



The State of New Hampshire
Annual Report
of the
State Treasury

As of and for the
FISCAL YEAR ENDED JUNE 30, 2018

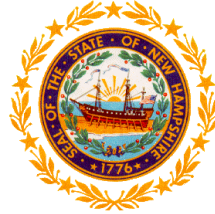
William F. Dwyer

State Treasurer

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William F. Dwyer
STATE TREASURER



**THE STATE OF NEW HAMPSHIRE
STATE TREASURY**

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September 27, 2018

Pursuant to, RSA 6:17, RSA 6:43, RSA 11:5-b and RSA 20:7, I am pleased to present the Annual Report of the State Treasury, as of and for the fiscal year ended June 30, 2018.

The New Hampshire Treasury is charged with performing a variety of financial management tasks. Among those responsibilities, the Treasury oversees internal cash and investment management functions for the State's funds, issues the State's general obligation and revenue bonds and other debt and, pursuant to RSA 471-C, is responsible for acquiring from institutional holders and returning to rightful owners all financial property that qualifies as abandoned property under the law. The Treasurer is also a member of numerous boards and commissions and serves as trustee and custodian of various State funds.

Please note that all of the information contained in this report is unaudited and subject to change pending completion of the State's 2018 Comprehensive Annual Financial Report.

The staff of the Treasury and I look forward to the opportunities ahead as we continually strive to enhance and securely deliver the wide range of financial management services we provide to the citizens of New Hampshire and to all branches of State government.

Respectfully submitted,

William F. Dwyer
State Treasurer



**STATE OF NEW HAMPSHIRE
SELECTED STATE OFFICIALS**

GOVERNOR

Christopher T. Sununu

EXECUTIVE COUNCIL

Joseph D. Kenney, District 1
Andru Volinsky, District 2
Russell E. Prescott, District 3
Christopher C. Pappas, District 4
David K. Wheeler, District 5

SECRETARY OF STATE

William M. Gardner

ATTORNEY GENERAL

Gordon MacDonald

COMMISSIONER OF ADMINISTRATIVE SERVICES

Charles M. Arlinghaus

STATE TREASURER

William F. Dwyer

OVERVIEW OF THE TREASURY

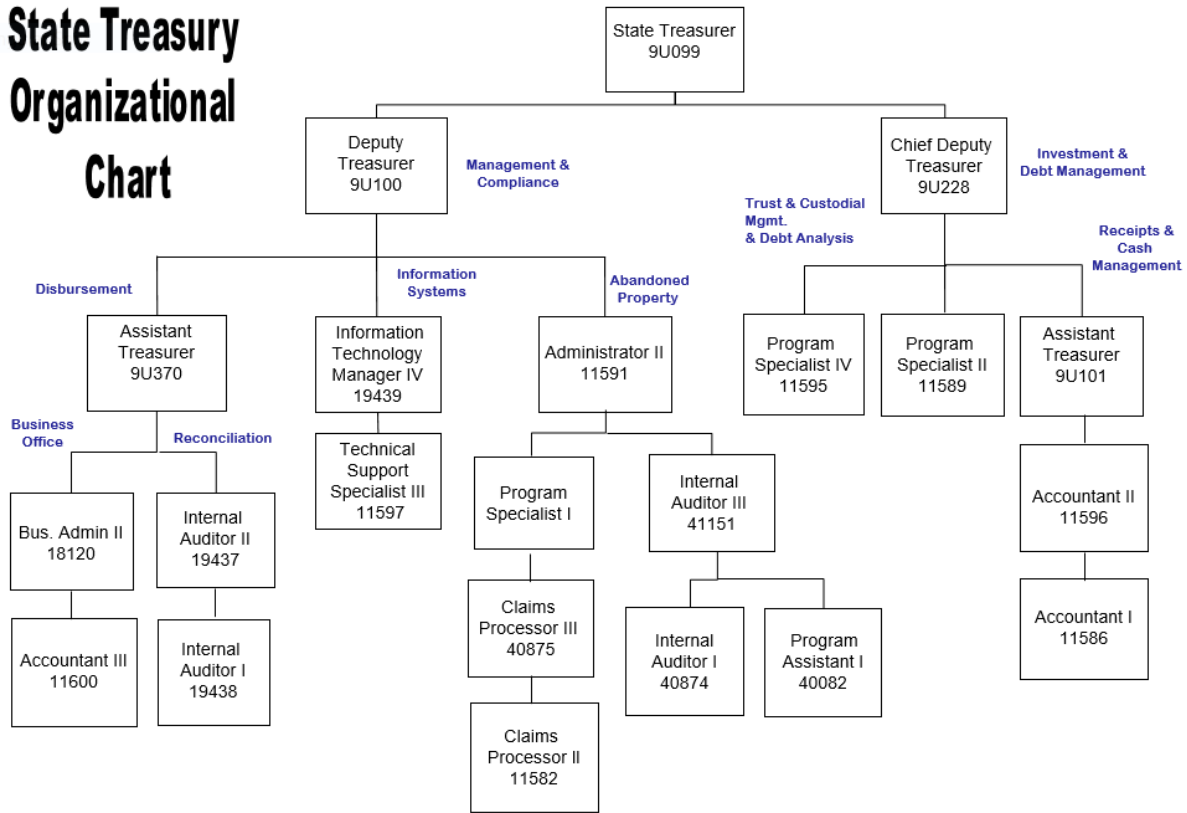
Part 2, Article 67 of the New Hampshire Constitution establishes the position of the Treasurer of the State of New Hampshire. In accordance with the Constitution, the State Treasurer is elected by a joint session of the Senate and the House of Representatives (the General Court). This election takes place on the first Wednesday of December following the biennial election when the newly elected General Court meets for organizational purposes. During a joint session of the newly-elected members of the legislature on Organization Day, Wednesday, December 7, 2016, William F. Dwyer was elected to a second term as State Treasurer effective January 4, 2017 through January 1, 2019.

The State Treasury is responsible for a variety of financial management activities including cash and investment management, debt management, and the unclaimed and abandoned property program. The State Treasury will optimize the use of state financial assets and financial obligations while protecting both through the deployment of secure technology, cost-effective and efficient banking practices, a commitment to the prudent management of public funds, and a dedicated and highly-qualified staff.

The State Treasurer is an *ex-officio* member of numerous boards and commissions, including, but not limited to, the New Hampshire Retirement System, the New Hampshire Municipal Bond Bank, the New Hampshire Business Finance Authority, the Nuclear Decommissioning Financing Committee (Chairman), the New Hampshire Public Deposit Investment Pool, and the New Hampshire College Tuition Savings Plan Advisory Commission (Trustee of the Plans). The State Treasurer is also the trustee of, or bears administrative responsibility for, many trust, custodial, escrow, and other funds.

The authorized staffing of the State Treasury for the 2018-2019 biennium is 22 positions, 5 unclassified and 17 classified. As of the close of fiscal year 2018, there were 4 vacant positions. The organizational chart below illustrates the authorized positions for each functional area in effect as of June 30, 2018.

State Treasury Organizational Chart



As of June 30, 2018

CASH MANAGEMENT

The Treasury is responsible for a wide array of cash management activities pursuant to its role as the state’s “bank”. It is the Treasury’s responsibility to maintain the appropriate amount of cash when and where needed in order to finance the State’s operating and capital budgets. This responsibility is met in several ways, including cash flow forecasting, collecting and concentrating funds, administering disbursements, and investing available daily cash balances.

In fiscal year 2018, the Treasury managed over \$7.3 billion in receipts and \$6.9 billion in disbursements. A summary of receipts and disbursements for the previous three fiscal years follows:

COMPARATIVE STATEMENT OF RECEIPTS AND DISBURSEMENTS**(Unaudited)**

	As of and for the Year Ended June 30		
	<u>2018</u>	<u>2017</u>	<u>2016</u>
BEGINNING BALANCE	1,007,223,601	1,062,264,819	980,587,282
TOTAL RECEIPTS	7,353,165,182	6,682,825,532	6,203,199,653
<u>TOTAL DISBURSEMENTS</u>	<u>(6,928,762,924)</u>	<u>(6,737,866,750)</u>	<u>(6,121,522,116)</u>
<u>ENDING BALANCE</u>	<u>\$1,431,625,859</u>	<u>\$1,007,223,601</u>	<u>\$1,062,264,819</u>

TRUST AND AGENCY ACCOUNTS

Pursuant to RSA 11:1, the State Treasurer serves as the custodian of “All trust funds left to and accepted by the state...”. As of June 30, 2018, the fair market value of the 46 trust and agency funds was approximately \$320.5 million, ranging from just under \$5,000 to over \$278 million, the value of the Drinking Water and Groundwater Trust Fund. Investment objectives range from short-term liquidity to maximum capital appreciation. During fiscal year 2018, three existing funds were liquidated, with one account added. All accounts originated from a variety of sources and serve a wide range of beneficiaries and purposes. A list of these trust and agency funds, along with unaudited activity and balances for fiscal year 2018, is included at the end of this report as Exhibit 1.

DEBT MANAGEMENT**General Obligation Bonds**

General obligation debt is paid from the State's taxes and other revenues. As of June 30, 2018, total outstanding general obligation debt stood at \$785.4 million (unaudited). Approximately 50% of this debt will be repaid from unrestricted general fund revenue, while the remainder will be paid from a variety of dedicated user assessments, fines, and other revenues. During fiscal year 2018, the Treasury sold two general obligation bond issues.

On July 13, 2017, as has been done several times in the past beginning in fiscal year 2010, Treasury sold \$4,375,000 of capital improvement general obligation bonds (the “Series A Bonds”) through a private placement with the New Hampshire Municipal Bond Bank (NHMBB). The NHMBB purchases the bonds as an investment in its required debt service reserve fund for its own bond issues. The State benefits from this type of issuance by receiving capital project bond proceeds at a reduced cost of capital compared to that of a conventional “new money” issue, which entails increased underwriting, legal, and marketing fees. This bond pays interest every six months and has only two maturities, one in 2028 with a coupon of 5% and another in 2036 with a coupon of 3%.

On December 20, 2017, the Treasury issued \$66,510,000 in capital improvement bonds (the “Series B Bonds”), through a competitive sale with the bonds awarded to the highest bidder (lowest cost of funding). The State has used the Series B new money proceeds (plus a sale premium totaling nearly \$9 million) to fund a total of \$75 million in a variety of capital projects in different stages of completion, authorized primarily in the 2015 and 2017 capital budgets. The Series B bonds generated an overall true interest cost of 2.42%, with annual maturities ranging from 2018 to 2037 and an average coupon of 3.95%.

Turnpike System Revenue and Federal Highway Grant Anticipation Revenue Bonds

In addition to administering the issuance of general obligation debt, Treasury is responsible for issuing capital improvement revenue and refunding bonds for the Turnpike System, as well as bonds backed in large part by Federal Highway funds for the Department of Transportation called Federal Highway Grant Anticipation Revenue Vehicle Bonds (“GARVEE”). Turnpike System Revenue bonds are repaid solely from revenues (tolls) collected throughout the Turnpike System. No Turnpike System bonds were issued in fiscal year 2018. Total outstanding debt of the Turnpike System as of June 30, 2018 was \$363 million (unaudited).

Similarly, no GARVEE bonds were issued in fiscal year 2018. At June 30, 2018, the total amount of GARVEE Bonds outstanding was \$118.7 million (unaudited).

Transportation Infrastructure Finance and Innovation Act (TIFIA) Financing

In collaboration with the State’s Department of Transportation and pursuant to RSA 6:13-d, Treasury entered into a \$200 million Transportation Infrastructure Finance an Innovation Act (TIFIA) loan from the U.S. Department of Transportation in May 2016 to provide additional funding for the widening of Interstate 93 from Salem to Manchester. Borrowing under this federal program enabled the State to secure a significantly more favorable interest rate than conventional financing would have produced. Specifically, the financing agreement carries a rate of 1.09% for the term of the loan, with principal payments deferred until June 1, 2025 and a final maturity of June 1, 2034. Additionally, the loan is structured similar to a line of credit whereby drawdowns will be taken as construction funds are spent, thus minimizing interest expense on the entire \$200 million for the term of the loan. Drawdowns on the loan began in June 2016 and are currently expected to continue through October 2020 upon project completion. As of June 30, 2018, the balance drawn on the loan stood at \$95.3 million on an unaudited cash basis.

STATE GUARANTEED DEBT

The State is contingently liable for certain municipal government debt issues for water pollution control bonds, school building aid, and landfill bonds up to statutory limits. The State also provides certain guarantees for the debt issued by the Pease Development Authority and the Business Finance Authority. There are statutory limitations on these contingent debt guarantees:

1. The limit may apply to either the total amount of the original guarantee or to the total amount guaranteed that remains outstanding at any time; the latter is a revolving limit, facilitating additional guarantees to be awarded as guaranteed debt is retired.
2. The statutory dollar limit may constitute a guarantee of either the total amount of principal and interest owed, or the total amount of principal only; in the latter case interest on the principal amount outstanding may also be guaranteed notwithstanding the principal guarantee limit.

Issuance of new debt with a State guarantee requires the approval of the Governor and Executive Council.

As of June 30, 2018 the remaining unused guarantee authorizations under the various statutory limitations were:

<u>Purpose</u>	<u>Guarantee Limit</u>	<u>Remaining Capacity</u>
Water Pollution and Waste Control Bonds	\$ 50.0 million ⁽¹⁾ ₍₂₎	\$ 50.0 million
School Building Authority Bonds	\$ 95.0 million ⁽¹⁾ ₍₂₎	\$ 69.7 million
Superfund Site Bonds	\$ 20.0 million	\$ 20.0 million
Landfill and Waste Site Bonds	\$ 10.0 million ⁽¹⁾ ₍₂₎	\$ 10.0 million
Business Finance Authority Bonds	\$115.0 million ⁽¹⁾	\$ 65.3 million
Pease Development Authority Bonds	\$105.0 million	\$ 48.9 million
Housing Finance Authority Child Care Loans	\$ 0.3 million ⁽¹⁾	\$ 0.3 million

(1) Revolving limit

(2) Limit applies to total principal and interest.

Chapter 144, Laws of 2009, increased the State guarantee for School Bonds to \$95 million, effective July 1, 2009. In accordance with RSA 195-C:2, and as recommended by the School Building Authority and approved by the Governor and Executive Council, the State guaranteed \$51.6 million (principal and interest) of General Obligation Qualified School Construction Bonds issued by five school districts as of June 30, 2010. These bonds are federally taxable bonds created through the American Recovery and Reinvestment Act of 2009 and issued by school districts for

facility construction and/or renovation or for the purchase of land upon which a facility will be built.

Chapter 47, Laws of 2015, amended the enabling legislation of the Business Finance Authority (RSA 162) to increase the Authority's Unified Contingent Credit Limit from \$95 million to \$115 million. The legislation, which became effective May 21, 2015, established redevelopment districts in unincorporated places, provided for the assessment of parcels located within redevelopment districts, and authorized a \$30 million state guarantee for such redevelopment bonds.

The State also bears a contingent obligation for debt issued by municipalities through the Municipal Bond Bank. If any municipality that has issued through the Bond Bank fails to make scheduled debt payments and escrowed funds are not sufficient to cover missed payments, the Bond Bank may request non-appropriated funds from the legislature in order to cover any shortfall. Although this exposure exists, the level of its risk is not easily quantifiable in considering the potential impact of such a default on the State's credit rating. Chapter 324, Laws of 2008, amended RSA 35-A:24 to include an intercept, or "offset", program such that in the event of default by a governmental unit, the Treasurer shall pay the bond bank the defaulted amount from general or education trust fund appropriations that are due to the governmental unit which defaulted.

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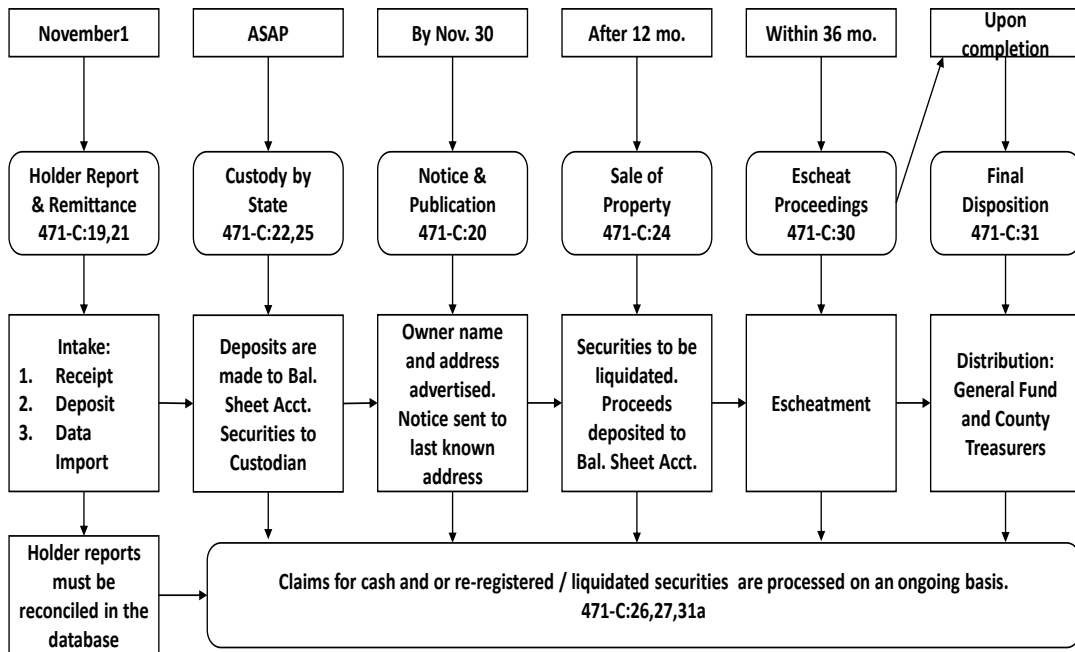
ABANDONED PROPERTY

Overview

Pursuant to the provisions of NH RSA Chapter 471-C, Treasury's Abandoned Property Division is charged with the task of recovering and returning intangible properties to the rightful owner or heir. Typically, such properties are in the form of cash from dormant accounts but may also include securities such as stock or mutual funds in share form. These properties are reported and remitted by the institutional "holders" of such property. By and large, holders are entities such as banks, credit unions, corporations, utilities, insurance companies, retailers, as well as government agencies and municipalities.

Diligent efforts are made to ensure that the property owners are notified that their property has been reported and remitted to the Division. Each October an annual advertisement listing all owner names reported to the Division in the past year, and their last known addresses, is published in two consecutive weeks in a newspaper with state-wide circulation, generally the NH Union Leader. Additionally, a mailing in the form of a postcard notification is sent to the last known address of the reported owner during August and September. Further, the Division participates in MissingMoney.com, a multi-state database of unclaimed property owner information, and also maintains a page on the State Treasury website, affording ready access to any citizen inquiring about a lost or abandoned account.

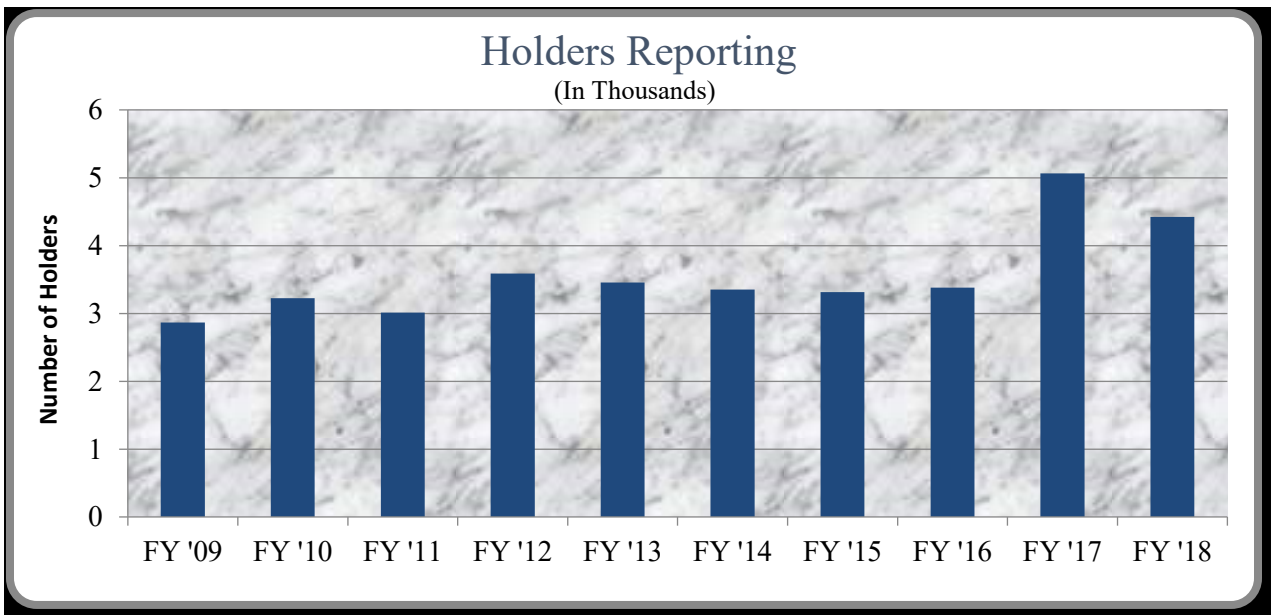
In summary, the Division's statutory obligation and annual production cycle requires receipt and deposit of unclaimed funds and shares; maintenance of a database of the properties; sending notice to, and advertisement of, the name and last known address of the reported owner; processing claims; and escheating unclaimed funds to the state's general fund. The general timeline that follows on page 8 provides an overview of the annual workflow.



Holder Reporting and Remittances

In fiscal year 2018, approximately 4,500 institutional holders of property reported and remitted cash in excess of \$21.4 million and delivered over twenty million shares of stock and/or mutual funds to the State’s custodial account. Over the past ten (10) fiscal years, the Division has taken in \$165,681,737 from holders of abandoned property, averaging approximately \$16.5 million annually.

The tables below depict since fiscal year 2009 the amount of cash reported and remitted by holders as well as the number of holders reporting and remitting unclaimed property to the Division. The large increase in the number of holders reporting in fiscal years 2017 and 2018 is due to a new report import process for property received through the cooperative state reciprocal reporting process. Previously, a reciprocal remit from a participating state would be counted as a single report and holder. The new process enables the identification of the underlying holder as an entity compliant with its obligation to report property to the state of New Hampshire.

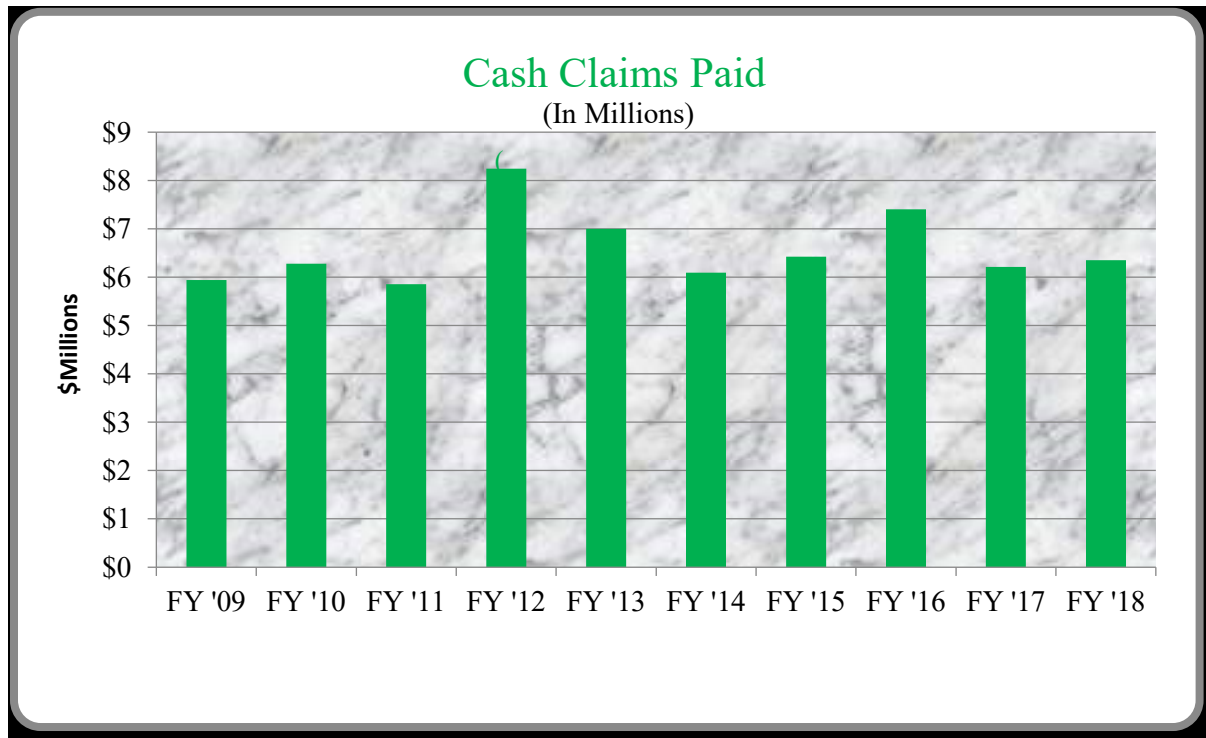


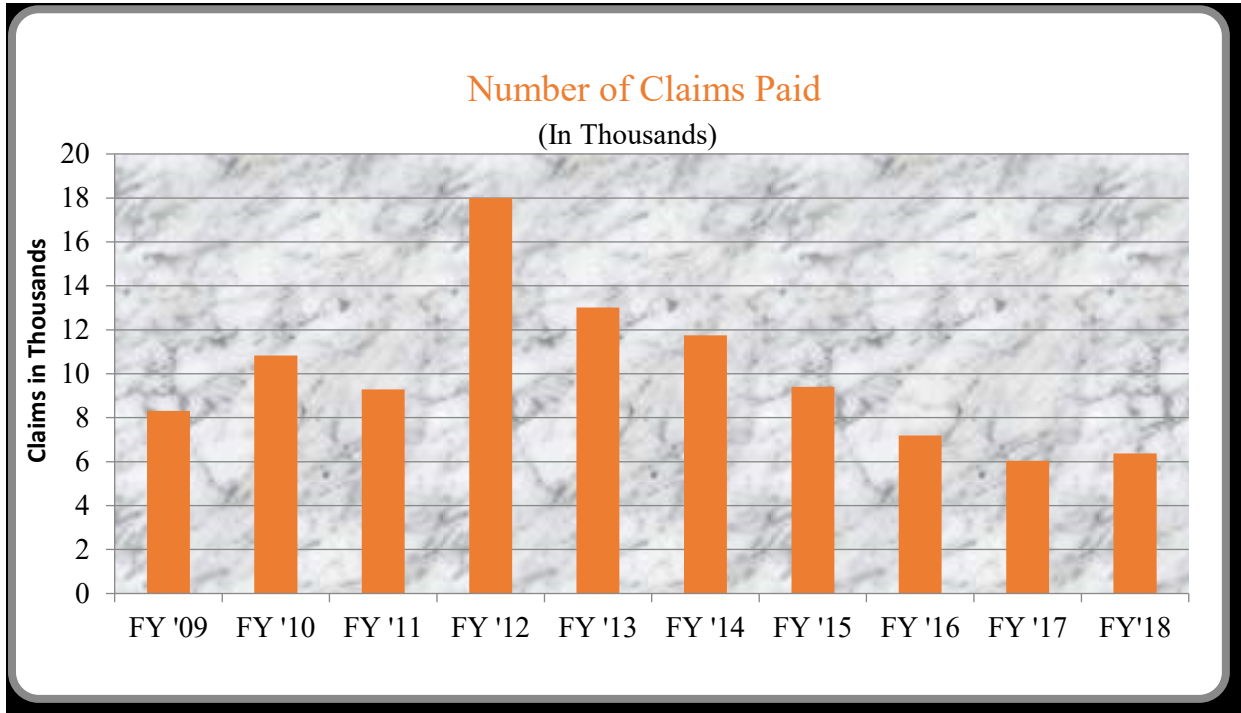
Owner Claims Processed

During fiscal year 2018, the Division returned over \$6.3 million dollars to citizens, representing 6,375 claims paid (see graph on page 11). The reduction in the number of total claims paid beginning in fiscal year 2016 is not reflective of diminished returns of unclaimed property; rather this decline is the result of the Division’s January 2015 conversion to a highly efficient operating

system which enables the payment of all properties recovered by one individual via a single claim. Prior to this conversion, a separate claim had to be processed for each asset returned. This enhancement to the claims process is only one example of how the new automated system has streamlined business operations and improved the Division’s customer response time.

The reduction in the number of claims paid continues to generate an increase in the size of the average claim paid. For comparison, in fiscal year 2015 the average claim size was \$683, while the average claim size in fiscal year 2018 increased to \$996. The largest individual claim in fiscal year 2018 totaled \$395,641. Over the past ten (10) fiscal years, \$65,802,559 has been returned to owners, an average of over \$6.5 million returned each year. The notable increase in the number of claims paid in fiscal year 2012 was largely due to additional processing of reciprocal claims paid to other states.

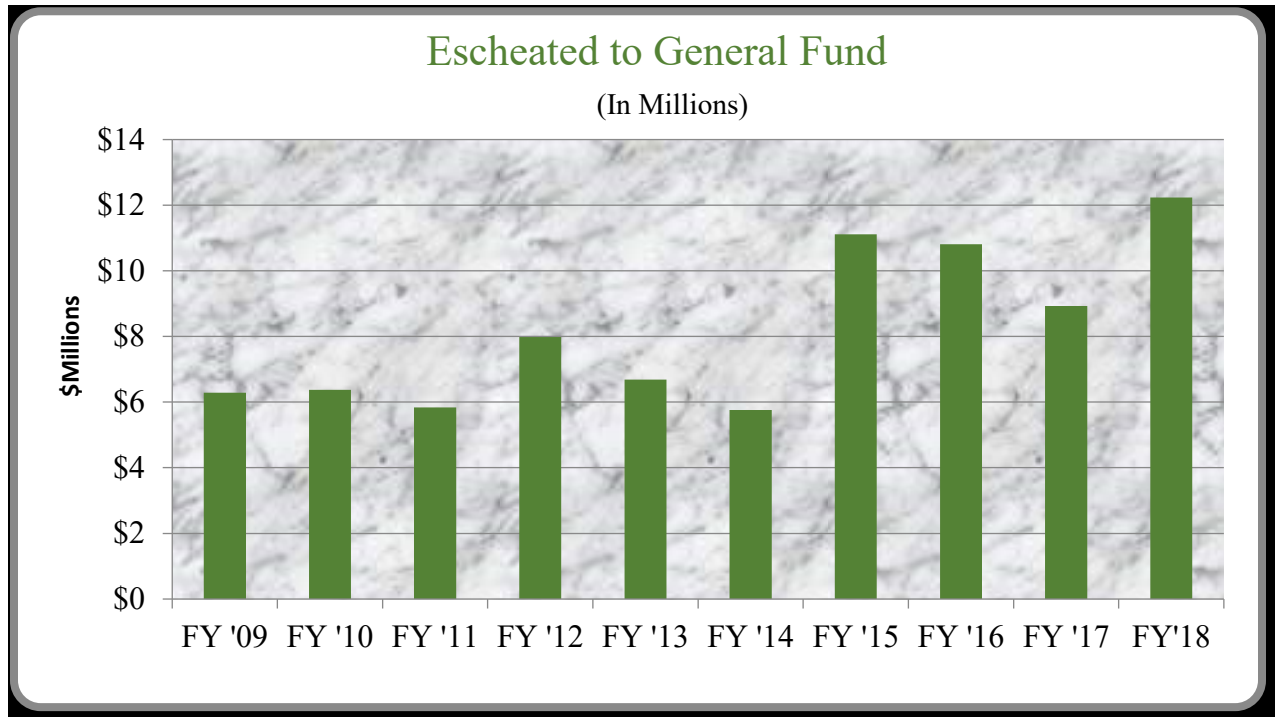




Non-Securities Escheatment (NH RSA Chapter 471-C:30-31)

On a net basis, the Division delivered nearly \$12.3 million to the General Fund during fiscal year 2018. RSA 471-C:30-31 provides for certain deductions from the gross amount available for transfer to the General Fund based on further escheatment to New Hampshire counties as well as the payment of administrative expenses of the Division. Over the past ten (10) fiscal years the net transfer to the General Fund is approximately \$ 82 million, an average net transfer of funds of \$8.2 million annually.

(The following graph excludes the impact of the liquidation of securities for fiscal years 2009 through 2018, which is summarized below the graph.)



Securities Liquidation (NH RSA Chapter 471-C:30-31)

State Treasury practices with respect to the liquidation of unclaimed securities were modified in fiscal year 2007 in an effort to recover and deliver proceeds to owners' accounts and the General Fund on a timelier basis. Following a three-year hold period, proceeds from liquidated securities are transferred to the General Fund in the same fiscal year they are sold, as opposed to being held for an additional period, as was past practice. The result of this change is an increase in recent year escheatment dollars, with significant proceeds being delivered to the General Fund in conjunction with, and in addition to, the annual net escheatment dollars. Liquidation proceeds delivered to the General Fund during fiscal years, 2009, 2010, 2011, 2012, 2013, 2014, 2015, 2016 and 2017 were \$6.3 million, \$1.2 million, \$3.1 million, \$3.0 million, \$6.4 million, \$9.1 million, \$3.6 million, \$5.4 million, and \$3.9 million respectively. In fiscal year 2018, \$5.8 million was similarly delivered.

COLLEGE SAVINGS PLANS

As the fiscal year closed, Treasury and the New Hampshire College Tuition Savings Plan Advisory Commission (“Advisory Commission”) had completed 20 years of administering the UNIQUE College Investing Plan and 16 years of administering the Fidelity Advisor 529 Plan, pursuant to RSA 195-H. Both plans are managed by Fidelity Investments, under contract to the State through calendar year-end 2023 (see Contracting summary on pages 21-22). The combined assets under management for the two plans totaled \$17.5 billion at the end of fiscal year 2018. The combined New Hampshire Plans ranked fourth among all state plans in the market value of assets. Plan assets were held by nearly 676,000 participants throughout the US and its territories. The average participant account balance as of the end of the fiscal year was nearly \$26,000 in the UNIQUE Plan and \$24,400 in the FA 529 Plan, highlighting that this is a college savings vehicle primarily used by middle and lower income families.

Both plans are very flexible and withdrawals can be used for a wide array of qualified higher education expenses such as computers, books, required supplies, equipment, room and board, and tuition at accredited postsecondary schools, anywhere in the United States and at several international institutions. Furthermore, as a result of the Tax Cut and Jobs Act of 2017, 529 plans became more flexible, allowing up to \$10,000 per year in 529 savings plan assets to be used for tuition expenses for grades K-12 in addition to qualified higher education expenses. There are no income limits on participation, which is open to anyone regardless of state of residence. The UNIQUE College Investing Plan is sold directly to retail investors, while the Fidelity Advisor 529 Plan is sold through financial intermediaries, such as financial planners. Participants in these Plans have a total of 63 investment portfolio options from which to choose, comprised of age-based target, static allocation investment, and individual fund portfolios representing both actively managed and index funds, as well as a series of nine multi-firm or “open architecture” portfolios. The portfolios are largely funds of funds and range from aggressive 100% equity funds to highly conservative money market funds. Changes to investment portfolios are continually reviewed in order to ensure enhanced investment performance for Plan participants.

The New Hampshire Excellence in Higher Education Endowment Trust Fund (the “Trust Fund”) was established pursuant to RSA 6:38 and is funded through a monthly investment management assessment generated by the two plans. The purpose of the Trust Fund is to provide scholarships to financially disadvantaged New Hampshire students attending New Hampshire postsecondary education institutions, under the governance of the Advisory Commission. The Trust Fund also covers all costs associated with the administration of the Plans, including the financial audits. Two scholarship programs, implemented in mid-2006, are:

1. UNIQUE Annual Allocation Program (“Annual Program”), which provides yearly scholarships to New Hampshire-resident students attending the University System of New Hampshire (“USNH”), the Community College System of New Hampshire (“CCSNH”), and nine other eligible and participating New Hampshire postsecondary education institutions, pursuant to Administrative Rule Csp 600. In July 2017, an initial allocation of approximately \$1 million was distributed to participating institutions, both public and private, based on individual scholarship amounts of \$800 each for full time-

students (prorated for part-time). Additional scholarship reimbursements of nearly \$1.8 million were distributed to participating institutions at the end of fiscal 2018, resulting in a total distribution of nearly \$2.8 million in UNIQUE Annual Awards for the year.

2. UNIQUE Endowment Allocation Program (“Endowment Program”) provides monthly distributions to restricted endowment funds maintained and managed by USNH, CCSNH, and nine other eligible, non-profit New Hampshire postsecondary education institutions, pursuant to Administrative Rule Csp 700. With these institutions providing scholarships from the earnings of the growing endowment funds, it is intended that future UNIQUE scholarships will be available to New Hampshire students in perpetuity. Under the Endowment Program, 80% of the monthly revenue share from Fidelity is allocated to participating institutions. As a result, nearly \$11.7 million in payments were distributed to participating institutions throughout fiscal year 2018.

Eligibility criteria for both scholarship programs were developed by the Advisory Commission and are established in administrative rules for the Endowment Program, while the eligibility criteria for Annual Program scholarships are revised and approved at least annually.

Since their inception, the scholarship programs have distributed over \$125 million of scholarship funding through the end of fiscal year 2018 as follows (in thousands of dollars):

	2018 Fiscal Year	From <u>Inception</u>
Annual Program	\$2,795	\$26,994
Endowment Program	<u>\$11,695</u>	<u>\$98,283</u>
TOTAL	\$14,490	\$125,277

As of the end of fiscal year 2018, the Trust Fund had a market value of over \$2.3 million.

SEABROOK NUCLEAR DECOMMISSIONING

As of June 30, 2018, the Seabrook Decommissioning Trust Fund held market-value assets of \$753.5 million, reflecting an after-tax gain of 8.1% for the year. This outcome was primarily due to very strong equity performance during the fiscal year. The decommissioning trust represents the cumulative contributions made by the owners of the Seabrook Nuclear Power Station for the cost of future decommissioning, combined with the investment earnings on the trust balance, net of applicable taxes and qualified administrative expenses. The trust is invested on the basis of elections made by each individual owner, subject to an investment policy approved by the State Treasurer, and influenced by the tax status of each individual owner. Trust fund proceeds may be invested in a mix of equities (stocks), fixed income securities (bonds), direct lending portfolios, and cash equivalents. The allocation of fund holdings at the end of fiscal year 2018 was 69%

equities, 27% fixed income, and 4% alternative investments (direct lending). In addition, \$33.9 million was held as a decommissioning funding assurance in separate escrow accounts on behalf of the owners at June 30, 2018. Escrow holdings primarily consist of cash and cash equivalents, with the State Treasurer and Deputy State Treasurer having signatory authority, but not custody of the funds.

The Seabrook Decommissioning Trust is not in the custody of the State Treasurer, nor does the Treasurer serve as the trustee. It is held in trust by Bank of New York Mellon on behalf of the owners of the Seabrook Nuclear Power Plant for the sole purpose of funding decommissioning costs when the plant ceases operations. Although the Treasurer presently serves on the Nuclear Decommissioning Financing Committee (pursuant to RSA 162-F) as Committee Chair, approves the Trust's Investment Guidelines (pursuant to the Master Trust Agreement), and fulfills certain other administrative roles, the State Treasury provides no direct financial management or custodial services to the Trust.

TREASURY ACCOMPLISHMENTS AND INITIATIVES

Treasury achieved several milestones over the past year and continues with a number of initiatives which commenced during prior fiscal years and are ongoing. As a service provider to other State agencies, these important changes could not have taken place without the full and dedicated collaboration of Treasury staff, a variety of State agencies, the Legislature, and private sector financial services firms.

Abandoned Property, Holder Compliance, and Future Initiatives

Treasury remains at the forefront of the national initiative to review the reporting history of the nation's life insurance providers. This effort is focused on determining whether the insurance companies are in full compliance with abandoned property reporting requirements with regard to benefits generated by life insurance policies. In 2011 New Hampshire was one of the first states to join with Verus Financial, LLC, to undertake this review process. As this initiative evolved, most other states also joined. These efforts continued in fiscal year 2018.

Through the close of fiscal year 2018, the state of New Hampshire has accumulated from inception a total of more than \$18.3 million in life insurance benefit proceeds, with \$600,000 received in fiscal year 2018. Through increased reunification efforts, Treasury strives to ensure that this property will be returned to the New Hampshire citizens who were the intended recipients of these policy benefits.

The Division's staff reorganization, which commenced in fiscal year 2017, continued in fiscal year 2018. Although staffing levels have remained constant, plans for enhanced owner outreach and holder education efforts have been prepared and will be implemented in fiscal 2019, subsequent to the staffing of two currently vacant positions. The Division's Claims/Owner Reunification Coordinator and the Director of Reporting and Compliance will direct these

expanded efforts, which will strengthen the mission to reunite even more New Hampshire citizens with their unclaimed or abandoned property in future years.

Looking ahead to fiscal year 2019, the Division plans to extend the contract for the unclaimed property operating system launched in 2015. The contract extension will allow the Division to utilize additional operational enhancements that the system has incorporated subsequent to 2015. These enhancements will include direct electronic holder reporting, online electronic claims, document imaging, and owner verification processing initiatives.

Analysis of Banking Balances, Products, and Processes

Treasury analyzes its relationships with banking vendors and the impact they have on statewide cash operations. This analysis is conducted in several ways and accounts for the deployment of balances held, institutional banking products utilized, and processes followed.

On a daily basis, Treasury performs an analysis of General Fund balances held. The result of this analysis is the administration of balances held in a manner that complies with Treasury's [Cash and Investment Guidelines for Operating Funds](#). While ensuring safety and liquidity, balances are strategically maintained to optimize the rate of return. These efforts resulted in General Fund net interest income totaling \$5.3 million in fiscal year 2018 (cash basis, unaudited, and subject to change). This amount is net of the cost of institutional financial services provided by banking vendors. Achieving this outcome results from not only optimizing returns, but also systematically analyzing services and the associated fees incurred for the banking services utilized by Treasury.

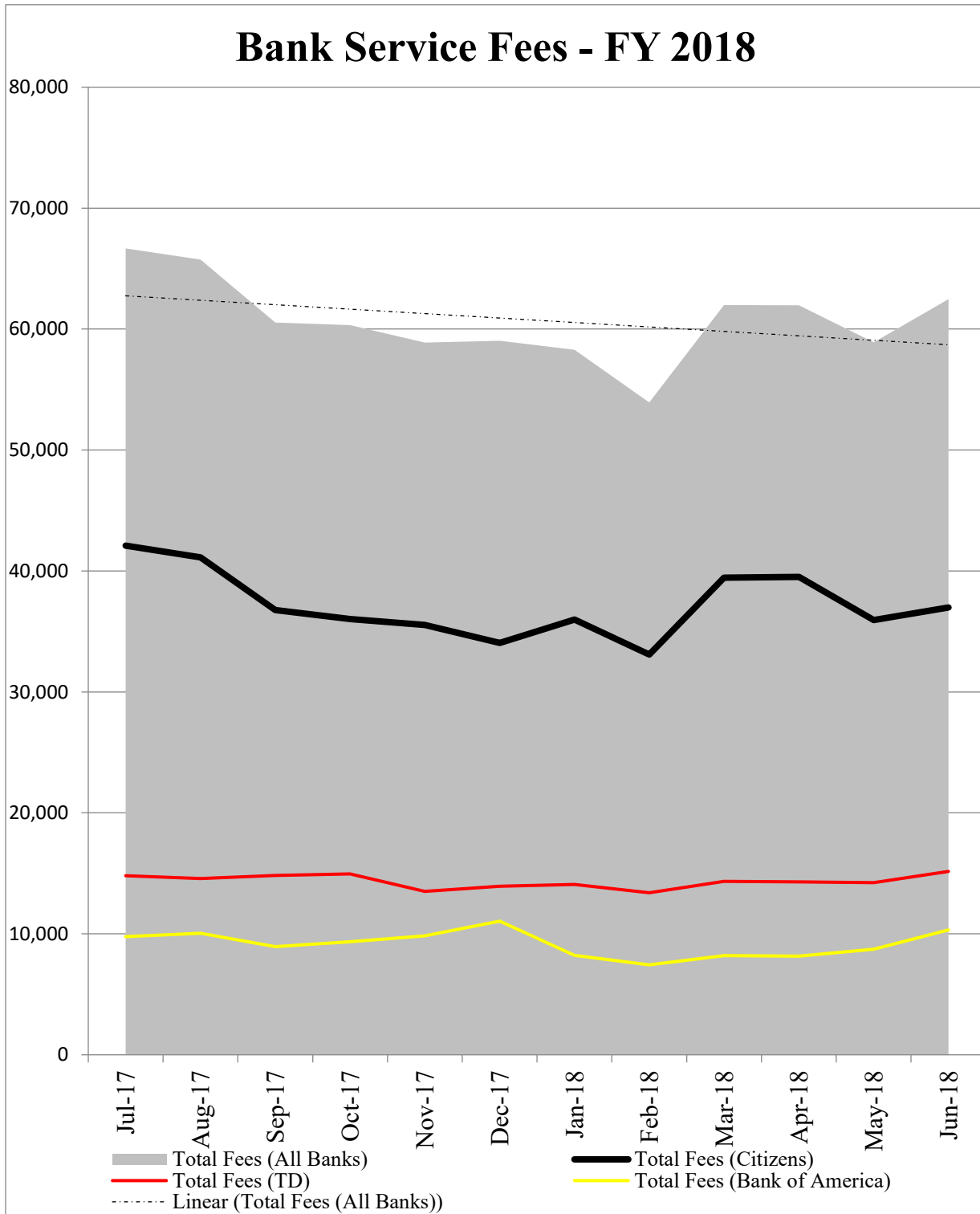
On a monthly basis, Treasury rigorously analyzes bank service statements to identify overall price and volume changes. This effort has identified opportunities to improve efficiency or the presence of any inconsistencies in pricing. Opportunities to improve efficiency are often discussed during regularly scheduled meetings between Treasury and its banking vendors. Inconsistencies in pricing or volume are brought to the attention of each bank's client relationship manager as they are identified.

The analysis of bank products utilized by individual agencies or State enterprises is performed on a rolling basis and results from either Treasury's outreach to agencies or in response to an agency's request. This analysis consistently integrates the specific bank, accounts, products, and processes utilized by the agency or entity in conjunction with the overall banking relationship the Treasury maintains with that financial institution.

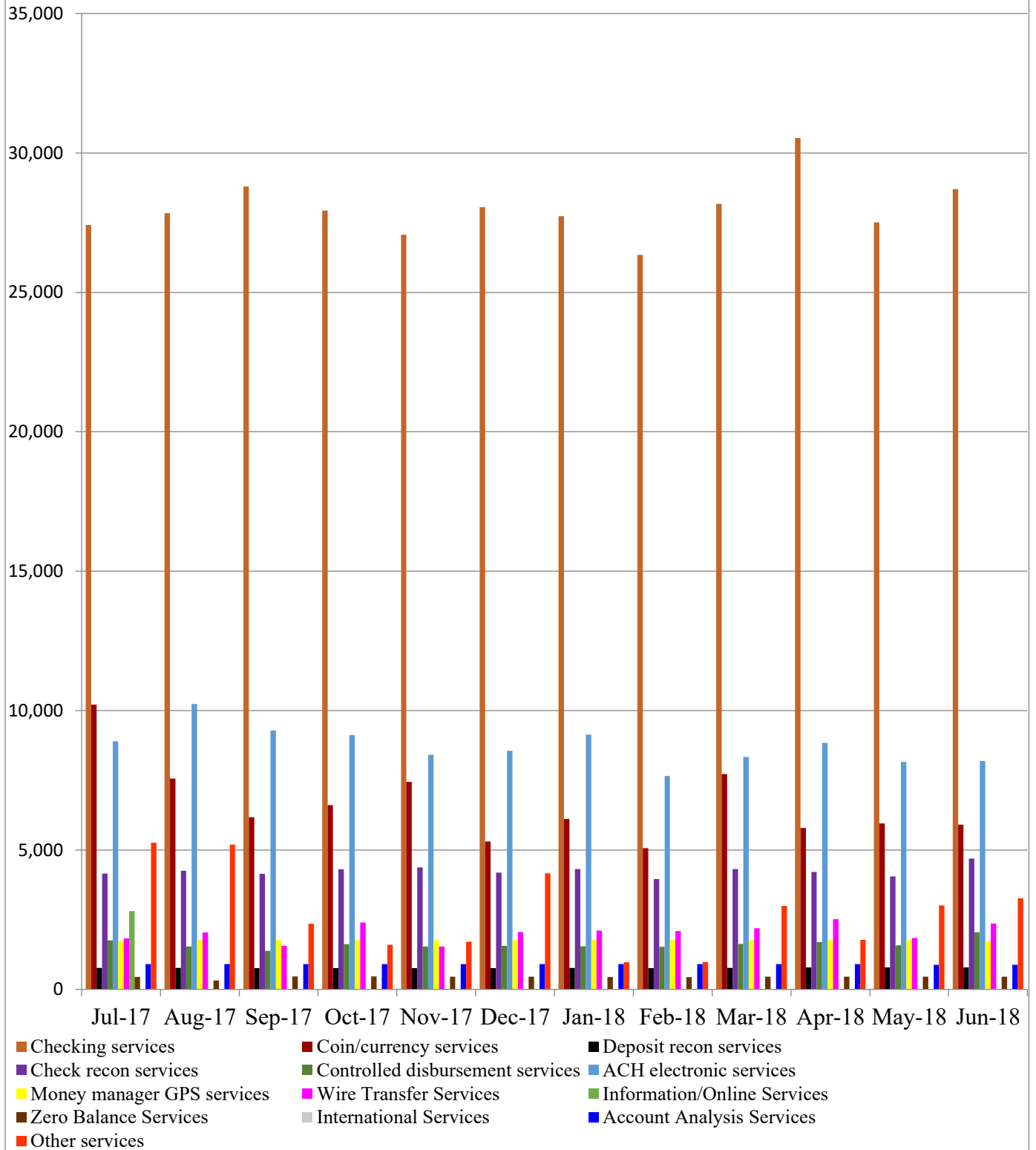
Treasury collaborates with its banking vendors to not only enhance operational efficiencies generated by the use of banking products, but also to ensure specific business continuity processes that will enable secure and efficient banking operations in the event of a disruption in normal service delivery.

In conclusion, the consistent and thorough analysis of balances, products, and processes was not only sustained in fiscal year 2018, but is also an ongoing initiative that is designed to span fiscal

years. These continued efforts will therefore be reported each fiscal year, as banking products and processes continue to evolve along with the needs of the State and its agencies.



Bank Service Fees by Fee Type - FY 2018



LEAN Initiative

Collectively, Treasury is committed to a LEAN operational culture, practices continuous process improvement, and strives to strengthen internal controls. Through Treasury's membership in the "State LEAN Network Executive Committee", support of statewide process improvement efforts continued throughout fiscal year 2018.

STABLE NH Savings Program

Pursuant to [RSA 195-K](#), and following the approval of the Executive Council on October 25, 2017 ([item #23](#)), the Governor's Commission on Disability and the State Treasury jointly entered into a 5-year, no-cost, partner agreement with the State of Ohio Treasury for the administration of New Hampshire's STABLE NH savings program. In December 2014, federal passage of ABLÉ (Achieving a Better Life Experience) legislation paved the way for each state to sponsor its own tax-advantaged savings program for the benefit of those with qualifying disabilities, with many features similar to those of a college tuition savings (529) account. Accordingly, section 529(a) of the Internal Revenue Code governs the tax treatment of ABLÉ accounts.

The STABLE NH savings program was operationally launched on December 15, 2017, with a formal ceremony on December 18 that featured remarks from Governor Christopher T. Sununu, Representative Lynne Ober, and NH Health & Human Services Commissioner Jeffrey A. Meyers, as well as representatives from several area disability advocacy agencies. Since the program launch, Governor's Commission on Disability Executive Director Chuck Saia and State Treasurer Dwyer have been very active in presenting and promoting STABLE NH throughout New Hampshire.

Under the federal guidelines, there are specific criteria for determining the eligibility of an individual to qualify for ownership of an ABLÉ account. A maximum of \$15,000 annually can be deposited into an ABLÉ account, however if the individual who owns the account is employed, they can deposit an additional \$12,060 of wages, with all funds deposited on an after-tax basis. Funds held in a STABLE NH account can be allocated into five portfolio options: an FDIC-insured bank deposit portfolio and four additional portfolios that blend equity and fixed income funds based on splits of 80/20, 60/40, 40/60, and 20/80. Distributions from a STABLE NH account are free of capital gains taxes on earnings generated as long as the distributions are used to pay for qualified disability expenses. As of June 30, 2018, there were 114 accounts in the program with a total of \$444,000 in assets held. Please visit the [STABLE NH](#) website for more information regarding the program.

Debt Management System

In the spring of 2018, Treasury converted to a new debt management system called Mun-Ease. Designed for the public sector, Mun-Ease is an integrated Windows-based software package that creates, stores, and reports on a wide range of detail for a municipal bond issuer such as the State. Essentially a database of bond issues, the software not only generates debt service schedules, but can provide interest and sizing calculations, track escrowed payments relative to advanced

refundings, report on Build America Bonds and associated interest subsidies, and numerous other functionalities. Many of the elements of the state's debt management program, such as historical cost and sale parameters, can now be tracked and maintained in a robust database, which facilitates enhanced analysis and reporting.

Thirty-nine (39) outstanding direct debt issues were loaded into the software during conversion, totaling \$2.2 billion in gross issuance and \$1.3 billion in debt outstanding at June 30, 2018. Nearly half of the issues loaded (20 bonds) consist of multiple debt schedules, resulting in 159 individual schedules being created, as most of the State's general obligation debt is paid for across several governmental funds (general, highway, liquor, and various dedicated agency funds). Additionally, other data related to the sale and characteristics of the bonds was captured in the conversion, including true-interest-cost, bond CUSIP numbers, and call dates. These and other elements of a bond offering have previously not been captured in debt management systems employed by the Treasury. As training and experience are gained in the use of Mun-Ease, it is anticipated that Treasury's reporting and analytical capabilities for both internal needs and external "customers" such as state agencies, legislators, etc. will expand tremendously.

Contracting

At the September 13, 2017 meeting of the Executive Council ([item #40](#)), Treasury received approval to enter into a 10-year contract with Bank of New York Mellon for bond services in the areas of registration, paying agent, trustee, and arbitrage rebate compliance. This procurement was competitively bid, with three qualified firms submitting proposals to provide these services.

At the September 27, 2017 meeting of the Executive Council ([item #34](#)), Treasury received authorization to enter into a 5-year contract with Conduent State and Local Solutions for securities custody, transferal, and liquidation services related to unclaimed property reported to the State. Conduent was the only firm to submit a bid in response to the Abandoned Property Division's Request for Proposals.

Due to the pending December 31, 2018 expiration of New Hampshire's College Savings (529) Plan administration contracts with Fidelity, the [NH College Tuition Savings Plan Advisory Commission](#) met to discuss strategic alternatives in both non-public session on [August 21, 2017](#) and in a special meeting on [September 21, 2017](#). Following thorough deliberations among its members during the latter meeting, the Advisory Commission voted to seek a 5-year contract renewal with Fidelity, authorizing the State Treasurer to submit a contract renewal request for Executive Council approval. At its October 25, 2017 meeting, the Council approved this request ([item #22](#)), extending Fidelity's administration of the program through the end of 2023,

Lastly, and as noted in the STABLE NH program summary above, at its October 25, 2017 meeting, the Council approved a joint request from the Governor's Commission on Disability and the State Treasury to enter into a 5-year program administration partnership agreement with the State of Ohio Treasury. The contract includes two automatic 1-year renewals, unless the State of New Hampshire provides notification of its intent not to proceed at least 60 days prior to each renewal.

In fiscal year 2019, Treasury anticipates entering into several contracts for unclaimed property audit work due to the expiration of existing contracts. In addition, Treasury expects to renew its contract with the vendor that administers the Abandoned Property Division’s automated operating system, as noted earlier.

Remediation of Observations from 2014 LBA Financial Audit

On June 16, 2014 Governor Hassan issued Executive Order 2014-03, which in effect requires State agencies to report on their progress in responding to audits of the Legislative Budget Assistant on a semi-annual basis. In an LBA financial audit dated March 11, 2014, thirteen observations were identified and reported to the Legislative Fiscal Committee. On August 12, 2014 (within 60 days of the Executive Order, as required) Treasury filed its initial remediation plan and has since filed updated status reports regarding its remediation efforts semiannually, as summarized in the table below. These reports, including the original LBA audit report, can be accessed on the Transparent NH website at <http://www.nh.gov/transparentnh/audit/index.htm>, listed under “Department of Treasury”, or on the Treasury website at <http://www.nh.gov/treasury/forms-publications/index.htm#audit>. A summary of Treasury’s progress in resolving audit observations follows:

Observations	1	2	3	4	5	6	7	8	9	10	11	12	13
03-21-15	P	P	R	R	P	R	U	U	R	U	R	R	U
09-21-15	P	P	R	R	S	R	P	U	R	P	R	R	P
03-21-16	S	S	R	R	S	R	P	U	R	S	R	R	S
09-21-16	R	R	R	R	S	R	P	U	R	S	R	R	R
03-21-17	R	R	R	R	S	R	P	U	R	S	R	R	R
09-21-17	R	R	R	R	S	R	P	U	R	S	R	R	R
03-21-18	R	R	R	R	R	R	P	U	R	S	R	R	R
09-21-18	R	R	R	R	R	R	P	U	R	R	R	R	R

R – Resolved S – Substantially Resolved P – Partially Resolved U – Unresolved

Treasury remains committed to fully resolving all audit findings and includes in its updated status reports an estimated target date for the final remediation of all findings not yet fully resolved.

Legislative Activity

Treasury continued to work with legislators seeking to introduce new legislation or amend existing statutes. During the 2018 legislative session, Treasury worked with several legislative committees and study committees by providing research and testimony, including information pertaining to the 2018-19 biennial budget, and also submitted fiscal notes in response to numerous legislative service requests on a variety of policy issues.

Treasury Policy Development & Compliance

To enhance professionalism, strengthen personal ethics, and promote teamwork, Treasury adheres to a formal Code of Conduct policy and a Fraud Policy and Procedure which are applicable to, and will be signed off by, each staff member annually. A comprehensive and ongoing Fraud Risk Assessment is routinely administered and updated, which includes monitoring Treasury's role in the overall internal control environment and processes of the State and reviewing confidential data flowing into and out of Treasury to other agencies or to banking partners, as well as analyzing detailed processes and procedures internal to Treasury. The comprehensive Fraud Risk Assessment was enhanced in fiscal year 2017 with the implementation of an improved risk assessment matrix and such efforts will continue in fiscal year 2019 in order to strengthen safeguards over State cash and investments, as well as all other aspects of Treasury operations.

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TRUST AND ESCROW ACCOUNTS HELD BY THE STATE TREASURER (EXHIBIT 1)					
FISCAL YEAR 2018 (unaudited)					
Fund Name	July 1, 2017 Beginning Market Value	Dividends & Interest Earned	Net Transactions During Year	Net Change in Market Value	June 30, 2018 Ending Market Value
<u>Department of Education</u>					
- Harriet Huntress	55,268	919	3,280	2,121	61,588
- Hattie Livesey	28,372	451	1,697	1,288	31,808
- John Nesmith	491,305	8,055	5,103	20,378	524,841
- Special Teachers Competence	211,924	4,412	(4,174)	14,978	227,141
<u>Department of Environmental Services</u>					
- Connecticut-Coos	2,149,739	41,305	51,298	(27,688)	2,214,654
- Mascoma	43,185	533	0	0	43,717
- Newfound	81,204	1,002	0	0	82,206
- Piscataquog	12,593	155	0	0	12,748
- Squam Lake	90,037	1,111	0	0	91,147
- Sugar River	12,716	157	0	0	12,873
- Winnepesaukee	19,838	245	0	0	20,082
- State of New Hampshire Drinking Water and Groundwater Trust Fund	277,619,263	4,537,122	(2,728,791)	(1,337,003)	278,090,592
<u>Department of Fish & Game</u>					
- Lifetime License Fund	1,683,940	39,371	92,878	21,930	1,838,118
<u>Health & Human Services</u>					
- Laconia State School	155,902	1,923	0	0	157,825
- Matthew Elliott Memorial Trust Fund	4,721	58	0	0	4,779
- New Hampshire Hospital	7,454,853	180,572	(164,085)	177,622	7,648,961
- NH DHHS DCYF As Guardian for 01	0	1,450	145,922	0	147,373
- NH DHHS DCYF As Guardian for 02	1,546	5	(1,551)	0	0
- NH DHHS DCYF As Guardian for 03	32,281	88	(32,369)	0	0
- NHSLRP/JUA Escrow Account	1,356,795	11,510	(450,891)	0	917,414
- Youth Development Center	34,860	423	(919)	0	34,363
<u>Department of Labor</u>					
- Crown Paper Workers Compensation	15,269	2	0	0	15,271
- Special Fund for Active Cases	25,249	0	1,141	0	26,390
- Special Fund For Second Injuries	1,290,615	89,165	3,953,786	0	5,333,566
<u>Dept of Natural and Cultural Resources</u>					
- Caroline A. Fox Fund	225,098	2,470	4,360	0	231,928
- Tip-Top House Fund	20,537	253	0	0	20,791
<u>Department of Safety</u>					
- Financial Responsibility	166,187	1,471	(54,683)	0	112,975
- Road Toll Bonds	85,572	778	(31,363)	0	54,986
<u>New Hampshire Veterans' Home</u>					
- Benefit Fund	552,128	11,896	6,967	(1,007)	569,984
- Guy Thompson Account	15,112	200	(179)	0	15,133
- Members' Administrative Account	540,974	6,858	0	1,722	549,554

TRUST AND ESCROW ACCOUNTS HELD BY THE STATE TREASURER (EXHIBIT 1 CONT.)					
FISCAL YEAR 2018 (unaudited)					
Fund Name	July 1, 2017 Beginning Market Value	Dividends & Interest Earned	Net Transactions During Year	Net Change in Market Value	June 30, 2018 Ending Market Value
<u>NH Higher Education</u>					
-NH Higher Ed- Concord Hospital Surgical Technology Pr	10,051	123	(51)	0	10,123
-NH Higher Ed- John Mason Institute	12,061	148	(61)	0	12,148
-NH Higher Ed- Stonemakers Corporation	100,505	1,337	9,664	0	111,506
<u>Office of Energy and Planning</u>					
- Land Conservation Monitoring Endowment	3,673,995	67,580	172,956	(31,611)	3,882,920
<u>Public Utilities Commission</u>					
-Electric Assistance Program	1,579,809	4,972	264,521	0	1,849,302
<u>Racing & Gaming</u>					
-NH Lottery Commission Licensee Escrow	25,126	309	(126)	0	25,309
-State of NH Racing - Casablanca	25,126	96	(25,222)	0	0
<u>Treasury Department</u>					
- Japanese Charitable Fund	126,086	2,411	404	4,278	133,179
- College Savings Plan Trust	2,478,502	67,567	(161,034)	(58,700)	2,326,335
- Foreign Escheated Estates	0	0	0	0	0
<u>University of New Hampshire</u>					
- Benjamin Thompson Trust	2,197,128	39,583	39,200	27,657	2,303,567
<u>Other</u>					
- Community Conservation Endowment	3,868,518	71,923	591,255	19,677	4,551,373
- Conn Lakes Headwaters Natural Areas Stewardship	1,949,382	33,937	126,261	(41,795)	2,067,786
- Conn Lakes Headwaters Tract Monitoring Endowment	1,914,346	33,783	105,973	2,910	2,057,012
- Conn Lakes Headwaters Tract Road Maintenance	1,940,693	32,191	97,513	4,435	2,074,832
Total Trust & Escrow Accounts	\$314,378,408	\$5,299,919	\$2,018,681	(\$1,198,807)	\$320,498,200
- Unclaimed and Abandoned Property ⁽¹⁾	19,279,054	901,709	(1,430,237)	(798,666)	17,951,860
Columns may not add due to rounding.					
(1) This includes only the securities held by Conduent State and Local Solutions.					