, 2013 (the “Annual Report”) of the State of New Hampshire (the “State”) is prepared and submitted in accordance with the requirements of the Continuing Disclosure Certificates dated August 24, 2006, December 1, 2009, January 5, 2012, August 30, 2012 and November 5, 2012 (collectively, the “Continuing Disclosure Certificates”) executed by the State for the benefit of the owners of the \$39,425,000 State of New Hampshire Turnpike System Revenue Bonds, 2006 Refunding Series, the \$217,215,000 State of New Hampshire Turnpike System Revenue Bonds, 2009 Series A (Federally Taxable – Build America Bonds – Direct Payment), 2009 Refunding Series B, the \$42,115,000 State of New Hampshire Turnpike System Revenue Bonds, 2012 Refunding Series (Delayed Delivery), the \$110,180,000 State of New Hampshire Turnpike System Revenue Bonds, 2012 Series C and the \$65,355,000 State of New Hampshire Turnpike System Revenue Bonds, 2012 Refunding Series B (Delayed Delivery) (collectively, the “Bonds”). The State’s audited financial statements pertaining to its Turnpike System for the Fiscal Year ended June 30, 2012, prepared in accordance with generally accepted accounting principles (the “Financial Statements”) were filed with the Municipal Securities Rulemaking Board through its Electronic Municipal Market Access system on January 3, 2013. The Financial Statements are incorporated herein by reference.

Questions may be directed to Suzanne Rude, Financial Analyst at the State of New Hampshire Department of Transportation at (603) 271-0167.

Annual Report

This Annual Report is submitted pursuant to the Continuing Disclosure Certificates and updates certain information contained in the State’s most recent Official Statement dated November 1, 2012 (the “Official Statement”), which contains certain information pertaining to the State’s Turnpike System. This Annual Report does not constitute an offer to sell or the solicitation of an offer to buy the Bonds.

Pursuant to the Continuing Disclosure Certificates, the State hereby updates the information requested in Section 4, “Content of Annual Reports,” of the Continuing Disclosure Certificates as follows (the headings and page numbers refer to the applicable portions of the Official Statement):

THE TURNPIKE SYSTEM – General Description, with respect to the first paragraph on pages 26 and 27:

General Description

The Turnpike System, as shown on the map on page iv, presently consists of 89 miles of limited access highway, 36 miles of which are part of the U.S. Interstate Highway System. The Turnpike System comprises a total of approximately 643 total lane miles, 170 bridges, 49 interchanges, and 24 facilities. Since beginning operations in 1950, the Turnpike System has contributed to the development of the New Hampshire economy. It has also been a major factor in the growth of the tourist industry in the State. The Turnpike System consists of three limited access highways: the Blue Star Turnpike (I-95) and the Spaulding Turnpike, (which are collectively referred to as the Eastern Turnpike), and the Central Turnpike. The Turnpike System primarily serves the major cities located in the central and eastern sections of southern New Hampshire. See *State Demographic and Economic Data* in Appendix A for a general description of the State and its economy, including population, economic activity, employment, personal income, state and local taxation, housing, education, utilities, banking and transportation.

- THE TURNPIKE SYSTEM – Maintenance of the Turnpike System, with respect to the table captioned “Renewal and Replacement Expenditures” on page 32:

See Attachment A.

- THE TURNPIKE SYSTEM – Toll Rates, with respect to the table captioned “Turnpike System Toll Rate Schedule” on page 44:

There have been no changes to the Turnpike System Toll Rate Schedule on page 44 of the Official Statement.

- THE TURNPIKE SYSTEM – Turnpike System – Historical Revenues and Expenditures, with respect to the table captioned “Statement of Revenues, Expenses and Changes in Net Assets” on page 45:

See Attachment B.

- THE TURNPIKE SYSTEM – Management Discussion of Historical Revenues and Expenditures (only with respect to the preceding fiscal year) on pages 46 and 47:

Fiscal Year 2012

Gross revenues (operating revenue, investment income, and miscellaneous) available for operating expenses, debt service, reserves and improvement projects totaled \$123.5 million in Fiscal Year 2012. This represents a less than 1 % increase relative to Fiscal Year 2011.

Total Operating Revenues in Fiscal Year 2012 were \$119.9 million, an increase of 1.1% from Fiscal Year 2011. This slight increase in operating revenues was due primarily to federal reimbursement for Renewal & Replacements expenses for painting costs incurred on the I-95 Piscataqua River Bridge in Portsmouth. The Turnpike System’s primary revenues are generated

from toll collections comprising \$117.9 million of net revenue. These revenues are essentially flat as compared to Fiscal Year 2011 despite the impact of the opening of the Manchester Airport Access Road (MAAR).

Operating Expenses (excluding depreciation and funds for renewal and replacement and debt service) in Fiscal Year 2012 were \$40.6 million, a decrease of 4.0% from the prior fiscal year. This decrease was primarily due to a decrease in Personnel costs and benefits due to the implementation of lean staffing initiatives for toll operations and a decrease in winter maintenance due to cost reduction measures and a less severe winter.

Renewal and replacement expenses were \$9.3 million, a decrease of 35% from the prior year, but slightly above the budgeted amount of \$9.2 million. The Fiscal Year 2011 increase was due to multi-year contractual obligations and available balances carried forward from prior years, and a more aggressive renewal and replacement program. Fiscal Year 2012 program expenditures included resurfacing, bridge rehabilitation, guardrail replacement, drainage repairs, bridge painting and toll plaza repairs.

Transactions increased in the E-ZPass Program with overall E-ZPass utilization increasing by 1.9% over the previous year. The Hampton Open Road Tolling (ORT) plaza experienced an increase in E-ZPass utilization of 2.5% over the previous year. Construction on the second ORT facility in New Hampshire began in April 2012 at the Hooksett Toll Plaza on I-93. The improvements also include the rehabilitation of the existing toll plaza, roadway widening and reconstruction, and bridge rehabilitation at three area locations. The project is scheduled to be substantially complete, and the ORT lanes operational, by June 2013.

Fiscal Year 2012 Review of Capital Fixed Assets

For several years, the annual audit of the Turnpike System has reported material weakness associated with challenges in accounting for and reporting capital assets. Management of the Department of Transportation, in a diligent effort to resolve this reporting issue and in advance of a state-wide effort to build an integrated asset management system, purchased and installed a basic fixed asset tracking system and dedicated staff time to an exhaustive review of Turnpike System infrastructure assets. During this review, the Department identified three capital improvement projects for which substantial engineering was completed, but for which construction has yet to be funded (two projects associated with the Circumferential Highway, listed as Projects A10 and A11 on page 58 of the Official Statement and one project at Exit 10 on Spaulding Turnpike listed as Project B7 on page 59 of the Official Statement). Legislative authority for these projects remains in current law.

Review and discussion with the Audit Division of the Legislative Budget Assistant prompted the Department of Transportation to consider whether or not these projects should continue to be valued as Infrastructure Assets or should be considered as Construction in Progress, or temporarily or permanently impaired assets. Based on this review and discussion, it has been determined that these projects are not considered impaired and remain in Capital Assets as Infrastructure as originally presented. These three projects are so recorded in the Fiscal Year 2012 audited financial statements.

During Fiscal Year 2012, Capital Improvement Program expenditures totaled \$59.1 million, a 14.5% increase over the Fiscal Year 2011 amount of \$51.6 million.

In Fiscal Year 2010, the Turnpike System acquired the I-95 Piscataqua River Bridge and 1.6-mile segment of I-95 owned by the State Highway System. The Turnpike System executed a Long-term Note Payable with payments to be made to the State Highway Fund. Interest is at the State's borrowing rate over a maximum period of 20 years. The State interest rate in effect at June 30, 2012 on the note was 4%. However, under the terms of the note and as prescribed by law, the Commissioner of Transportation and the State Treasurer may agree from time to time to modify the payment schedule with respect to payments due to the State Highway Fund from and after July 1, 2011. In Fiscal Year 2011, the Commissioner and Treasurer did agree to such a modification of the payment schedule.

During Fiscal Year 2012, a note payment of \$26.0 million (including \$2.7 million in interest) was made to the State Highway Fund. For Fiscal Year 2013, the note payment to the State Highway Fund is budgeted at \$26.0 million. The revised annual maturities are as follows:

<u>Payable During the Fiscal Year Ending June 30,</u>	<u>(Amounts in thousands)</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$24,262	\$ 1,738	\$26,000
2014	4,814	1,056	5,870
2015	5,009	861	5,870
2016	5,213	657	5,870
2017	5,425	446	5,871
2018 thru 2019	<u>7,738</u>	<u>253</u>	<u>7,991</u>
Totals	\$52,461	\$ 5,011	\$57,472

Governor Margaret Wood Hassan's FY14-FY15 Budget submission to the New Hampshire State Legislature on February 14, 2013 proposed accelerating the Turnpike System's I-95 payments to the Highway Fund in FY14 and FY15 to \$15 million and \$14.17 million respectively. If enacted into law, this acceleration would pay off the note by the end of Fiscal Year 2015. The budget process will proceed through the House and Senate with approval required by June 30, 2013.

The resolutions of the Turnpike System revenue bonds require the Turnpike System to maintain certain accounts (see table below). The Turnpike System deposits all revenues into a Turnpike System revenue account, which are then applied first to the payment of operation expenses and then to fund accounts required by the resolutions.

Restricted assets at fair market value are segregated into the following accounts as of June 30:

(Amounts in thousands)

	<u>2012</u>	<u>2011</u>
Revenue Bond Cash Construction Account	\$ 0	\$ 13,434
Revenue Bond Interest Debt Service Account	4,310	4,021
Revenue Bond Principal Debt Service Account	7,355	6,487
Revenue Bond Debt Service Reserve Account	33,334	34,377
Revenue Bond Insurance Reserve Account	3,009	3,001
Total Restricted Assets	\$ 48,008	\$61,320

The amounts shown above are invested in Permitted Investments in accordance with the Bond Resolution.

The State primarily retains the risk for losses, except where the provisions of law allow for the purchase of commercial insurance or where commercial insurance has been proven beneficial for the general public. Settled claims, under the insurance program, have not exceeded insurance coverage in any of the last three years. The State provides self-funded health benefits to employees through plans in which claims are administered and paid by carriers. GASB Statement No. 10, Financial Reporting for Risk Financing and Related Insurance Issues, requires the Turnpike System to estimate and record a liability when the risk of loss to the Turnpike System is probable and the amount of loss can be reasonably estimated.

The State is self-insured for its workers compensation, retaining all of the risks associated with claims. The State utilizes an actuarial study that provides an updated estimate of the outstanding liabilities for the prior years' claims. The study also contains assumptions about loss development patterns, trend and other relevant claim characteristics based on the state's historic loss experience. The following table presents changes in Turnpike System workers compensation claim liabilities in the State Employee Benefit Risk Management Fund during the fiscal years ended June 30, 2011 and 2012:

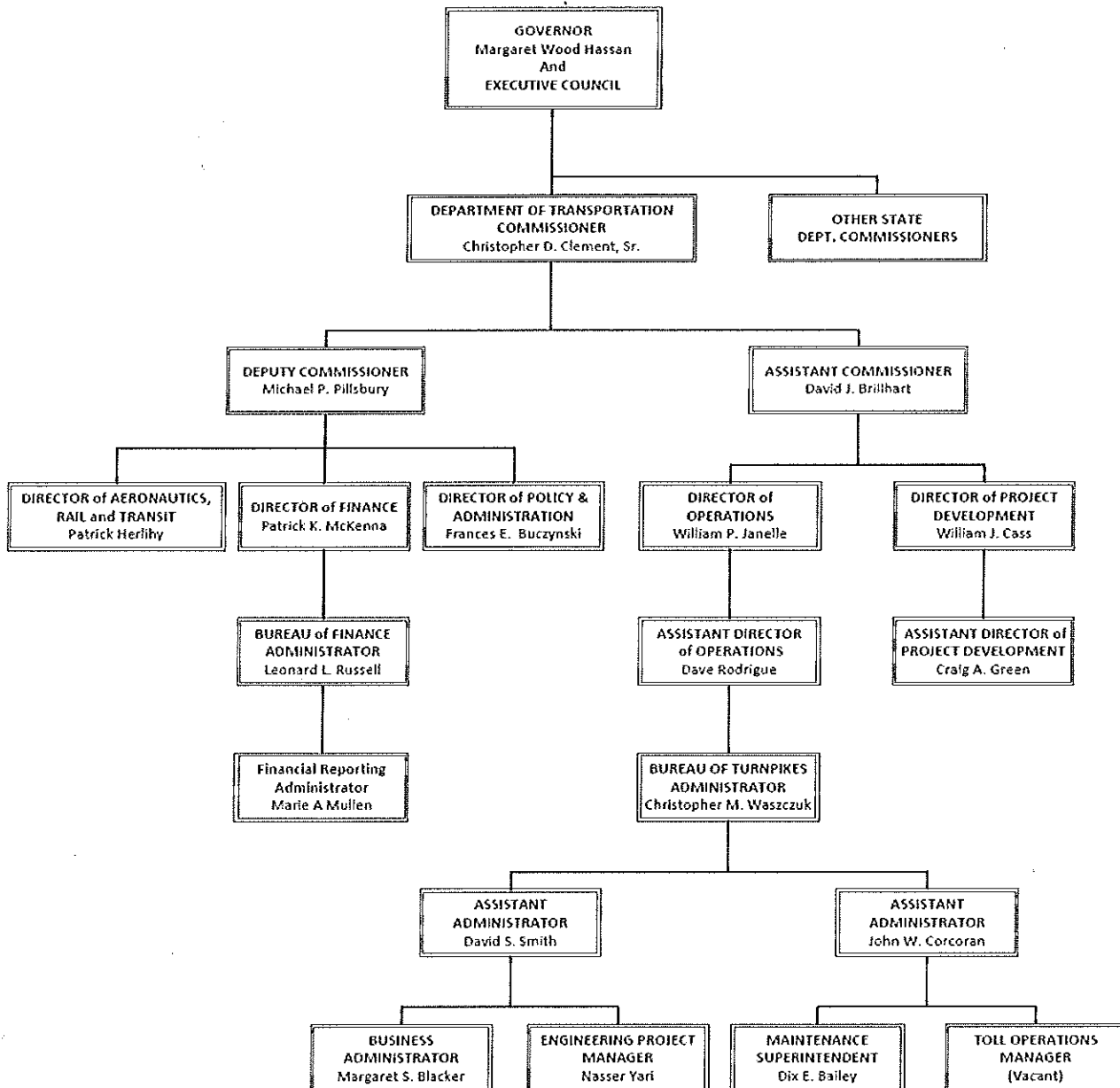
(Amounts in thousands)

	6/30/2010 Balance	Increases	Decreases	6/30/2011 Balance	Increases	Decreases	6/30/2012 Balance	Current	Long- Term
Total	\$1,900	\$541	(\$451)	\$1,990	\$383	(\$384)	\$1,989	\$353	\$1,636

On February 1, 2012, Fitch Ratings upgraded approximately \$442.7 million of the State's Turnpike System revenue bonds to 'A+' from 'A'. The upgrade to 'A+' is based on the Turnpike System's solid financial metrics and franchise strength that are comparable to peer systems at the 'A+' or higher level. Included within these factors is the Turnpike System's relatively moderate leverage at 4.0x Net Debt to cash flow available for debt service (CFADS) on the senior bonds and historical and projected coverage ratios in excess of 1.6x. In addition, the upgrade reflects the Turnpike System's limited capital improvement plan which is to be largely paid for with existing bond proceeds and cash with only modest future borrowing. The upgrade also incorporates the mature and stable nature of the traffic base that has a compound annual growth rate (CAGR) of 0.9% since 2000. Fitch's rating outlook on the bonds remains 'stable.'

The following chart shows the organization of State government relating to the Turnpike System:

ORGANIZATION CHART



- TURNPIKE SYSTEM INDEBTEDNESS, with respect to the table captioned “Turnpike System Debt Service” on page 55:

There have been no changes to the Turnpike System Debt Service Schedule on page 55 of the Official Statement.

- CAPITAL IMPROVEMENT PROGRAM, with respect to the table captioned “Project Descriptions” on pages 58-60:

There have been no substantive changes to the Project Descriptions Schedule on pages 58-60 of the Official Statement.

- CAPITAL IMPROVEMENT PROGRAM, with respect to the table captioned “Capital Improvement Program Expenditures” on page 61:

See Attachment C.

This Annual Report has been executed and delivered on behalf of the State pursuant to the Continuing Disclosure Certificates.

STATE OF NEW HAMPSHIRE

By: CD. WT
Christopher D. Clement, Sr.
Commissioner
Department of Transportation

RENEWAL AND REPLACEMENT EXPENDITURES
Fiscal Years 2000 through 2015
GAAP Basis and Budget (\$000's)

<u>Fiscal Year</u>	<u>Amount</u>
2000	\$4,112
2001	5,928
2002	5,724
2003	7,058
2004	4,973
2005	3,114
2006	4,567
2007	8,552
2008	11,842
2009	7,805
2010	7,793
2011	14,309
2012	9,320
2013	12,671*
2014	10,000**
2015	8,900**

* Fiscal Year 2013 includes the authorized budget amount of \$9.8 million plus a carryover from Fiscal Year 2012 of \$2.87 million.

** Recommended by HNTB Renewal and Replacement Assessment January 12, 2012.

Turnpike System-Historical Revenues and Expenditures

The Turnpike System is part of the State primary government and is accounted for as an enterprise fund of the State. For Fiscal Years 2008 through 2012, the financial information below is derived from audited financial statements of the Turnpike System.

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS New Hampshire Turnpike System (in thousands) For the Fiscal Years ended June 30

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
<u>Operating Revenues:</u>					
Tolls and Other Operating Revenue	\$104,204	\$106,757	\$118,403	\$118,688	\$119,939
<u>Operating Expenses:</u>					
Personnel Services	10,623	11,135	11,352	11,438	10,495
Payroll Benefits	4,706	5,100	5,464	5,611	5,531
Enforcement	5,230	5,368	5,025	4,926	4,890
Renewal & Replacement	11,842	7,805	7,793	14,309	9,320
Supplies, Materials & Other	2,518	3,743	3,545	3,861	3,423
Equipment & Repairs	3,049	3,187	2,667	3,261	3,659
Indirect Costs	1,825	2,069	2,010	2,058	2,521
Heat, Light, & Power	1,501	1,233	1,215	1,317	1,269
Bank & Credit Card Fees	1,689	1,734	2,037	2,293	2,226
Rentals	873	983	771	1,013	589
E-ZPass Processing Fees	4,287	5,117	5,259	5,771	5,252
Transponder Expense	821	693	769	790	798
Depreciation and Amortization	17,575	15,179	15,970	21,004	23,016
Total Operating Expenses	<u>66,539</u>	<u>63,346</u>	<u>63,877</u>	<u>77,652</u>	<u>72,989</u>
Operating Income	<u>37,665</u>	<u>43,411</u>	<u>54,526</u>	<u>41,036</u>	<u>46,950</u>
<u>Non-Operating Revenues</u>					
<u>(Expenses)</u>					
Investment Income	2,546	836	2,108	164	130
Miscellaneous Income	325	140	194	3,589	3,420
Intra-entity Acquisition of Land and Bridge from Highway Fund (for Notes Payable)	0	0	(116,566)	0	0
Intra-entity Acquisition of Land and Improvements from Another State Agency	0	0	(6,222)	(2,082)	0
Loss on the Sale of Other Capital Assets	0	(3,995)	(952)	(166)	0
Interest on Bonds and Note Amortization on Bond Issuance Costs	(13,602)	(12,953)	(16,223)	(14,792)	(12,821)
	(270)	(279)	(972)	(228)	(356)
Total Non-operating Revenue (Expenses)	<u>(11,001)</u>	<u>(16,251)</u>	<u>(138,633)</u>	<u>(13,515)</u>	<u>(9,627)</u>
Changes in Net Assets Before Capital Contributions	<u>26,664</u>	<u>27,160</u>	<u>(84,107)</u>	<u>27,521</u>	<u>37,323</u>
Capital Contributions	<u>8,816</u>	<u>3,952</u>	<u>(406)</u>	<u>31,505</u>	<u>46,786</u>
Prior Period Adjustment – Implement GASB 49	(3,600)				
Change in Net Assets	35,480	31,112	(84,513)	59,026	84,109
Net Assets – July 1	<u>347,894</u>	<u>379,774</u>	<u>410,886</u>	<u>326,373</u>	<u>385,399</u>
Net Assets – June 30	<u>\$379,774</u>	<u>\$410,886</u>	<u>\$326,373</u>	<u>\$385,399</u>	<u>\$469,508</u>

**CAPITAL IMPROVEMENT PROGRAM EXPENDITURES
FISCAL YEARS 1986 THROUGH 2015**

Set forth below is a table of Capital Improvement Program expenditures on an unaudited cash basis for Fiscal Years 1986 through 2009, on a GAAP basis for Fiscal Years 2010 through 2012, and on a forecasted basis for Fiscal Years 2013 through 2015. The timing and amounts of capital expenditures are subject to change.

Fiscal Year Ending June 30,	Capital Expenditures
1986	\$ 3,703,014
1987	12,846,330
1988	15,092,609
1989	34,183,782
1990	31,457,483
1991	25,308,194
1992	29,988,101
1993	33,941,502
1994	30,665,402
1995	40,452,057
1996	29,198,433
1997	24,917,835
1998	26,260,770
1999	30,544,034
2000	19,719,168
2001	10,148,747
2002	6,469,689
2003	10,242,505
2004	19,437,590
2005	20,503,930
2006	13,176,569
2007	8,514,987
2008	9,159,186
2009	23,250,730
2010	66,088,919
2011	51,613,827
2012	<u>59,142,096</u>
Actual	\$ 686,027,489
2013	85,060,000*
2014	46,730,000*
2015	<u>56,780,000*</u>
Estimated	\$ <u>188,570,000</u>
Total	\$ 874,597,489

*Estimated, from Turnpike System Priority Capital Improvement Program (Status Report –January, 2013).