NEW ISSUE – Book Entry Only

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

In the opinion of Edwards Angell Palmer & Dodge LLP, Bond Counsel, based upon an analysis of existing law and assuming, among other matters, compliance with certain covenants, interest on the Bonds is excluded from gross income for federal income tax purposes under the Internal Revenue Code of 1986. Interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. Under existing law, interest on the Bonds is exempt from the New Hampshire personal income tax on interest and dividends. (See "TAX EXEMPTION" and Appendix A herein.)

$75,000,000
STATE OF NEW HAMPSHIRE
GENERAL OBLIGATION CAPITAL IMPROVEMENT BONDS
2006 SERIES A

Dated: Date of Delivery **Due:** as shown below

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

Interest on the Bonds will be payable semiannually on June 1 and December 1 of each year, commencing June 1, 2007 until maturity or redemption prior to maturity. The Bonds are subject to redemption prior to maturity as provided herein.

Due June 1	Principal Amount	Interest Rate	Price or Yield	CUSIP†† 644682	Due June 1	Principal Amount	Interest Rate	Price or Yield	CUSIP†† 644682
2008	$4,500,000	4.00%	3.52%	UB0	2018*,§	$4,500,000	4.00%	3.97%	UM6
2009	4,500,000	4.00	3.47	UC8	2019*	4,500,000	4.00	4.08	UN4
2010	4,500,000	4.00	3.48	UD6	2020*	3,000,000	4.00	100.0	UP9
2011	4,500,000	4.00	3.49	UE4	2021	3,000,000	4.00	4.17	UQ7
2012	4,500,000	4.00	3.59	UF1	2022	3,000,000	4.00	4.20	UR5
2013	4,500,000	4.00	3.62	UG9	2023	3,000,000	4.00	4.23	US3
2014	4,500,000	4.00	3.65	UH7	2024	3,000,000	4.125	4.26	UT1
2015	4,500,000	3.50	3.53	UJ3	2025	3,000,000	4.25	4.29	UU8
2016	4,500,000	3.50	3.57	UK0	2026	3,000,000	4.25	4.32	UV6
2017*,§	4,500,000	5.00	3.74	UL8					

The Bonds are offered subject to the final approving opinion of Edwards Angell Palmer & Dodge LLP, Boston, Massachusetts, Bond Counsel, and to certain other conditions referred to in the Notice of Sale. Public Resources Advisory Group has acted as Financial Advisor to the State with respect to the Bonds. Delivery of the Bonds to DTC or its custodial agent is expected on or about December 21, 2006.

December 13, 2006

† See "RATINGS" herein with respect to insured ratings on the Bonds maturing in the years 2017, 2018, 2019, and 2020.

†† Copyright 2006, American Bankers Association.

* Insured by a municipal bond insurance policy to be issued by MBIA Insurance Corporation. See "BOND INSURANCE" herein.

§ Priced at the stated yield to the June 1, 2016 optional redemption date at a redemption price of 100%. See "THE BONDS – Redemption Provisions" herein.

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

MBIA Insurance Corporation (the "Bond Insurer" or "MBIA") does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding the Policy and MBIA set forth under the heading "BOND INSURANCE". Additionally, MBIA makes no representation regarding the Bonds or the Insured Bonds or the advisability of investing in the Bonds or the Insured Bonds.

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

This Official Statement is provided only in connection with the sale of the Bonds by the State of New Hampshire pursuant to the Notice of Sale dated December 6, 2006 and may not be reproduced or used in whole or in part for any other purpose without the express written consent of the State Treasurer. Reference is made to the Notice of Sale for a description of the terms and conditions of the sale of the Bonds to the original purchasers thereof.

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

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

STATE OF NEW HAMPSHIRE

GOVERNOR
JOHN H. LYNCH

EXECUTIVE COUNCIL
RAYMOND S. BURTON
RUTH L. GRIFFIN
DEBORA B. PIGNATELLI
PETER J. SPAULDING
RAYMOND J. WIECZOREK

STATE TREASURER
MICHAEL A. ABLOWICH

SECRETARY OF STATE
WILLIAM M. GARDNER

ATTORNEY GENERAL
KELLY A. AYOTTE

COMMISSIONER OF ADMINISTRATIVE SERVICES
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BUDGET DIRECTOR
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OFFICIAL STATEMENT

OF

THE STATE OF NEW HAMPSHIRE

$75,000,000

GENERAL OBLIGATION CAPITAL IMPROVEMENT BONDS
2006 SERIES A

PART I: INFORMATION CONCERNING THE BONDS

This Official Statement, including the cover page, is provided for the purpose of presenting certain information relating to the State of New Hampshire (the "State") in connection with the sale of $75,000,000 aggregate principal amount of its General Obligation Capital Improvement Bonds, 2006 Series A, dated their date of delivery (the "Bonds").

This Official Statement consists of two parts: Part I (including the cover and Appendices A, B, and C) and Part II, the State's Information Statement dated December 13, 2006 (the "Information Statement"). The Information Statement will be provided to the nationally recognized municipal securities information repositories ("NRMSIRs") currently recognized by the Securities and Exchange Commission for purposes of Rule 15c2-12. The Information Statement includes as Exhibit A the State's audited financial statements for fiscal year 2005. KPMG LLP, the State's independent auditor, has not been engaged to perform and has not performed, since the date of its report referenced in the Information Statement, any procedures on the financial statements addressed in that report. KPMG LLP has also not performed any procedures relating to this Official Statement, including the Information Statement. Promptly after the State's audited financial statements for fiscal year 2006 become available, the State intends to file them with the NRMSIRs. The release of the State's fiscal year 2006 audited financial statements is expected by the end of March, 2007. See "STATE FINANCES - General" in the Information Statement included as Part II of this Official Statement.

Payment of the regularly scheduled principal of and interest on the Bonds maturing in the years 2017, 2018, 2019 and 2020 (the "Insured Bonds") when due will be guaranteed by a municipal bond insurance policy (the "Policy") to be issued by MBIA Insurance Corporation (the "Bond Insurer"). Payment of the regularly scheduled principal of and interest on the Bonds maturing in the years 2008 through 2016, inclusive, and 2021 through 2026, inclusive, when due, will <u>not</u> be guaranteed under the Policy. See "BOND INSURANCE" herein.

The State currently expects to issue on the same date of issuance as the Bonds its $121,885,000 General Obligation Refunding Bonds, 2006 Series A, dated their date of delivery (the "Refunding Bonds"). The Refunding Bonds were sold after the sale date of the Bonds, are being offered through a separate Official Statement of the State and are not offered hereby.

THE BONDS

Description of the Bonds

The Bonds will be dated their date of delivery and will bear interest payable semiannually on June 1 and December 1 of each year, commencing June 1, 2007, until maturity or redemption prior to maturity. The record date with respect to each payment of interest shall be the fifteenth day of the month preceding such interest payment date. The Bonds will mature in the years and in the principal amounts and bear interest at the rates shown on the cover page of this Official Statement. The Bonds are subject to redemption prior to maturity as described below.

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

Redemption Provisions

Optional Redemption

The Bonds maturing on and prior to June 1, 2016 are not subject to redemption prior to maturity. The Bonds maturing after June 1, 2016 are subject to redemption at the option of the State on and after June 1, 2016 as a whole or in part at any time, with maturities to be designated by the State (and by lot within any maturity), at par, plus accrued interest to the redemption date.

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

Notice of Redemption

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

Security for the Bonds

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

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

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

Authorization, Purpose and Application of Proceeds

The Bonds are being issued pursuant to a vote of the Governor and Council under Chapter 6-A of the New Hampshire Revised Statutes Annotated ("RSA") and various other laws. Proceeds from the sale of the Bonds are expected to be used to finance all or a portion of the costs of a number of capital projects and to pay issuance costs.

Book-Entry Only System

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

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2.2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 100 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Fixed Income Clearing Corporation, and Emerging Markets Clearing Corporation, (NSCC, FICC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at **www.dtcc.com** and **www.dtc.org.**

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

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

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

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

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

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

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

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

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

BOND INSURANCE

Payment of the regularly scheduled principal of and interest payments on the Insured Bonds when due will be guaranteed by a municipal bond insurance policy (the "Policy") to be issued simultaneously with the delivery of the Bonds by MBIA Insurance Corporation (the "Bond Insurer"). Payment of the regularly scheduled principal of and interest payments on the Bonds maturing in the years 2008 through 2016, inclusive, and 2021 through 2026, inclusive, when due will <u>not</u> be guaranteed under the Policy.

The MBIA Insurance Corporation Insurance Policy

The following information has been furnished by MBIA Insurance Corporation ("MBIA") for use in this Official Statement. Reference is made to Appendix D for a specimen of MBIA's policy.

The MBIA Policy unconditionally and irrevocably guarantees the full and complete payment required to be made by or on behalf of the State to the Paying Agent or its successor of an amount equal to (i) the principal of (either at the stated maturity or by an advancement of maturity pursuant to a mandatory sinking fund payment) and interest on, the Insured Bonds as such payments shall become due but shall not be so paid (except that in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments guaranteed by the MBIA Policy shall be made in such amounts and at such times as such payments of principal would have been due had there not been any such acceleration, unless MBIA elects in its sole discretion, to pay in whole or in part any principal due by reason of such acceleration); and (ii) the reimbursement of any such payment which is subsequently recovered from any Owner of the Insured Bonds pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such Owner within the meaning of any applicable bankruptcy law (a “Preference”).

MBIA's Policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Insured Bonds. MBIA's Policy does not, under any circumstance, insure against loss relating to: (i) optional or mandatory redemptions (other than mandatory sinking fund redemptions); (ii) any payments to be made on an accelerated basis; (iii) payments of the purchase price of Insured Bonds upon tender by an owner thereof; or (iv) any Preference relating to (i) through (iii) above. MBIA's Policy also does not insure against nonpayment of principal of or interest on the Insured Bonds resulting from the insolvency, negligence or any other act or omission of the Paying Agent or any other paying agent for the Insured Bonds.

Upon receipt of telephonic or telegraphic notice, such notice subsequently confirmed in writing by registered or certified mail, or upon receipt of written notice by registered or certified mail, by MBIA from the Paying Agent or any owner of an Insured Bond the payment of an insured amount for which is then due, that such required payment has not been made, MBIA on the due date of such payment or within one business day after receipt of notice of such nonpayment, whichever is later, will make a deposit of funds, in an account with U.S. Bank Trust National Association, in New York, New York, or its successor, sufficient for the payment of any such insured amounts which are then due. Upon presentment and surrender of such Insured Bonds or presentment of such other proof of ownership of the Insured Bonds, together with any appropriate instruments of assignment to evidence the assignment of the insured amounts due on the Insured Bonds as are paid by MBIA, and appropriate instruments to effect the appointment of MBIA as agent for such owners of the Insured Bonds in any legal proceeding related to payment of insured amounts on the Insured Bonds, such instruments being in a form satisfactory to U.S. Bank Trust National Association, U.S. Bank Trust National Association shall disburse to such owners or the Paying Agent payment of the insured amounts due on such Insured Bonds, less any amount held by the Paying Agent for the payment of such insured amounts and legally available therefor.

MBIA Insurance Corporation

MBIA Insurance Corporation (“MBIA”) is the principal operating subsidiary of MBIA Inc., a New York Stock Exchange listed company (the “Company”). The Company is not obligated to pay the debts of or claims against MBIA. MBIA is domiciled in the State of New York and licensed to do business in and subject to regulation under the laws of all 50 states, the District of Columbia, the Commonwealth of Puerto Rico, the Commonwealth of the Northern Mariana Islands, the Virgin Islands of the United States and the Territory of Guam. MBIA, either directly or through subsidiaries, is licensed to do business in the Republic of France, the United Kingdom and the Kingdom of Spain and is subject to regulation under the laws of those jurisdictions.

The principal executive offices of MBIA are located at 113 King Street, Armonk, New York 10504 and the main telephone number at that address is (914) 273-4545.

Regulation

As a financial guaranty insurance company licensed to do business in the State of New York, MBIA is subject to the New York Insurance Law which, among other things, prescribes minimum capital requirements and contingency reserves against liabilities for MBIA, limits the classes and concentrations of investments that are made by MBIA and requires the approval of policy rates and forms that are employed by MBIA. State law also regulates the amount of both the aggregate and individual risks that may be insured by MBIA, the payment of dividends by MBIA, changes in control with respect to MBIA and transactions among MBIA and its affiliates.

The Policy is not covered by the Property/Casualty Insurance Security Fund specified in Article 76 of the New York Insurance Law.

Financial Strength Ratings of MBIA

Moody's Investors Service, Inc. rates the financial strength of MBIA "Aaa."

Standard & Poor's, a division of The McGraw-Hill Companies, Inc. rates the financial strength of MBIA "AAA."

Fitch Ratings rates the financial strength of MBIA "AAA."

Each rating of MBIA should be evaluated independently. The ratings reflect the respective rating agency's current assessment of the creditworthiness of MBIA and its ability to pay claims on its policies of insurance. Any further explanation as to the significance of the above ratings may be obtained only from the applicable rating agency.

The above ratings are not recommendations to buy, sell or hold the Insured Bonds, and such ratings may be subject to revision or withdrawal at any time by the rating agencies. Any downward revision or withdrawal of any of the above ratings may have an adverse effect on the market price of the Insured Bonds. MBIA does not guaranty the market price of the Insured Bonds nor does it guaranty that the ratings on the Insured Bonds will not be revised or withdrawn.

MBIA Financial Information

As of December 31, 2005, MBIA had admitted assets of $11.0 billion (audited), total liabilities of $7.2 billion (audited), and total capital and surplus of $3.8 billion (audited), each as determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities. As of September 30, 2006, MBIA had admitted assets of $11.5 billion (unaudited), total liabilities of $7.0 billion (unaudited), and total capital and surplus of $4.4 billion (unaudited), each as determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities.

For further information concerning MBIA, see the consolidated financial statements of MBIA and its subsidiaries as of December 31, 2005 and December 31, 2004 and for each of the three years in the period ended December 31, 2005, prepared in accordance with generally accepted accounting principles, included in the Annual Report on Form 10-K of the Company for the year ended December 31, 2005 and the consolidated financial statements of MBIA and its subsidiaries as of September 30, 2006 and for the nine month periods ended September 30, 2006 and September 30, 2005 included in the Quarterly Report on Form 10-Q of the Company for the period ended September 30, 2006, which are hereby incorporated by reference into this Official Statement and shall be deemed to be a part hereof.

Copies of the statutory financial statements filed by MBIA with the State of New York Insurance Department are available over the Internet at the Company's web site at http://www.mbia.com and at no cost, upon request to MBIA at its principal executive offices.

Incorporation of Certain Documents by Reference

The following documents filed by the Company with the Securities and Exchange Commission (the "SEC") are incorporated by reference into this Official Statement:

(1) The Company's Annual Report on Form 10-K for the year ended December 31, 2005; and
(2) The Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2006.

Any documents, including any financial statements of MBIA and its subsidiaries that are included therein or attached as exhibits thereto, filed by the Company pursuant to Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act after the date of the Company's most recent Quarterly Report on Form 10-Q or Annual Report on Form 10-K, and prior to the termination of the offering of the Insured Bonds offered hereby shall be deemed to be incorporated by reference in this Official Statement and to be a part hereof from the respective dates of filing such documents. Any statement contained in a document incorporated or deemed to be incorporated by reference herein, or contained in this Official Statement, shall be deemed to be modified or superseded for purposes of this Official Statement to the extent that a statement contained herein or in any other subsequently filed document which also is or is deemed to be incorporated by reference herein modifies or supersedes such statement. Any such statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Official Statement.

The Company files annual, quarterly and special reports, information statements and other information with the SEC under File No. 1-9583. Copies of the Company's SEC filings (including (1) the Company's Annual Report on Form 10-K for the year ended December 31, 2005, and (2) the Company's Quarterly Reports on Form 10-Q for the quarters ended March 31, 2006, June 30, 2006 and September 30, 2006 are available (i) over the Internet at the SEC's web site at http://www.sec.gov; (ii) at the SEC's public reference room in Washington, D.C.; (iii) over the Internet at the Company's web site at http://www.mbia.com; and (iv) at no cost, upon request to MBIA at its principal executive offices.

TAX EXEMPTION

In the opinion of Edwards Angell Palmer & Dodge LLP, Bond Counsel to the State ("Bond Counsel"), based upon an analysis of existing laws, regulations, rulings, and court decisions, and assuming, among other matters, compliance with certain covenants, interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the "Code"). Bond Counsel is of the further opinion that interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Bond Counsel observes that such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income.

Bond Counsel is also of the opinion that, under existing law, interest on the Bonds is exempt from the New Hampshire personal income tax on interest and dividends. Bond Counsel has not opined as to other New Hampshire tax consequences arising with respect to the Bonds or as to the taxability of the Bonds or the income therefrom under the laws of any state other than New Hampshire. A complete copy of the proposed form of opinion of Bond Counsel is set forth in Appendix A hereto.

To the extent the issue price of any maturity of the Bonds is less than the amount to be paid at maturity of such Bonds (excluding amounts stated to be interest and payable at least annually over the term of such Bonds), the difference constitutes "original issue discount," the accrual of which, to the extent properly allocable to each owner thereof, is treated as interest on the Bonds which is excluded from gross income for federal income tax purposes and is exempt from the New Hampshire personal income tax on interest and dividends. For this purpose, the issue price of a particular maturity of the Bonds is the first price at which a substantial amount of such maturity of the Bonds is sold to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers). The original issue discount with respect to any maturity of the Bonds accrues daily over the term to maturity of such Bonds on the basis of a constant interest rate compounded semiannually (with straight-line interpolations between compounding dates). The accruing original issue discount is added to the adjusted basis of such Bonds to determine taxable gain or loss upon disposition (including sale, redemption, or payment on maturity) of such Bonds. Holders of the Bonds should consult their own tax advisors with respect to the tax consequences of ownership of Bonds with original issue discount, including the treatment of purchasers who do not purchase such Bonds in the original offering to the public at the first price at which a substantial amount of such Bonds is sold to the public.

The Code imposes various requirements relating to the exclusion from gross income for federal income tax purposes of interest on obligations such as the Bonds. Failure to comply with these requirements may result in interest on the Bonds being included in gross income for federal income tax purposes, possibly from the date of original issuance of the Bonds. The State has covenanted to comply with such requirements to ensure that interest on the Bonds will not be included in federal gross income. The opinion of Bond Counsel assumes compliance with these requirements. Bond Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken) or events occurring (or not occurring) after the date of issuance of the Bonds may adversely affect the value of, or the tax status of interest on, the Bonds. Further, no assurance can be given that any pending, proposed or future legislation, including amendments to the Code, if enacted into law, or any regulatory or administrative development with respect to existing law, will not adversely affect the value of, or the tax status of interest on, the Bonds. Prospective holders of the Bonds are urged to consult their own tax advisors with respect to proposals to restructure the federal income tax.

Although Bond Counsel is of the opinion that interest on the Bonds is excluded from gross income for federal income tax purposes and is exempt from the New Hampshire personal income tax on interest and dividends, the ownership or disposition of, or the accrual or receipt of interest on, the Bonds may otherwise affect the federal or state tax liability of a holder of the Bonds. Among other possible consequences of ownership or disposition of, or the accrual or receipt of interest on, the Bonds, the Code requires recipients of certain social security and certain railroad retirement benefits to take into account receipts or accruals of interest on the Bonds in determining the portion of such benefits that are included in gross income. The nature and extent of all such other tax consequences will depend upon the particular tax status of the holder or the holder's other items of income or deduction. Bond Counsel expresses no opinion regarding any such other tax consequences, and holders of the Bonds should consult with their own tax advisors with respect to such consequences.

LEGAL MATTERS

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

FINANCIAL ADVISOR

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

RATINGS

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

COMPETITIVE SALE OF BONDS

After competitive bidding on December 13, 2006, the Bonds were awarded to Citigroup Global Markets Inc. (the "Underwriter"). The Underwriter has supplied the information as to the public offering yields or prices of the Bonds set forth on the cover hereof. The Underwriter has informed the State that if all of the Bonds are resold to the public at those yields or prices, they anticipate the total Underwriter's compensation to be $256,815. The Underwriter may change the public offering yields or prices from time to time.

CONTINUING DISCLOSURE

In order to assist the Underwriter in complying with Rule 15c2-12(b)(5) promulgated by the Securities and Exchange Commission (the "Rule"), the State will covenant for the benefit of owners of the Bonds to provide certain financial information and operating data relating to the State (the "Annual Report"), by not later than 270 days after the end of each fiscal year and to provide notices of the occurrence of certain enumerated events, if material. The covenants will be contained in a Continuing Disclosure Certificate, the proposed form of which is provided in Appendix B. The Certificate will be executed by the signers of the Bonds, and incorporated by reference in the Bonds. The State has never failed to comply in all material respects with any previous undertakings to provide annual reports or notices of material events in accordance with the Rule. However, the State did not include audited financial statements for fiscal year 2005 in its Annual Report for fiscal year 2005 or the Annual Report for the State's Turnpike System Revenue Bonds for fiscal year 2005. The Turnpike System filed audited financial statements for fiscal year 2005 in March, 2006, and the State's audited financial statements for fiscal year 2005 were filed in May, 2006.

STATE OF NEW HAMPSHIRE

By: /s/ Michael A. Ablowich
State Treasurer

December 13, 2006

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APPENDIX A

PROPOSED FORM OF OPINION OF BOND COUNSEL

EDWARDS ANGELL PALMER & DODGE LLP
111 Huntington Avenue Boston, MA 02199 617.239.0100 fax 617.227.4420 eapdlaw.com

(Date of Delivery)

The Honorable Michael A. Ablowich
State Treasurer
State House Annex
Concord, New Hampshire 03301

$75,000,000
State of New Hampshire
General Obligation Capital Improvement Bonds, 2006 Series A
Dated Date of Delivery

We have acted as Bond Counsel to the State of New Hampshire (the "State") in connection with the issuance by the State of the above-referenced bonds (the "Bonds"). In such capacity, we have examined the law and such certified proceedings and other papers as we have deemed necessary to render this opinion.

As to questions of fact material to our opinion we have relied upon representations and covenants of the State contained in the certified proceedings and other certifications of public officials furnished to us, without undertaking to verify the same by independent investigation.

Based on this examination, we are of the opinion, under existing law, as follows:

1. The Bonds are valid and binding general obligations of the State, and the full faith and credit of the State are pledged for the punctual payment of the principal of and interest on the Bonds.

2. The interest on the Bonds is exempt from the New Hampshire personal income tax on interest and dividends. We express no opinion regarding any other New Hampshire tax consequences arising with respect to the Bonds or any tax consequences arising with respect to the Bonds under the laws of any state other than New Hampshire.

3. Interest on the Bonds is excluded from the gross income of the owners of the Bonds for federal income tax purposes. In addition, interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes. However, such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. In rendering the opinions set forth in this paragraph, we have assumed compliance by the State with all requirements of the Internal Revenue Code of 1986 that must be satisfied subsequent to the issuance of the Bonds in order that interest thereon be, and continue to be, excluded from gross income for federal income tax purposes. The State has covenanted to comply with all such requirements. Failure by the State to comply with certain of such requirements may cause interest on the Bonds to become included in gross income for federal income tax purposes retroactive to the date of issuance of the Bonds. We express no opinion regarding any other federal tax consequences arising with respect to the Bonds.

This opinion is expressed as of the date hereof, and we neither assume nor undertake any obligation to update, revise, supplement or restate this opinion to reflect any action taken or omitted, or any facts or circumstances or changes in law or in the interpretation thereof, that may hereafter arise or occur, or for any other reason.

The rights of the holders of the Bonds and the enforceability of the Bonds may be subject to insolvency, reorganization, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted to the extent constitutionally applicable, and their enforcement may also be subject to the exercise of judicial discretion in appropriate cases.

EDWARDS ANGELL PALMER & DODGE LLP

APPENDIX B

PROPOSED FORM OF
CONTINUING DISCLOSURE CERTIFICATE

This Continuing Disclosure Certificate (the "Disclosure Certificate") is executed and delivered by the State of New Hampshire (the "Issuer") in connection with the issuance of its $75,000,000 General Obligation Capital Improvement Bonds, 2006 Series A, dated their date of delivery (the "Bonds"). The State covenants and agrees as follows:

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

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

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

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

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

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

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

"Repository" shall mean each National Repository and each State Depository.

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

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

"Transmission Agent" shall mean any central filing office, conduit or similar entity which undertakes responsibility for accepting filings under the Rule for submission to each Repository. The current Transmission Agent is listed on Exhibit A attached hereto.

SECTION 3. Provision of Annual Reports.

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

(b) If the State is unable to provide to the Repositories an Annual Report by the date required in subsection (a), the State shall send a notice to the Repositories in substantially the form attached as Exhibit B.

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

(a) quantitative information for the preceding fiscal year of the type presented in the State's Information Statement dated December 13, 2006 regarding (i) the revenues and expenditures of the State relating to its General Fund and Education Fund, (ii) capital expenditures, (iii) fund balances, (iv) revenue information, (v) indebtedness of the State, and (vi) pension obligations of the State, and

(b) the most recently available audited financial statements of the State, prepared in accordance with generally accepted accounting principles.

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

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

SECTION 5. Reporting of Material Events.

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

1. Principal and interest payment delinquencies.

2. Non-payment related defaults.

3. Unscheduled draws on debt service reserves reflecting financial difficulties.

4. Unscheduled draws on credit enhancements reflecting financial difficulties.

5. Substitution of credit or liquidity providers, or their failure to perform.

6. Adverse tax opinions or events affecting the tax-exempt status of the Bonds.

7. Modifications to rights of the Owners of the Bonds.

8. Bond calls.

9. Defeasance of the Bonds or any portion thereof.

10. Release, substitution or sale of property securing repayment of the Bonds.

11. Rating changes.

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

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

SECTION 6. Alternative Methods for Reporting. The State may satisfy its obligations to make a filing with each Repository hereunder by transmitting the same to a Transmission Agent if and to the extent such Transmission Agent has received an interpretive advice from the SEC, which has not been withdrawn, to the effect that an undertaking to transmit a filing to such Transmission Agent for submission to each Repository is an undertaking described in the Rule.

SECTION 7. Termination of Reporting Obligation. The State's obligations under this Disclosure Certificate shall terminate upon the legal defeasance in accordance with the terms of the Bonds, prior redemption or payment in full of all of the Bonds.

SECTION 8. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the State may amend this Disclosure Certificate and any provision of this Disclosure Certificate may be waived if such amendment or waiver is permitted by the Rule, as evidenced by an opinion of counsel expert in federal securities law (which may also include bond counsel to the State), to the effect that such amendment or waiver would not cause the Disclosure Certificate to violate the Rule. The first Annual Report filed after enactment of any amendment to or waiver of this Disclosure Certificate shall explain, in narrative form, the reasons for the amendment or waiver and the impact of the change in the type of information being provided in the Annual Report.

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

SECTION 9. Default. In the event of a failure of the State to comply with any provision of this Disclosure Certificate any Owner of the Bonds may seek a court order for specific performance by the State of its obligations under this Disclosure Certificate. A default under this Disclosure Certificate shall not constitute a default with respect to the Bonds, and the sole remedy under this Disclosure Certificate in the event of any failure of the State to comply with this Disclosure Certificate shall be an action for specific performance of the State's obligations hereunder and not for money damages in any amount.

SECTION 10. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the Owners of the Bonds from time to time, and shall create no rights in any other person or entity.

Date: ____________, 2006

STATE OF NEW HAMPSHIRE

By:____
State Treasurer

____
Governor

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

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

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APPENDIX C

NOTICE OF SALE

$75,000,000

STATE OF NEW HAMPSHIRE
GENERAL OBLIGATION CAPITAL IMPROVEMENT BONDS
2006 SERIES A

Notice is hereby given that electronic bids will be received until 11:00 A.M. (local Concord, New Hampshire time) on Wednesday, December 13, 2006 by Michael A. Ablowich, State Treasurer of the State of New Hampshire, for the purchase of $75,000,000 State of New Hampshire General Obligation Capital Improvement Bonds, 2006 Series A (the "Bonds").

Description of the Bonds

The Bonds will be issued only as fully registered bonds in book-entry form. The Bonds will be dated their date of delivery and will be issued in denominations of $5,000 or any integral multiple thereof. Interest on the Bonds will be calculated on a 30/360 day basis and will be payable semi-annually on June 1 and December 1, commencing June 1, 2007.

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

Year	Principal Amount(1)	Year	Principal Amount(1)
2008	$4,500,000	2018	$4,500,000
2009	4,500,000	2019	4,500,000
2010	4,500,000	2020	3,000,000
2011	4,500,000	2021	3,000,000
2012	4,500,000	2022	3,000,000
2013	4,500,000	2023	3,000,000
2014	4,500,000	2024	3,000,000
2015	4,500,000	2025	3,000,000
2016	4,500,000	2026	3,000,000
2017	4,500,000		

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

Authorization and Security

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

Optional Redemption

Bonds maturing on and before June 1, 2016 are not subject to redemption prior to maturity. Bonds maturing after June 1, 2016 are subject to redemption at the option of the State on and after June 1, 2016 as a whole or in part at any time, with maturities or mandatory redemption installments to be designated by the State, at par plus accrued interest to the redemption date.

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

Mandatory Redemption

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

Book-Entry Only

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

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

Electronic Bidding Procedures

Proposals to purchase bonds (all or none) must be submitted electronically via *PARITY*. Bids will be communicated electronically to the State at 11:00 a.m., local Concord, New Hampshire time, on Wednesday, December 13, 2006. Prior to that time, a prospective bidder may (1) submit the proposed terms of its bid via *PARITY*, (2) modify the proposed terms of its bid, in which event the proposed terms as last modified will (unless the bid is withdrawn as described herein) constitute its bid for the Bonds or (3) withdraw its proposed bid. Once the bids are communicated electronically via *PARITY* to the State, each bid will constitute an irrevocable offer to purchase the Bonds on the terms therein provided. For purposes of the electronic bidding process, the time as maintained on *PARITY* shall constitute the official time. The State will not accept bids by any means other than electronically via *PARITY*.

Disclaimer

Each prospective bidder shall be solely responsible to submit its bid via *PARITY* as described above. Each prospective bidder shall be solely responsible to make necessary arrangements to access *PARITY* for the purpose of submitting its bid in a timely manner and in compliance with the requirements of the Notice of Sale. Neither the State nor *PARITY* shall have any duty or obligation to provide or assure access to *PARITY* to any prospective bidder, and neither the State nor *PARITY* shall be responsible for proper operation of, or have any liability for any delays or interruptions of, or any damages caused by, *PARITY*. The State is using *PARITY* as a communication mechanism, and not as the State's agent, to conduct the electronic bidding for the Bonds. The State is not bound by any advice and determination of *PARITY* to the effect that any particular bid complies with the terms of this Notice of Sale and in particular the "Bid Specifications" hereinafter set forth. All costs and expenses incurred by prospective bidders in connection with their submission of bids via *PARITY* are the sole responsibility of the bidders; and the State is not responsible, directly or indirectly, for any of such costs or expenses. If a prospective bidder encounters any difficulty in submitting, modifying, or withdrawing a bid for the Bonds, the bidder should telephone *PARITY* at i-Deal (212) 404-8102 and notify the State's Financial Advisor, Public Resources Advisory Group, by facsimile at (212) 566-7816. To the extent any instructions or directions set forth in *PARITY* conflict with this Notice of Sale, the terms of this Notice of Sale shall control. For further information about *PARITY*, potential bidders may contact *PARITY* at i-Deal (212) 404-8102.

Bid Specifications

Bidders should state the rate or rates of interest that the Bonds are to bear, in multiples of 1/8 or 1/20 of one percent. Any number of rates may be named, except that bonds maturing on the same date must bear interest at the same rate. Each bidder must specify in its bid the amount and maturities of bonds of each rate. No interest rate may exceed 5.00%. No bond of any maturity may be reoffered at a price less than 95% of the principal amount of such bond. Bids must be for not less than 100% or not more than 102% of the par value of the aggregate principal amounts of the Bonds. No bid for other than all of the Bonds will be accepted.

Serial Bonds and Term Bonds

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

Bond Insurance

The State has not contracted for the issuance of any policy of municipal bond insurance for the Bonds. If the Bonds qualify for any such policy or commitment therefor, any purchase of such insurance or commitment shall be at the sole option and expense of the successful bidder, and any increased costs of issuance or delivery of the Bonds resulting by reason of such insurance or commitment shall be assumed by such bidder. Bids shall not be conditioned upon the issuance of any such policy or commitment. Any failure of the Bonds to be so insured or of any such policy or commitment to be issued shall not in any way relieve the successful bidder of its contractual obligations arising from the acceptance of its bid for the purchase of the Bonds.

Basis of Award

The Bonds will be awarded to the bidder offering to purchase all of the Bonds at the lowest interest cost to the State. The lowest interest cost shall be determined in accordance with the true interest cost (TIC) method by doubling the semi-annual interest rate (compounded semi-annually) necessary to discount the debt service payments from the payment dates to the date of the Bonds (December 21, 2006) and to the price bid, excluding interest accrued to the date of delivery. If there is more than one such proposal making said offer at the same lowest true interest cost, the Bonds will be sold to the bidder whose proposal is selected by the Treasurer by lot from among all such proposals at the same lowest true interest cost. It is requested that each bid be accompanied by a statement of the true interest cost computed at the interest rate or rates stated in such bid in accordance with the above method of calculation (computed to six decimal places) but such statement will not be considered as a part of the bid.

Bids will be accepted or rejected promptly after receipt and not later than 3:00 p.m. (E.D.T.) on the date of the sale.

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

CUSIP Numbers

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

Expenses

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

Undertakings of the Successful Bidder

The successful bidder shall make a bona fide public offering of the Bonds and shall, within 30 minutes of being notified of the award of the Bonds, advise the State in writing (via facsimile transmission) of the initial public offering prices of the Bonds (the "Initial Reoffering Prices"). The successful bidder must, by facsimile transmission or delivery received by the

State Treasurer within 24 hours after notification of the award, furnish the following information to Bond Counsel to complete the Official Statement in final form, as described below:

A. Selling compensation (aggregate total anticipated compensation to the underwriters expressed in dollars, based on the expectation that all Bonds are sold at the prices or yields at which the successful bidder advised the State Treasurer that the Bonds were initially offered to the public).

B. The identity of the underwriters if the successful bidder is part of a group or syndicate.

C. Any other material information the State Treasurer determines is necessary to complete the Official Statement in final form.

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

Delivery of the Bonds

The Bonds will be delivered on or about December 21, 2006 (unless a notice of change in the delivery date is announced on TM3 not later than 1:00 p.m. (E.D.T.) on the last business day prior to any announced date for receipt of bids) in Boston on behalf of DTC against payment of the purchase price therefor in Federal Funds.

Documents to be Delivered at Closing

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

Official Statement

The Preliminary Official Statement dated December 6, 2006 and the information contained therein have been deemed final by the State as of its date within the meaning of Rule 15c2-12 of the Securities and Exchange Commission ("Rule 15c2-12") with permitted omissions, but is subject to change without notice and to completion or amendment in the Official Statement in final form (the "Final Official Statement").

The State, at its expense, will make available to the successful bidder up to 200 copies of the Final Official Statement, for delivery to each potential investor requesting a copy of the Final Official Statement and to each person to whom the bidder and members of its bidding group initially sell the Bonds, within seven business days of the award of the Bonds, provided that the successful bidder cooperate in providing the information required to complete the Final Official Statement.

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

Continuing Disclosure

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

Right to Change the Notice of Sale and to Postpone Offering

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

Additional Information

For further information relating to the Bonds, reference is made to the Preliminary Official Statement dated December 6, 2006 prepared for and authorized by the State Treasurer. The Preliminary Official Statement may be obtained by accessing the following website: www.MuniOS.com. For further information, please contact the undersigned at the Office of the State Treasurer, State House Annex, Concord, New Hampshire 03301 (telephone 603-271-2621; telecopy 603-271-3922) or from Public Resources Advisory Group, 40 Rector Street, Suite 1600, New York, New York 10006, Attention: Monika Conley (telephone 212-566-7800; telecopy 212-566-7816).

THE STATE OF NEW HAMPSHIRE

By Michael A. Ablowich
State Treasurer

Date: December 6, 2006

SPECIMEN FORM OF MUNICIPAL BOND INSURANCE POLICY TO BE ISSUED WITH RESPECT TO THE INSURED BONDS

FINANCIAL GUARANTY INSURANCE POLICY

MBIA Insurance Corporation
Armonk, New York 10504

Policy No. [NUMBER]

MBIA Insurance Corporation (the "Insurer"), in consideration of the payment of the premium and subject to the terms of this policy, hereby unconditionally and irrevocably guarantees to any owner, as hereinafter defined, of the following described obligations, the full and complete payment required to be made by or on behalf of the Issuer to [PAYING AGENT/TRUSTEE] or its successor (the "Paying Agent") of an amount equal to (i) the principal of (either at the stated maturity or by any advancement of maturity pursuant to a mandatory sinking fund payment) and interest on, the Obligations (as that term is defined below) as such payments shall become due but shall not be so paid (except that in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments guaranteed hereby shall be made in such amounts and at such times as such payments of principal would have been due had there not been any such acceleration, unless the Insurer elects, in its sole discretion, to pay in whole or in part any principal due by reason of such acceleration); and (ii) the reimbursement of any such payment which is subsequently recovered from any owner pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such owner within the meaning of any applicable bankruptcy law. The amounts referred to in clauses (i) and (ii) of the preceding sentence shall be referred to herein collectively as the "Insured Amounts." "Obligations" shall mean:

[PAR]
[LEGAL NAME OF ISSUE]

Upon receipt of telephonic or telegraphic notice, such notice subsequently confirmed in writing by registered or certified mail, or upon receipt of written notice by registered or certified mail, by the Insurer from the Paying Agent or any owner of an Obligation the payment of an Insured Amount for which is then due, that such required payment has not been made, the Insurer on the due date of such payment or within one business day after receipt of notice of such nonpayment, whichever is later, will make a deposit of funds, in an account with U.S. Bank Trust National Association, in New York, New York, or its successor, sufficient for the payment of any such Insured Amounts which are then due. Upon presentment and surrender of such Obligations or presentment of such other proof of ownership of the Obligations, together with any appropriate instruments of assignment to evidence the assignment of the Insured Amounts due on the Obligations as are paid by the Insurer, and appropriate instruments to effect the appointment of the Insurer as agent for such owners of the Obligations in any legal proceeding related to payment of Insured Amounts on the Obligations, such instruments being in a form satisfactory to U.S. Bank Trust National Association, U.S. Bank Trust National Association shall disburse to such owners, or the Paying Agent payment of the Insured Amounts due on such Obligations, less any amount held by the Paying Agent for the payment of such Insured Amounts and legally available therefor. This policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Obligation.

As used herein, the term "owner" shall mean the registered owner of any Obligation as indicated in the books maintained by the Paying Agent, the Issuer, or any designee of the Issuer for such purpose. The term owner shall not include the Issuer or any party whose agreement with the Issuer constitutes the underlying security for the Obligations.

Any service of process on the Insurer may be made to the Insurer at its offices located at 113 King Street, Armonk, New York 10504 and such service of process shall be valid and binding.

This policy is non-cancellable for any reason. The premium on this policy is not refundable for any reason including the payment prior to maturity of the Obligations.

IN WITNESS WHEREOF, the Insurer has caused this policy to be executed in facsimile on its behalf by its duly authorized officers, this [DAY] day of [MONTH, YEAR].

COUNTERSIGNED:

SPECIMEN

Resident Licensed Agent

City, State

MBIA Insurance Corporation

SPECIMEN

President

Attest:

Assistant Secretary

STD-RCS-7
01/05
BOS111 12105739.3

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The State of New Hampshire

INFORMATION STATEMENT

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

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

STATE OF NEW HAMPSHIRE

Michael A. Ablowich
State Treasurer

December 13, 2006

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STATE OF NEW HAMPSHIRE

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PETER J. SPAULDING
RAYMOND J. WIECZOREK

STATE TREASURER
MICHAEL A. ABLOWICH

SECRETARY OF STATE
WILLIAM M. GARDNER

ATTORNEY GENERAL
KELLY A. AYOTTE

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BUDGET DIRECTOR
LINDA M. HODGDON

COMPTROLLER
SHERI L. ROCKBURN

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STATE GOVERNMENT

Executive Branch

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

Two new Councilors were elected on November 7, 2006 for Districts 2 and 3. John Shea and Beverly Hollingworth will replace Peter J. Spaulding and Ruth L. Griffin, respectively. The new Councilors will take office on January 3, 2007.

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

The current State Treasurer, Michael Ablowich, announced in November, 2006 that he would not seek re-election by the Legislature. The Legislature elected Catherine Provencher as the new State Treasurer on December 6, 2006. She will take office on January 3, 2007. In addition, the current Comptroller, Sheri Rockburn, has announced her resignation which will be effective in mid-January, 2007.

Legislative Branch

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

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

Judicial Branch

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

STATE DEMOGRAPHIC AND ECONOMIC DATA

General

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

Population

New Hampshire experienced a steady increase in population between 1995 and 2005, primarily as a result of net migration from neighboring states. The State's population was 1,309,940 in July 2005 according to the U.S. Census Bureau. The table below shows New Hampshire's resident population and the change in its population relative to New England and the nation.

Population Trends
(In Thousands)

Year	New Hampshire	Change During Period	New England	Change During Period	United States	Change During Period
1995	1,148	1.0%	13,312	0.3%	262,755	0.9%
1996	1,160	1.0	13,328	0.1	265,228	0.9
1997	1,173	1.1	13,378	0.4	267,783	1.0
1998	1,185	1.0	13,428	0.4	270,248	0.9
1999	1,201	1.4	13,495	0.5	272,691	0.9
2000	1,241	3.3	13,953	3.4	282,193	3.5
2001	1,259	1.5	14,043	0.6	285,108	1.0
2002	1,275	1.3	14,126	0.6	287,985	1.0
2003	1,288	1.0	14,194	0.5	290,850	1.0
2004	1,299	0.9	14,222	0.2	293,657	1.0
2005	1,310	0.8	14,240	0.1	296,410	0.9
Percent Change:						
1995–2005	--	14.1	--	7.0	--	12.8
2000–2005	--	5.6	--	2.1	--	5.0

Source: U.S. Census Bureau.

Personal Income

The State's per capita personal income increased 51.3% between 1995 and 2005 (as contrasted with an increase of 46.4% in the per capita personal income for the United States and a 52.4% increase for the New England region). The State's rank improved from 7th in 1995 to 6th in 2005 with the State's per capita personal income 109% of the national average in that year. The State's per capita personal income in 2005 was $37,835. The State's total personal income for 2005 was $49.6 billion. The following table sets forth information on personal income for New Hampshire, New England and the United States since 1995.

Comparisons of New Hampshire Personal Income to New England and United States, 1995-2005

	New Hampshire Total Personal Income (In Millions)	Per Capita Personal Income			Percent Change			New Hampshire Per Capita Personal Income Ranking[(1)]
		New Hamp-shire	New England	United States	New Hamp-shire	New England	United States	
1995	$29,014	$25,008	$27,426	$23,562	5.0%	5.8%	4.5%	7
1996	30,633	26,042	28,820	24,651	4.4	5.1	4.8	8
1997	32,546	27,746	30,676	25,924	5.1	5.4	4.7	7
1998	34,943	29,488	32,373	27,203	5.2	6.5	4.7	7
1999	38,379	31,114	34,173	28,542	5.5	5.8	4.9	8
2000	41,429	33,396	36,118	29,845	7.3	5.7	4.6	6
2001	42,624	33,868	37,342	30,574	1.4	3.4	2.4	6
2002	43,393	34,043	37,379	30,810	0.5	0.1	0.8	6
2003	44,422	34,500	38,009	31,484	1.3	1.7	2.2	6
2004	49,570	36,616	40,260	33,050	6.1	5.9	5.0	6
2005	49,561	37,835	41,785	34,495	3.3	3.8	4.4	6

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

Civilian Labor Force, Employment and Unemployment

Employment in New Hampshire grew faster than in the region and in the nation from 1995 to 2005. 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
	1995	2005	1995-2005
New Hampshire	606	706	1.54%
Connecticut	1,658	1,728	0.41
Maine	602	677	1.18
Massachusetts	3,029	3,203	0.56
Rhode Island	477	541	1.27
Vermont	305	344	1.18
New England	6,677	7,198	0.75
United States	124,900	141,730	1.27

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

Since 1995, New Hampshire's unemployment rate was lower than the rate for New England and the United States, and was often the lowest in the nation. Monthly unemployment data for October, 2006, the latest available, show that New Hampshire's unemployment rate was below both the regional and the national level. The table below sets forth information on the civilian labor force, employment and unemployment statistics since 1995.

Labor Force Trends

Year	New Hampshire Labor Force (In Thousands)[1]			Unemployment Rate[1]		
	Civilian Labor Force	Employed	Unemployed	New Hampshire	New England	United States
1995	633	607	26	4.0%	5.4%	5.6%
1996	624	598	26	4.2	4.8	5.4
1997	645	625	20	3.1	4.4	4.9
1998	652	633	19	2.9	3.5	4.5
1999	668	649	18	2.7	3.3	4.2
2000	695	676	19	2.7	2.8	4.0
2001	705	681	24	3.4	3.6	4.7
2002	714	682	32	4.5	4.8	5.8
2003	718	686	32	4.4	5.4	6.0
2004	724	696	28	3.9	4.9	5.5
2005	732	706	26	3.6	4.7	5.1
October, 2006	744	722	22	3.0	3.9	4.1

Source: U.S. Department of Labor, Bureau of Labor Statistics, Local Area Unemployment Statistics Division.
[1]Not seasonally adjusted.

Composition of Employment

The service sector was the largest employment sector in New Hampshire in 2005, accounting for 40.1% of nonagricultural employment, as compared to 37.0% in 1995. 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 41.6% of employment in 2005, up from 37.6% in 1995.

The second largest employment sector in New Hampshire during 2005 was wholesale and retail trade, accounting for 19.7% of total employment as compared to 15.8% nationally. In 1995, 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 12.5% of nonagricultural employment in 2005, down from 18.0% in 1995. For the United States as a whole, manufacturing accounted for 10.7% of nonagricultural employment in 2005, versus 14.7% in 1995. 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	
	1995	2005	1995	2005
Manufacturing	18.0%	12.5%	14.7%	10.7%
Durable Goods	13.1	9.5	8.8	6.7
Nondurable Goods	4.9	3.0	5.9	4.0
Nonmanufacturing	82.0	87.5	85.3	89.3
Construction & Mining	3.8	4.8	5.0	5.9
Wholesale and Retail Trade	19.1	19.7	16.5	15.8
Service Industries	37.0	40.1	37.6	41.6
Government	14.1	14.2	16.6	16.3
Finance, Insurance & Real Estate	5.5	6.2	5.8	6.1
Transportation & Public Utilities	2.5	2.5	3.8	3.6

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

Largest Employers

The following table lists the twenty-two largest private employers in the State and their approximate number of employees as of December 2005.

Largest Employers
(Excluding Federal, State and Local Governments)

Company	Employees	Primary New Hampshire Site	Principal Product
1. Wal-Mart Stores, Inc.	8,659	Bedford	Retail Department Stores
2. Dartmouth Hitchcock Medical Center	7,100	Lebanon	Acute Care Hospital
3. DeMoulas & Market Basket	6,600	Nashua	Supermarkets
4. Hannaford Brothers-Shop 'N Save	5,374	Manchester	Supermarkets
5. Fidelity Investments	4,859	Merrimack	Financial Services
6. Shaw Supermarkets Inc.	4,600	Stratham	Supermarkets
7. Dartmouth College	4,246	Hanover	Private College
8. BAE Systems	4,100	Nashua	Communications
9. Liberty Mutual	4,000	Bedford	Financial Services
10. Home Depot	3,000	Manchester	Hardware Store
11. Elliot Hospital	2,821	Manchester	Hospital
12. Concord Hospital	2,757	Concord	Hospital
13. Osram Sylvania Inc.	1,750	Hillsboro	Light Sources
14. Catholic Medical Center	1,700	Manchester	Healthcare Providers
15. Verizon Communications	1,650	Manchester	Telecommunications
16. Freudenberg-NOK	1,541	Bristol	Custom-molded products
17. Hewlett-Packard Co.	1,500	Nashua	Computer
New Hampshire International Speedway	1,500	Loudon	Motorsports Facility
Sears at Fox Run Mall	1,500	Newington	Home and Automotive Products
20. Exeter Hospital Inc.	1,257	Exeter	Hospital
21. Southern New Hampshire Medical Center	1,254	Nashua	Healthcare Providers
22. Public Service of New Hampshire	1,250	Manchester	Electric Utility

Source: *New Hampshire Business Review*, December, 2005.

State and Local Taxation

The State finances its operations through a combination of specialized taxes, user charges and revenues received from the State liquor sales and distribution system. The most important taxes are the business profits tax and a meals and rooms tax. The State does not levy any personal earned income tax or general sales tax. The State believes its tax structure has played an important role in the State's economic growth. According to the U.S. Bureau of the Census, in 2005, individual income and general sales taxes represented 3.3% of the State's total government taxes. New Hampshire's per capita state taxes of $1,544 in 2005 were among the four lowest in the nation.

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

Housing

According to the 2000 federal census, housing units in the State numbered 547,024, of which 86.8% were occupied. In 1990, housing units in the State numbered 503,904, of which 81.6% were occupied. The median purchase price in 2005 was $270,000, an increase of 136.1% over 1995. The table below sets forth housing prices and rents in recent years.

Housing Statistics
Median Purchase Price and Gross Rent

	Owner-Occupied Non-Condominium Housing Unit Median Purchase Price	Percent Change	Renter-Occupied Housing Unit Median Gross Rent[(1)]	Percent Change
1995	$114,360	3.0%	$563	(1.7)%
1996	117,500	2.7	596	5.9
1997	117,000	(0.4)	606	1.7
1998	127,000	8.5	636	5.0
1999	136,500	7.5	665	4.6
2000	152,500	11.7	697	4.8
2001	174,500	14.4	738	5.9
2002	200,880	15.1	810	9.8
2003	229,400	14.2	854	5.4
2004	252,660	10.1	896	4.9
2005	270,000	6.9	901	0.6

Source: New Hampshire Housing Finance Authority.
(1) Includes utilities.

Building Activity

The pattern of building activity in New Hampshire in recent years, as evidenced by the issuance of residential building permits, has paralleled that of the New England region. There was growth in the 1992 to 2002 period in New Hampshire, New England, and the nation, while in 2003 the State experienced a 7.0% decrease in the number of permits. In 2004, building permits totaled 8,615, with a value of $1,379 million. This represents an increase of 6.4% in the number of permits, and an increase of 14.2% in dollar value, over 2003. In 2005, building permits totaled 7,586 with a value of $1,352 million. This represents a decrease of 12.3% in the number of permits, and a decrease of 2.4% in dollar value, over 2004. 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)

	1995	2000	2001	2002	2003	2004	2005
New Hampshire							
Single Family	4,105	6,097	5,910	6,754	6,583	7,002	6,432
Multi-Family	318	583	714	1,954	1,512	1,651	1,154
Total.................	4,423	6,680	6,624	8,708	8,095	8,653	7,586
Value................	$464	$937	$950	$1,203	$1,208	$1,385	$1,352
New England							
Single Family	34,335	38,670	37,240	39,928	39,486	43,749	41,812
Multi-Family	4,083	6,665	7,354	9,103	9,663	14,109	16,930
Total.................	38,418	45,335	44,594	49,031	49,149	57,858	58,742
Value................	$4,124	$6,441	$6,559	$7,268	$7,825	$9,312	$9,791
United States							
Single Family	997,268	1,198,067	1,235,550	1,332,620	1,460,887	1,613,445	1,681,986
Multi-Family	335,281	394,200	401,126	415,058	345,814	456,632	473,330
Total.................	1,332,549	1,592,267	1,636,676	1,747,678	1,806,701	2,070,077	2,155,316
Value................	$ 120,811	$ 185,743	$ 196,243	$ 219,188	$ 249,693	$ 292,414	$ 329,254

Source: U.S. Census Bureau.

Transportation

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

There are twenty-four public commercial airports in the State, three of which have scheduled air service, eight private commercial airports and nine private non-commercial airports. Manchester Airport, the State's largest commercial airport, undertook a major terminal expansion and renovation project in 1992. Bonds guaranteed by the State were issued in June 1992 (and subsequently refunded and paid on January 1, 2002 with the proceeds of non-guaranteed airport revenue bonds of the City); the new terminal opened on January 1, 1994. Since that time, the airport has grown from 427,657 enplanements in fiscal year 1994 to 2,083,823 enplanements in fiscal year 2006. Manchester Airport is currently undertaking a number of additional significant expansion, improvement and renovation projects, which have been financed by the City of Manchester through the issuance of airport revenue bonds in October, 1998, April, 2000, June, 2002, and June, 2005. The projects are expected to enhance the airport's capacity for increased passenger and freight traffic. The 1998, 2000, 2002, and 2005 bonds are not guaranteed by the State.

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

Education

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

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

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

Level of Education

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

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

STATE FINANCES

General

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

The Department of Administrative Services prepares the State's CAFR in accordance with generally accepted accounting principles ("GAAP"). New Hampshire was one of the first states to present audited statements on a GAAP basis. The financial statements were independently audited each year from 1979 to 1996 by Ernst & Young LLP (or its predecessors), certified public accountants. The State contracted with KPMG LLP to provide audit services for fiscal years 1997 through 2006. The audited financial statements of the State for fiscal year 2005, together with the report thereon of KPMG LLP, are included by reference as Exhibit A hereto, copies of which have been filed with each Nationally Recognized Municipal Securities Information Repository currently recognized by the Securities and Exchange Commission. The audited financial statements for fiscal year 2005 are also available as part of the State's fiscal year 2005 CAFR (pages 14 through 69 of the CAFR) at the website of the State's Department of Administrative Services, Bureau of Financial Reporting at http://admin.state.nh.us/accounting/reports.htm.

KPMG LLP, the State's independent auditor, has not been engaged to perform and has not performed, since the date of its report referenced herein, any procedures on the financial statements addressed in that report. KPMG LLP has also not performed any procedures relating to this Information Statement.

For information relating to the delay in delivery of the audited financial statements for fiscal year 2005 and the qualified opinion of KPMG LLP delivered in connection therewith, see "FINANCIAL STATEMENTS – Fiscal Year 2005." The audited financial statements for fiscal year 2006 are not yet available as of the date of this Information Statement, but will be provided to each Nationally Recognized Municipal Securities Information Repository currently recognized under SEC Rule 15c2-12 upon release to the public.

Traditionally the State's CAFR is completed and published in its final form by December 31 of each year for the fiscal year ending the previous June 30. It is currently expected that the publication of the CAFR for fiscal year 2006 will not occur by December 31, 2006. The combination of the implementation of a new computerized financial accounting system (see "Financial Controls" below), the ongoing budget process and staff turnover in a variety of state agencies is expected to make the work of the independent auditor more complex than in prior periods.

In addition, in connection with the fiscal year 2005 audit of the State's Turnpike System performed by the State's Office of Legislative Budget Assistant ("LBA"), the LBA issued a management letter finding material weaknesses within the Department of Transportation and, in particular, the Turnpike System. The entire management letter can be found at: http://www.gencourt.state.nh.us/lba/PDF/DOT_ML_2005.pdf.

The LBA management letter reported material weaknesses in several areas, including the need for the Department to improve: overall internal controls, finance and accounting staffing within the Department, highway fund reporting, cost accounting associated with federal billing and the Department's understanding of the requirements imposed on the Turnpike System by the State's General Bond Resolution pertaining to the Turnpike System. In addition, the LBA management letter reported other matters relating specifically to the Turnpike System, including the need to improve controls over toll revenue and to improve controls over the accounting of federal revenue for construction projects and equipment acquisitions. Several of the matters cited by the LBA are related to turnover among key employees within the Department's finance and accounting functions and the obsolescence of the Department's data processing systems, coupled with the strains on the Department associated with the implementation of E-ZPass, which was accompanied by a complete replacement of the toll collection system.

The Department has responded to each of these findings and remains committed to the proper management of the fiscal affairs of the Department, including finances of the Turnpike System. The Department is moving to add personnel in the finance and accounting functions and is replacing its outmoded data processing systems.

The State currently expects the fiscal year 2006 CAFR to be published by the end of March, 2007.

All fiscal year 2006 information referenced or set forth in this Information Statement is unaudited and preliminary.

The CAFR currently includes comparisons to budgetary basis accounting and is presented as Required Supplementary Information (RSI). Accounting on a GAAP basis differs from accounting on a budgetary basis by recognizing revenues and related assets when earned rather than when cash is received and by recording expenditures and related liabilities when incurred rather than when cash is paid. For example, GAAP accounting calls for full recognition of accounts payable, accrued payroll and pension costs incurred at the close of a fiscal year even though those items are appropriated and paid in the following fiscal year under budgetary accounting. Reconciliation of the budgetary basis with GAAP appears in a Note to the RSI in the CAFR.

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

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

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

GASB Statement 34. Beginning with fiscal 2002, the State's GAAP financial statements were revised and reorganized in accordance with the implementation of GASB Statement 34. The changes effectively added an additional layer of reporting to the current fund perspective reports, which also continue. The financial statements are presented on a government-wide perspective, which includes incorporating debt, fixed assets (infrastructure and depreciation) and recording revenues and expenditures on a full accrual basis. Also the State's CAFR presents additional information including a new section entitled Management's Discussion and Analysis (MD&A). The Basic Financial Statements of the CAFR include reconciliations of the Balance Sheet and Statement of Revenues and Expenditures prepared on a fund basis to the Statement of Net Assets and Statement of Activities presented on the Government-wide basis in accordance with GASB Statement 34. See Exhibit A to this Information Statement.

GASB Statements 43 and 45. In addition to pensions, many state and local governmental employers provide other postemployment benefits ("OPEB") as part of the total compensation offered to attract and retain the services of qualified employees. OPEB includes postemployment healthcare, as well as other forms of postemployment benefits (for example, life insurance) when provided separately from a pension plan. From an accrual accounting perspective, the cost of OPEB, like the cost of pension benefits, generally should be associated with the periods in which the exchange occurs (matching principle), rather than with the periods (often many years later) when benefits are paid or provided. However, in current practice, most OPEB plans are financed on a pay-as-you-go basis, and financial statements generally do not report the financial effects of OPEB until the promised benefits are paid.

GASB Statements 43 and 45 address the reporting and disclosure requirements for OPEB. GASB Statement 43 is effective fiscal year 2007 and GASB Statement 45 is effective fiscal year 2008. Over the next year, the State will evaluate the impact of the OPEB implementation. Currently the State operates on a pay-as-you-go basis and has not pre-funded any OPEB costs. See also "HEALTH CARE INSURANCE FOR RETIRED EMPLOYEES."

In September 2006 the Department of Administrative Services signed a contract with Segal Associates to assist in the determination and valuation of the State's OPEB liability under GASB Statement 45. Segal Associates currently provides actuarial services to the State for the purposes of setting rates for its self insurance plan for health benefits for both active and retired state employees. A valuation is expected to be available to the State by March, 2007.

Fund Types

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

Governmental Funds

General Fund. The General Fund is the principal fund and includes all State activities and functions not allocated by law to other funds. By law, all revenues received by any department or agency of the State (other than revenues allocated by statute directly to specific agencies or other funds) are paid at least weekly into the State Treasury. All such revenues are credited to the General Fund, and expenditures for all State activities and functions not allocated by law to other funds are charged to the General Fund. Revenues that are dedicated to fund specific activities including federal grants are recorded as restricted revenue and are subtracted from total appropriations to arrive at appropriations net of estimated revenues as shown on the fund balance schedules.

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

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

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

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

Proprietary (Enterprise) Funds

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

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

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

Unemployment Trust Fund. The Unemployment Trust Fund previously reported as a Fiduciary Fund has been reclassified in accordance with GASB Statement 34. This fund is used to account for contributions from employers and the benefit payments to eligible unemployed workers.

Internal Service Fund. Beginning in fiscal year 2004, as a result of Chapter 251 of the Laws of 2001, the State created a new internal service fund titled the Employee Benefit Risk Management Fund. The fund was created to manage the State's new self-insurance program and to pool all resources to pay for the cost associated with providing employee benefits for active state employees and retirees. See also "HEALTH CARE INSURANCE 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 included in this category. In accordance with GASB 31, beginning with the fiscal year 1998 annual report, the State reported the external portion of the New Hampshire public deposit investment pool as a trust fund.

Budget and Appropriation Process

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

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

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

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

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

Financial Controls

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

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

After a number of feasibility studies in recent years, the State determined that replacing its existing general ledger, human resources and budgetary systems that had been in place since 1986 was necessary. In the 2002-2003 capital budget and in subsequent laws the legislature has appropriated nearly $22 million dollars to purchase and implement a new enterprise resource planning (ERP) system. ERP is a single computerized system that supports the common business functions of all State agencies (accounts payable, assets and inventory, budgeting, financial accounting, grants and projects, human resources, payroll, benefits administration, purchasing, revenues and receipts, and treasury functions). A contract with Ciber/Lawson was negotiated and signed in April, 2006 for full implementation of the new ERP by the end of State fiscal year 2008. There are three phases of the implementation of the new ERP with the first phase currently expected to be completed by the end of fiscal year 2007 and the other two phases to be completed during fiscal year 2008.

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

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

Revenue Stabilization Account

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

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

Chapter 319 of the Laws of 2003 amended RSA 9:13-e by authorizing a transfer from the Revenue Stabilization Account, subject to fiscal committee approval, to the General Fund in the event of a fiscal year 2003 deficit as determined by the official audit. As of June 30, 2003, $37.9 million was transferred to the General Fund to eliminate the deficit which reduced the balance in the Revenue Stabilization Account to $17.3 million.

Pursuant to Chapter 177:53 of the Laws of 2005, the biennial transfer of surplus from the General Fund to the Rainy Day Fund, if any, was suspended for the biennium ending June 30, 2005. Chapter 35:1, Laws of 2006 directed that any undesignated General Fund surplus from the fiscal year ending June 30, 2005 in excess of $30.5 million be transferred to the Revenue Stabilization Account. During fiscal year 2005 there were no transfers to or from the Revenue Stabilization Account, therefore, the balance remained at $17.3 million. During fiscal year 2006, $51.7 million was transferred to the Revenue Stabilization Account, for a balance of $69.0 million at June 30, 2006.

Health Care Fund

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

Over the years, legislation has allowed for the use of the HCF to offset General Fund deficits that resulted from increased Medicaid costs and Health and Human Services revenue initiatives that fell short of expectations. Chapter 351 of the Laws of 1997 budgeted $14.8 million of Health Care Funds for fiscal years 1998 and 1999 for computer system initiatives at the Department of Health and Human Services. Finally, as of June 30, 2003, in accordance with Chapter 319 of the Laws of 2003, the balance of $33.9 million of the HCF lapsed to the General Fund.

State Revenues

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

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

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

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

Beginning in fiscal year 1995 a portion of the revenue derived from the meals and rooms tax is distributed to the cities, towns and certain unincorporated subdivisions of the State, eventually increasing to 40% of such revenue annually. For fiscal years 1997 and thereafter, the amount to be distributed is the sum of the prior year's distribution plus an amount equal to 75% of any increase in the income received from the tax for the preceding fiscal year, not to exceed $5,000,000. The fiscal year 2006 distribution to cities and towns was equal to 25.6% of the meals and rooms tax collections for fiscal year 2005.

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

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

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

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

Chapter 328 of the Laws of 2000 requires fifty percent of any current year's gross profits from liquor sales that exceed fiscal year 2001 actual gross profits be deposited into the alcohol abuse prevention and treatment fund established by RSA 176-A:1. This amount is limited to no more than 5 percent of the current year gross profits derived from the sale of liquor and other revenues. This law became effective July 1, 2001 and a General Fund appropriation of $3.3 million was recorded in fiscal year 2002. Chapter 319 of the Laws of 2003 suspended this allocation for the biennium ending June 30, 2005, and Chapter 177 of Laws of 2005 suspended this allocation for the biennium ending June 30, 2007.

Tobacco Tax. Effective July 6, 1999, the cigarette tax rate increased by 15 cents to a rate of 52 cents per package of 20 cigarettes. The increase was dedicated for the Education Fund. Effective July 1, 2005, the tax was increased to 80 cents per pack. Smokeless and loose tobacco is also subject to the tax at a rate proportionate to the cigarette tax.

Medicaid Enhancement Revenues. Effective July 1, 1993, the State lowered the Medicaid enhancement tax rate from 8% to 6%. Previously, the tax was assessed against the gross patient services revenue of hospitals operating in the State. "Gross patient services revenue" is defined as the amounts that a hospital records at the hospital's established rates for patient services, regardless of whether full payment of such amounts is expected or paid. As of July 1, 2005, the tax is assessed against net patient services revenue, which means the gross charges of the hospital, less any deducted amount for bad debts, charity care and payor discounts. The revenue collected pursuant to the tax is placed in the Uncompensated Care Fund.

Also, under the State's federally approved Medicaid Plan, disproportionate share revenues are received by the State's institutions on a quarterly basis. Beginning in fiscal year 2006 and thereafter, these revenues are recorded as restricted revenue rather than as unrestricted revenue. The Commissioner of Health and Human Services continuously reviews and revises the State Medicaid plan to maximize the receipt of additional federal matching funds.

Insurance Tax. 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). Pursuant to Chapter 277 of the Laws of 2006, such tax was reduced to 1.75% effective July 1, 2007, 1.5% effective January 1, 2009, 1.25% effective January 1, 2010, and 1% effective January 1, 2011 for all lines of insurance except health insurance which remains at 2%. The purpose of the legislation is 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 changes the collection of the tax from quarterly to annually on or before March 15 of each year. Under a retaliatory statute, the State also collects a tax in excess of such 2% on insurance companies in approximately 28 states. There is also a tax of 4% of gross premiums written in the State by insurance companies not licensed to do business in New Hampshire.

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

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

Communications Tax. For the 2002-03 biennium, the communications tax was increased to a 7% aggregate tax applicable to the gross charges collected for most retail communication services. The 7% tax rate was made permanent pursuant to Chapter 319 of the Laws of 2003. The tax was initially a 3% tax. For the 1992-93 biennium an additional 3 percentage point surcharge was added to the tax. For the biennium ended June 30, 1995, the aggregate tax rate was lowered to 5.5%, which rate remained in effect through the 2000-01 biennium.

Real Estate Transfer Tax. The real estate transfer tax was increased by $2.50 to a rate of $7.50 per $1,000 of the selling price or consideration is assessed by the State upon each party involved in the transfer of real property with the exception of transfers made upon death. The increase has been dedicated to the Education Fund. Chapter 158 of the Laws of 2001 extended the tax to cover transfers of business properties.

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

Statewide Enhanced Education Tax. The State imposes an education property tax at the rate on each $1,000 of the equalized value of real estate to raise $363.0 million. A statewide education property tax was established in 1999 in response to litigation challenging the State's method of financing public schools. See "School Funding" and "Litigation" herein. Since 1999, when the tax rate was established at $6.60 per $1,000, the State has periodically reduced the tax rate as real property valuations have risen. In addition, for fiscal years after June 30, 2004, the law requires the Commissioner of the Department of Revenue Administration to set the education property tax rate at a level sufficient to generate $363.0 million.

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

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

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

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

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

Other. This revenue category includes over 200 individual types of fees, fines, assessments, taxes and income. These revenues are reported in the following nine broad subcategories: reimbursement of indirect costs; interest on surplus funds; corporate filing fees; interstate vehicle registration fees; corporate record fees; agricultural fees; non-highway motor vehicle fees and fines; and miscellaneous.

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

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

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

Fuel Tax. The State imposes a tax upon the sale of each gallon of motor fuel sold in the State at the rate of 18 cents per gallon for motor vehicle and marine fuels and 4 cents per gallon for aviation fuel. The proceeds of the motor vehicle gasoline tax are credited to the Highway Fund and, while not pledged, are required to be used first for the payment of principal of and interest on bonds or notes of the State issued for highway purposes. A portion of the motor vehicle fuel tax, 2.64 cents, is allocated to a separate account in the Highway Fund, the Highway and Bridge Betterment Account.

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

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

Expenditures

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

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

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

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

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

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

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

Results of Operations

Fiscal Year 2002. Due to the sluggish economic conditions, business tax revenues for fiscal year 2002 fell short of expectations. General Fund and Education Trust fund unrestricted revenues totaled $1,957.2 million, which was below plan by $53.1 million, but above fiscal year 2001 revenues by $130.8 million. The increase over the prior year can be primarily attributed to changes in tax rates and growth in the uniform education property tax, the real estate transfer tax and the insurance tax.

Business taxes, which include the business profits tax (BPT) and business enterprise tax (BET) were increased effective July 1, 2001. The BPT rate increased from 8.0% to 8.5% and the BET rate increased from .5% to .75%. The revenue generated from these tax rate increases as well as the increases in rates approved in fiscal year 2000 have been dedicated to the Education Trust Fund. Business tax receipts for fiscal year 2002 totaled $383.4 million, which was an increase over the prior year of $29.1 million, but below plan by $60.5 million. Due to the combined filing of BPT and BET it is not possible to accurately measure the individual effects of each tax increase at the time of collection. Another legislative change affecting the business tax categories was a tax amnesty program authorized by Chapter 15:21 of the Laws of 2001. This amnesty program, the State's second, ran from December 1, 2001 to February 15, 2002. The State collected $14.9 million under this amnesty program of which $10.7 million related to business tax collections.

Other legislative actions affecting fiscal year 2002 tax receipts included increasing the communications tax rate from 5.5 % to 7.0%. Revenue from this tax totaled $64.7 million, which was an increase of $15.7 million over prior year. Real estate transfer tax receipts totaled $99.5 million, which was a $10.3 million increase over prior year. Chapter 158:27 of the Laws of 2001 repealed the exemption from the real estate transfer tax for certain business transactions. The tobacco tax rate remained unchanged and revenue from this tax totaled $84.3 million, which was a $2.1 decrease from prior year and $1.7 million below plan.

Due to the increasing cost of health insurance and the hardening of premiums in other insurance lines, the insurance tax generated $76.1 million, which was a 14.4% increase over prior year. The meals and rooms tax totaled $170.7 million, which was a 4.1% increase over prior year but fell short of the plan by $5.3 million. The uniform education property tax, including both the portion retained locally and the portion not retained locally, totaled $483.1 million, which was an increase of $40.9 million over prior year and equal to plan.

The downturn in the national economy and experiences in other states, made worse by the September 11th terrorist attack, were strong indications of a shortfall in revenues soon to affect the State. On October 1, 2001, then Governor Shaheen directed State agencies to develop budgetary contingency plans. Further steps taken during fiscal year 2002 included: (1) directing the Department of Resources and Economic Development to accelerate its tourism promotion efforts, with a particular focus on attracting those who are within driving distance of New Hampshire, (2) asking State regulatory agencies to review their procedures and redirect resources to attempt to speed the review process, (3) directing the Bureau of Public Works to accelerate the start of construction projects included in the State's capital budget in order to begin work on the capital budget projects in the first year of the biennium, (4) directing the Department of Health and Human Services to carefully monitor trends in public assistance and Medicaid caseload increases so necessary budget adjustments could be made, and (5) reinvigorating the consensus revenue estimating panel by issuing Executive Order 2001-4, which expanded the membership of the panel with an effort toward obtaining more realistic revenue estimates.

On January 15, 2002, Executive Order 2002-1 was issued which saved $6.5 million in fiscal year 2002. Of this amount, $5.8 million was a direct reduction of General Fund appropriations and $.7 million was the estimated increase in interest revenue from delaying payments to the University System. On March 13, 2002, Executive Order 2002-2 was issued which established a freeze on Executive Branch hiring, equipment and out-of-state travel for the balance of fiscal year 2002. On June 12, 2002, Executive Order 2002-5 was issued which saved an estimated $15.2 million. Of this amount, $13.5 million was a direct reduction of General Fund appropriations and $1.7 million was the estimated increase in interest revenue from delaying payments to the University System.

Fiscal Year 2003. Despite the recent economic recession, General and Education Fund unrestricted revenues for fiscal year 2003 showed modest increases over the prior year. Unrestricted revenues totaled $2,049.0 million, which was a $19.0 million (.9%) increase over plan and a 4.7% increase over prior year. The plan represents the legislative estimates contained in the original budget that was adopted in June 2001. Any significant shortfalls or gains over plan in the first year (fiscal year 2002) of the biennium were expected to reoccur in the second year (fiscal year 2003) of the biennium.

Business tax collections (business profits tax and business enterprise tax) totaled $392.8 million, which was $36.8 million below plan but $9.4 million (2.5%) over prior year. Meals and rooms taxes totaled $175.4 million, which was below plan by $18.0 million and had a small increase of $4.8 million (2.8%) over prior year. Insurance taxes totaled $82.2 million, which exceeded plan by $19.2 million and increased $6.1 million (8.0%) over prior year. Tobacco tax receipts totaled $94.1 million, which increased substantially (11.6%) over prior year due to the tax rate advantage as compared to neighboring states. Real estate transfer taxes again performed strongly, totaling $118.2 million, which exceeded both the plan and prior year by more than 15%. This increase can be attributed to increases in the prices of homes; increases in sales activity spurred by record low interest rates; and the repeal of the exemption from this tax for certain transfers of business property, including the Seabrook nuclear power station, which generated approximately $6.2 million in real estate transfer tax payments in December, 2002. The uniform education property tax rate for fiscal year 2003 was reduced from $6.60 to $5.80 per $1,000 of total equalized value. With increasing property values, the uniform education property tax (both retained locally and not retained locally) generated a total of $485.7 million, which was $2.6 million above the prior year and equal to plan.

On May 28, 2003, President Bush signed into federal law the "The Jobs and Growth Reconciliation Act of 2003." The funding to the State would be comprised of temporary direct fiscal relief characterized as a flexible grant to the State in the amount of $50 million and increased Federal Medicaid Assistance Percentage (FMAP). The State received the flexible grant in two installments. As a result, $25 million was recognized as revenue in fiscal year 2003 and the remaining $25 million was recognized in fiscal year 2004. In addition, the State recognized $4.7 million of the FMAP funds in fiscal year 2003 and $19.2 million in fiscal year 2004. No additional funds will be recognized in fiscal year 2005.

Medicaid enhancement revenues (MER) totaled $117.0 million, which was a $23.0 million increase over plan and $18.8 million over prior year. Included in the MER is $15.3 million that was recorded under the proportionate share program (Proshare). This amount represents the resolution of prior year claims that were deferred by the Federal Government in fiscal year 2002. Due to the uncertainty with the delay associated with receiving federal approval for the Medicaid Plan amendment, the fiscal year 2003 Proshare billing estimated at $6.5 million and restricted revenue of $3.8 million has not been recorded as revenue. The other major MER activities include the 6% hospital tax, which totaled $84.6 million and disproportionate share revenues associated with New Hampshire Hospital which totaled $14.0 million and other recoveries of $3.1 million.

General and Education Fund net appropriations for fiscal year 2003 after lapses totaled $2,153.2 million which was a $63.6 million (3.0%) increase over prior year. In response to financial pressures brought on by the recession, the State made various budgetary adjustments in fiscal year 2003. The following three executive orders were issued to reduce spending:

- Executive Order 2002-05 issued on June 12, 2002, reduced appropriations by $8.9 million.
- Executive Order 2003-01, issued on January 15, 2003, reduced expenditures by freezing vacant positions, equipment, out of state travel, consultants and IT hardware.
- Executive Order 2003-05 issued on April 16, 2003, reduced appropriations by $18.8 million.

Year-end lapses totaled $16.0 million, which is less than lapse amounts from prior years and is due, in part, to the above-mentioned executive orders and lapses associated with benefits for state employees that did not materialize. Even though appropriations for benefits were increased by $4.4 million, the overall amounts were not sufficient to fund the increasing cost of health insurance coverage. In October, 2003, the State shifted to a self-insurance environment with stop-loss coverage to manage the growth of this cost.

In accordance with Chapter 158:43 of the Laws of 2001, the Department of Health and Human Services was authorized to expend revenue in excess of amounts budgeted. A total of $20.1 million of Medicaid enhancement revenues described above was appropriated to fund budgetary shortfalls in the Medicaid provider payments program.

The combined year end General and Education Fund balances (including reserve accounts) at June 30, 2003 was a total of $17.3 million. Fund balances have steadily declined from a peak of $188.3 million in fiscal year 1999. Prior to year-end transfers, the fiscal year 2003 operating deficit was a negative $33.9 million for the General and Education Funds combined. The original budget projected a fiscal year 2003 shortfall of $17.2 million. The cumulative deficit of $71.8 million (fiscal year 2003 deficit of $33.9 million and a carry forward deficit of $37.9 million) was eliminated by year-end transfers from the Health Care Fund (HCF) and Revenue Stabilization Account. In accordance with Chapter 319 of the Laws of 2003, the HCF balance of $33.9 million was closed out to the General Fund, and an additional $37.9 million was transferred from the Revenue Stabilization Account to eliminate the entire General Fund deficit. This transfer reduced the June 30, 2003 balance in the Revenue Stabilization Account from $55.2 million to $17.3 million.

Fiscal Year 2004. On September 4, 2003, the Governor signed into law the fiscal year 2004-2005 operating budget, Chapters 318 and 319 of the Laws of 2003. The Governor had vetoed in June, 2003 earlier versions of these bills on the basis that, in his view, the then proposed operating budget relied on one-time revenue sources with an unsustainable expenditure plan that resulted in an insufficient balance in the Revenue Stabilization Account. To maintain State services, a continuing resolution was adopted for a period of three months, at the proposed budget level. In the interim, a Joint Budget Advisory Group was formed to negotiate a compromised budget. The group comprised members from both House and Senate with participation from the Governor. After two months, a compromise agreement was reached.

The compromise budget for the 2004-2005 biennium included conservative revenue forecasts. Traditional revenue (revenue before Medicaid enhancement revenues and property tax) was projected to increase by less than 1% in fiscal years 2004 and 2005. The fiscal year 2004 slow growth rate was primarily attributable to the phase out of the legacy and succession tax and the estate tax, which was expected to result in a $40 million decrease in fiscal year 2004 revenue. The fiscal year 2005 slow growth rate was primarily attributable to the one-time federal flexible grant, which resulted in $25 million being recognized as revenue in each of fiscal years 2003 and 2004. (See "Results of Operations– Fiscal Year 2003.") Business taxes, which represent 28% of traditional revenue, were projected to increase less than 3% per year and the meals and rooms tax was projected to increase on average less than 5% per year.

The original budget, as initially approved by the Legislature, projected a surplus for fiscal year 2004 of $44.6 million (excluding the Revenue Stabilization Account). The unaudited combined General and Education Fund Balances at June 30, 2004 was $15.3 million, which, together with $17.3 million from the Revenue Stabilization Account, brought the total surplus to $32.6 million.

General and Education Fund unrestricted revenue for fiscal year 2004 was better than anticipated. Unrestricted revenue totaled $2,158.6 million, which was a $109.6 million (5.3%) increase over prior year and a $44.8 million (2.1%) increase over plan. (The plan represents the legislative estimates contained in the original budget that was adopted in September 2003.)

Strong revenue performance was seen in several tax categories, as noted below, which offset the weak performance from the Interest and Dividends Tax, which was down 9.7% over prior year due to interest rates remaining at historic lows.

- Business Taxes totaled $408.0 million, $4.2 million above plan and $15.2 million (3.9%) over prior year.
- Meals and Rooms totaled $185.4 million, $1.9 million above plan and $10.0 million (5.7%) over prior year.
- Insurance Tax totaled $86.2 million, $3.3 million above plan and $4.0 million (4.9%) over prior year.
- Tobacco Tax totaled $100.1 million, which experienced moderate increase over prior year (6.4%) due to the continued tax advantage over neighboring states.
- Real Estate Transfer Tax (RET) again performed strongly compared to plan and prior year. RET collections of $142.7 million were 20.2% over prior year resulting from: increased home prices, sales activity spurred by low interest rates, the repeal of the tax exemption from business property transfers, and targeted audit collections.
- Estate and Legacy Tax benefited from large one-time gains earlier in fiscal year 2004, which contributed to the $7.6 million increase over plan. Due to the phase out of the tax, collections were significantly less than in previous years.
- Uniform Property Tax rate was reduced to $4.92 per $1,000 (now $3.33 per $1,000) of total equalized value from $5.80 per thousand in fiscal year 2003. Despite rate reductions, increasing property values helped generate a total of $473.2 million from the tax, slightly behind prior year by 2.6%.
- Medicaid Enhancement Revenues (MER) and Recoveries totaled $170.2 million, which was a $16.0 million increase over plan and $53.2 million over prior year.
- Nursing Facility Assessment Fee. On July 1, 2004, the Legislature passed Chapter 260 of the Laws of 2004 which among several measures, amended RSA 84-C:2 to include a new assessment of 6 percent of net patient services revenues imposed on all nursing facilities on the basis of patient days in each nursing facility. The initial assessment period was retroactively applied to May 1, 2003. Since there is uncertainty as to when Federal approval or disallowance will be granted and as to how the new fee will impact the State's proportionate share program (proshare) revenue already claimed in fiscal year 2004, a conservative adjustment of $6 million was recorded to reduce the proshare for fiscal year 2004.

Net appropriations, including anticipated budget reductions, savings from budget initiatives, and lapses, were $71.9 million behind estimates. The largest shortfalls were from Information Technology, Self-Insurance, and DHHS program savings and one-time revenue adjustments that did not materialize to expected levels.

Although fiscal year 2004 revenues grew over fiscal year 2003, the State authorized 2 executive orders to reduce spending:

- Executive Order 2004-02 issued on March 24, 2004 reduced expenditures by ordering a hiring freeze on all vacant full-time classified and unclassified positions funded in whole or in part by the General Fund and a spending freeze on equipment purchases, consultants, and out of state travel.
- Executive Order 2004-03 issued on March 24, 2004 reduced expenditures by ordering a direct reduction of $2.7 million of General Fund appropriations.

Lastly, the State moved to a self-insurance environment during fiscal year 2004 with respect to health insurance coverage for active and retired State employees. In previous years, General Fund expenditures included premiums paid to the State's health insurance carrier. The long-term liability associated with insurance claims, commonly referred to as "incurred but not reported" or "IBNR", was not included on the State's financial statements since the liability and risk was transferred to the insurance carrier. As a result of the self-funding alternative, the State created a new fund, titled the Employee Benefit Risk Management Fund during fiscal year 2004 to manage the State's self-insurance program needs and to pool resources to pay for the costs associated with the new program.

The new fund ended this transition year with a deficit of $12.1 million. The deficit was primarily the result of the State recognizing the IBNR for the first time. On a cash basis, the fund had a positive $3.2 million balance.

Fiscal Year 2005. General and Education Fund unrestricted revenue for fiscal year 2005 totaled $2,161.9 million, which was $160.4 million (8.0%) over plan and $3.2 million over the prior year. As noted below, more than half of the increase over plan was from strong revenue performance primarily in business taxes and the real estate transfer tax. When compared to prior year, the strong performance from these two taxes offset the shortfalls from the statewide property tax, which resulted from the rate change from $4.92 to $3.33/1000, and the one-time flexible grant ($25.0 million) received from the federal government in fiscal year 2004.

- Business Taxes totaled $492.0 million, $77.0 million above plan and $84.0 million over prior year. Included in the fiscal year 2005 revenue was approximately $33.5 million in one-time audit settlements.

- Real Estate Transfer Tax collections totaled $159.8 million, $36.3 million above plan and $17.1 million over prior year.

Net appropriations, including anticipated budget reductions and savings from budget initiatives, for the General Fund were $1,409.2 million, which was a minimal increase of $46.9 million (3.4%) from the prior year. As a comparison, the net appropriations from fiscal 2003 to 2004 increased 7.8%. In contrast, the net appropriations for the Education Fund were $793.0 million, a decrease of $102.0 million (11.4%) as a result of changes to the education funding laws.

Lapses for fiscal year 2005, for the General Fund, were $58.0 million as compared to $34.5 million for fiscal year 2004. Although lapses from salary and benefits were similar year to year, increases over fiscal year 2004 were seen in several program areas, including the Department of Health and Human Services ($6.9 million), the Liquor Commission ($1.8 million for the Nashua liquor store), and savings for retirees health insurance ($6.3 million) from effective cost containment measures.

The combined General and Education Fund Balance at June 30, 2005 was $82.2 million, which, together with $17.3 million from the Revenue Stabilization Account, brought the total surplus to $99.5 million. The favorable surplus was primarily the result of continued growth in the real estate market, increases in revenue from business taxes, one time business audit settlements, and greater than expected lapses. In accordance with Chapter 177:53 of the Laws of 2005, the biennial transfer of surplus from the General Fund to the Revenue Stabilization Account was temporarily suspended, in order to allow for any surplus from the fiscal years 2004-2005 biennium to finance the fiscal years 2006-2007 budget. During legislative deliberations on the Governor's proposed fiscal years 2006-2007 budget, it was estimated that $30.5 million would be needed to finance this biennium's budget. A budget was ultimately signed into law by the Governor that reflected this need, therefore, while the ending surplus figure for the fiscal years 2004-2005 biennium is approximately $82.2 million, $30.5 million was reserved for the fiscal years 2006-2007 biennial budget.

The State established a self-insurance fund during fiscal year 2004 with respect to health insurance coverage for active and retired state employees. Now in its second year, the self-insurance fund ended fiscal year 2005 with a surplus of $2.8 million and a cash balance of $17.3 million. The surplus is the result of managing rates with effective cost containment measures. The State currently has a contract with an outside consultant to help analyze the benefits of the new program and to review rates annually.

Fiscal Year 2006 (Unaudited). Revenue collections for fiscal year 2006 came in higher than original estimates. Fiscal year 2006 unrestricted revenue for the General and Education Funds totaled $2,182.3 million, which exceeded the plan by $55.7 million (3%). This strong fiscal year performance over plan was seen primarily in Business Taxes. Highlights regarding revenues include the following:

- Business Taxes (Business Profits Tax and Business Enterprise Tax) totaled $546.2 million, which was $54.6 million ahead of plan and $54.2 million above the prior year. The growth in fiscal year 2006 was a combination of one-time revenue collections related to the repatriation of foreign earnings as a result of the American Jobs Creation Act of 2004 and increases in final returns filed in March and April, 2006.

- The Tobacco Tax collected $150.8 million or $6.3 million above plan and $49.3 million above prior year. The growth over the prior year reflects the tax increase to .80 cents per pack (previously .52 cents) effective July 1, 2005.

- Interest and Dividends Tax collections were $80.5 million or $10.2 million above plan and $12.6 million above prior year as a result of stronger economic growth.

- The Real Estate Transfer Tax performed below expectations with receipts totaling $158.7 million or $12.9 million (7.5%) below plan and $1.1 million (.7%) below prior year. During the first six months the growth was on track with plan showing a 5% increase over the prior year. The decline in growth occurred in the last six months of the year falling to 17% below plan in June, 2006.

- Although the Meals and Rooms Tax performed below expectations with receipts totaling $200.9 million or $5.4 million (2.6%) below plan, receipts exceeded the prior year by $7.3 million (3.8%).

- Transfers from Lottery totaled $82.0 million or $7.0 million above plan and $11.7 million above prior year. The growth was primarily the result of two large Powerball rollover jackpots ($365.0 million on February 18, 2006 and $340.0 million on October 19, 2005) and sales from the new twenty dollar instant scratch ticket.

When comparing fiscal year 2006 results to fiscal year 2005, total unrestricted revenue for the General and Education Funds was slightly ahead by .9% or $20.4 million. Offsetting the growth over the prior year from Business Taxes, Meals and Rooms Tax, Tobacco Tax, Interest and Dividends Tax, and Lottery were decreases in the following:

- Medicaid Enhancement Revenues totaled $73.6 million or 50% below prior year due to the implementation of MQIP (Medicaid Quality Incentive Program with the Counties) which eliminated Proshare, the change in budgeting of the NH Hospital Disproportionate Share (DSH) from unrestricted to restricted revenue, and federal changes in the Medicaid Enhancement Revenue assessments from gross to net patient services

- Estate and Legacy Tax receipts declined to $3.2 million or $8.5 million below prior year due to the phase out of the tax,

- Statewide Property Tax receipts decreased by $7.9 million from prior year to $363.4 million as a result of rate changes, and

- Tobacco Settlement payments from companies who are challenging the Master Settlement Agreement decreased by $3.4 million to $39.0 million. See “LITIGATION.”

In order to balance the fiscal years 2006-2007 biennial budget, the legislature anticipated a surplus of $30.5 million for fiscal year 2005. However, the actual combined General and Education Fund surplus at June 30, 2005 was $82.2 million, $51.7 million higher than expected. The favorable surplus in fiscal year 2005 was primarily the result of continued growth in the real estate market, increases in revenue from business taxes, one-time business audit settlements, and greater than expected lapses. In accordance with Chapter 177:53, Laws of 2005, the biennial transfer of surplus from the General Fund to the Rainy Day Funds was temporarily suspended. Furthermore, Chapter 35:1, Laws of 2006 directed that any undesignated General Fund surplus for the fiscal year ending June 30, 2005 in excess of $30.5 million shall be transferred to the Rainy Day Fund. As a result, $51.7 million was transferred from the General Fund, bringing the balance in the Rainy Day Fund to $69.0 million at June 30, 2006.

After the Rainy Day Fund transfer, the combined General and Education Fund surplus at June 30, 2006 was $34.4 million. The surplus was primarily revenue driven as a result of greater than expected collections. Strong performance from Business Taxes and the Interest and Dividends Tax more than offset the unfavorable results in the Real Estate Transfer tax.

Net appropriations, including anticipated budget reductions, savings from budget initiatives, and lapses, for the General and Education Fund were $2,192.7 million, which was an increase of 1.4% over the prior year. Additional appropriations of approximately $10.7 million were granted for flood relief as a result of the fall 2005 and spring 2006 floods that swept across New Hampshire. A supplemental appropriation was also granted for $2.3 million for anticipated energy costs as fuel demands and prices rose in fiscal year 2006.

Lapses for fiscal year 2006 for the General Fund were $34.0 million as compared to $58.0 million for fiscal year 2005. Although lapses from salary and benefits were similar year to year, fiscal year 2005 had significant non re-occurring lapses from certain program areas under the Department of Health and Human Services, the Liquor Commission and Retirees Health Insurance.

The State established a self-insurance fund during fiscal year 2004 with respect to health insurance coverage for active and retired state employees. Now in its third year, the self-insurance fund ended fiscal year 2006 with a surplus of $4.7 million, net of the liability associated with pending insurance claims (commonly referred to as "incurred but not reported" or "IBNR") and reserves as required per RSA 21-I:30-b. The cash balance was $38 million prior to these requirements. The surplus is the result of managing rates with effective cost containment measures. The State currently has a contract with an outside consultant to help analyze the benefits of the new program and to review rates annually.

The following tables present a comparison of General Fund and Education Fund unrestricted revenues and General Fund and Education Fund net appropriations for fiscal years 2002 through 2006. The information for fiscal years 2002 through 2005 is derived from the State's audited financial statements. The fiscal year 2006 information is unaudited.

GENERAL FUND AND EDUCATION FUND UNRESTRICTED REVENUES
FISCAL YEARS 2002-2006
(GAAP Basis-In Millions)

	FY 2002			FY 2003			FY 2004			FY 2005			(Unaudited) FY 2006		
Revenue Category	General	Education	Total	General	Education	Total	General	Education	Total	General	Education	Total	General	Education	Total
Business Profits Tax	$128.6	$ 32.6	$161.2	$137.7	$ 37.1	$174.8	$131.6	$ 41.0	$172.6	$196.6	$ 50.7	$247.3	$264.0	$56.6	$320.6
Business Enterprise Tax	121.0	101.2	222.2	96.6	121.4	218.0	118.5	116.9	235.4	114.1	130.6	244.7	75.2	150.4	225.6
Subtotal	249.6	133.8	383.4	234.3	158.5	392.8	250.1	157.9	408.0	310.7	181.3	492.0	339.2	207.0	546.2
Meals & Rooms Tax	164.0	6.6	170.6	168.7	6.7	175.4	178.5	6.9	185.4	186.5	7.1	193.6	193.8	7.1	200.9
Tobacco Tax	60.3	24.0	84.3	67.1	27.0	94.1	71.5	28.6	100.1	73.3	28.2	101.5	69.9	80.9	150.8
Liquor Sales and Distribution	96.2	-	96.2	99.0	-	99.0	106.7	-	106.7	112.6	-	112.6	120.6	-	120.6
Interest & Dividends Tax	70.3	-	70.3	55.1	-	55.1	55.6	-	55.6	67.9	-	67.9	80.5	-	80.5
Insurance Tax	76.1	-	76.1	82.2	-	82.2	86.2	-	86.2	88.7	-	88.7	90.5	-	90.5
Communications Tax	64.7	-	64.7	62.4	-	62.4	65.8	-	65.8	70.0	-	70.0	70.5	-	70.5
Real Estate Transfer Tax	66.4	33.1	99.5	78.8	39.4	118.2	95.2	47.5	142.7	107.8	52.0	159.8	106.2	52.5	158.7
Estate and Legacy Tax	57.0	-	57.0	59.1	-	59.1	27.0	-	27.0	11.7	-	11.7	3.2	-	3.2
Sweepstakes Transfers	-	66.1	66.1	-	66.6	66.6	-	73.7	73.7	-	70.3	70.3	-	82.0	82.0
Tobacco Settlement	5.7	40.0	45.7	5.9	40.0	45.9	1.8	40.0	41.8	2.4	40.0	42.4	-	39.0	39.0
Utility Property Tax	-	18.2	18.2	-	18.8	18.8	-	20.2	20.2	-	20.1	20.1	-	20.9	20.9
State Property Tax(1)	-	483.1	483.1	-	485.7	485.7	-	473.2	473.2	-	371.3	371.3	-	363.4	363.4
Other	127.5	-	127.5	160.1	-	160.1	167.0	-	167.0	150.7	-	150.7	157.0	-	157.0
Subtotal	1,037.8	804.9	1,842.7	1,072.7	842.7	1,915.4	1,105.4	848.0	1,953.4	1,182.3	770.3	1,952.6	1,231.4	852.8	2,084.2
Net Medicaid Enhancement Revenues	98.2	-	98.2	117.0	-	117.0	149.8	-	149.8	147.2	-	147.2	73.6	-	73.6
Recoveries	-	-	-	-	-	-	20.4	-	20.4	23.0	-	23.0	24.5	-	24.5
Subtotal	1,136.0	804.9	1,940.9	1,189.7	842.7	2,032.4	1,275.6	848.0	2,123.6	1,352.5	770.3	2,122.8	1,329.5	852.8	2,182.3
Other Medicaid Enhancement Revenues to Fund Net Appropriations	16.3	-	16.3	16.6	-	16.6	35.1	-	35.1	39.1	-	39.1	-	-	-
Total	$1,152.3	$804.9	$1,957.2	$1,206.3	$842.7	$2,049.0	$1,310.7	$848.0	$2,158.7	$1,391.6	$770.3	$2,161.9	$1,329.5	$852.8	$2,182.3

(1)The amounts of the state property tax retained locally and not retained locally have been combined for fiscal years 2002 through 2004. The amount of state property tax not retained locally was $29.0 million, $32.7 million, and $29.8 million for fiscal years 2002 through 2004, respectively.

GENERAL FUND AND EDUCATION FUND NET APPROPRIATIONS
FISCAL YEARS 2002-2006
(GAAP Basis)
(In Millions)

	FY 2002			FY 2003			FY 2004			FY 2005			(Unaudited) FY 2006		
Category of Government	General	Education	Total	General	Education	Total	General	Education	Total	General	Education	Total	General	Education	Total
General Government	$220.6	$5.0	$225.6	$227.1	$5.0	$232.1	$237.2	$0.0	$237.2	$238.0	$0.0	$238.0	$263.3	$0.0	$263.3
Justice and Public Protection	181.1	-	181.1	184.5	-	184.5	164.4	-	164.4	192.9	-	192.9	219.7	-	219.7
Resource Protection and Development	40.7	-	40.7	39.5	-	39.5	71.4	-	71.4	35.9	-	35.9	41.3	-	41.3
Transportation	2.8	-	2.8	2.7	-	2.7	2.4	-	2.4	2.4	-	2.4	6.0	-	6.0
Health and Social Services	515.5	-	515.5	531.6	-	531.6	605.6	-	605.6	626.0	-	626.0	604.8	-	604.8
Education	241.7	882.2	1,123.9	263.3	899.5	1,162.8	246.8	895.0	1,141.8	256.0	812.0	1,068.0	211.1	846.5	1,057.6
Net Appropriations	$1,202.4	$887.2	$2,089.6	$1,248.70	$904.5	$2,153.2	$1,327.8	$895.0	$2,222.8	$1,351.2	$812.0	$2,163.2	$1,346.2	$846.5	$2,192.7

The following table sets out the General Fund and Education Fund undesignated fund balances and the amounts reserved for the Revenue Stabilization Account and Health Care Fund for each of the fiscal years 2002 through 2006. The information for fiscal years 2002 through 2005 is derived from the State's audited financial statements. The fiscal year 2006 information is unaudited.

GENERAL FUND AND EDUCATION FUND BALANCES
FISCAL YEARS 2002–2006
(GAAP Basis - In Millions)

	FY 2002			FY 2003			FY 2004			FY 2005			(Unaudited) FY 2006		
	General	Education	Total	General	Education	Total	General	Education	Total	General	Education	Total	General	Education	Total
Undesignated Fund Balance, July 1	$0.0	$0.0	$0.0	$(37.9)	$0.0	$ (37.9)	$0.0	$0.0	$0.0	$15.3	$0.0	$15.3	$82.2	$0.0	$82.2
Additions:															
Unrestricted Revenue	1,152.3	804.9	1,957.2	1,206.3	842.7	2,049.0	1,310.7	848.0	2,158.7	1,391.6	770.3	2,161.9	1,329.5	852.8	2,182.3
Transfers from General Fund	-	65.7	65.7	-	83.4	83.4	-	62.6	62.6	-	61.4	61.4	-	-	-
Total Additions	1,152.3	870.6	2,022.9	1,206.3	926.1	2,132.4	1,310.7	910.6	2,221.3	1,391.6	831.7	2,223.3	1,329.5	852.8	2,182.3
Deductions:															
Appropriations Net of Estimated Revenues	(1,228.5)	(887.6)	(2,116.1)	(1,264.7)	(904.5)	(2,169.2)	(1,362.3)	(895.0)	(2,257.3)	(1,409.2)	(793.0)	(2,202.2)	(1,380.2)	(841.9)	(2,222.1)
Less: Lapses	26.1	0.4	26.5	16.0	-	16.0	34.5	-	34.5	58.0	(19.0)	39.0	34.0	(4.6)	29.4
Total Net Appropriations	(1,202.4)	(887.2)	(2,089.6)	(1,248.7)	(904.5)	(2,153.2)	(1,327.8)	(895.0)	(2,222.8)	(1,351.2)	(812.0)	(2,163.2)	(1,346.2)	(846.5)	(2,192.7)
GAAP and Other Adjustments	16.9	-	16.9	(17.8)	-	(17.8)	1.5	(7.7)	(6.2)	4.0	2.8	6.8	12.2	2.1	14.3
Other One-Time Revenue Adjustments:															
HHS Revenue Enhancements	-	-	-	4.7	-	4.7	19.2	-	19.2	-	-	-	-	-	-
Other Revenue Adjustments	-	-	-	-	-	-	3.8	-	3.8	-	-	-	-	-	-
Current Year Balance	(33.2)	(16.6)	(49.8)	(55.5)	21.6	(33.9)	7.4	7.9	15.3	44.4	22.5	66.9	(4.5)	8.4	3.9
Transfers (to)/from:															
Revenue Stabilization Account	-	-	-	37.9	-	37.9	-	-	-	-	-	-	(51.7)	-	(51.7)
Health Care Fund	11.9	-	11.9	33.9	-	33.9	-	-	-	-	-	-	-	-	-
Education Fund	(16.6)	16.6	-	21.6	(21.6)	-	7.9	(7.9)	-	22.5	(22.5)	-	-	-	-
Undesignated Fund Balance, June 30	$(37.9)	$0.0	$(37.9)	$0.0	$0.0	$0.0	$15.3	$0.0	$15.3	$82.2	$0.0	$82.2	$26.0	$8.4	$34.4
Reserved for Revenue Stabilization Account	$55.2	-	$55.2	$17.3	-	$17.3	$17.3	-	$17.3	$17.3	-	$17.3	$69.0	-	$69.0
Reserved for Health Care Fund	$33.9	-	$33.9	-	-	-	-	-	-	-	-	-	-	-	-
Total Equity	$51.2	$0.0	$51.2	$17.3	$0.0	$17.3	$32.6	$0.0	$32.6	$99.5	$0.0	$99.5	$95.0	$8.4	$103.4

Fiscal Year 2007 Budget

On July 5, 2005, the Governor signed into law the State budget for the current biennium that began on July 1, 2005. Another bill, House Bill 2 (commonly referred to as the "Trailer Bill"), which addressed a number of issues concerning revenue and spending matters, also became law on July 5, 2005.

For fiscal year 2007, total unrestricted revenues (including both the General and the Education Trust Funds) are projected to be $2,203.3 million Fiscal year 2007 total net appropriations are presently estimated at $2212.6 million which is approximately $30 million higher than originally estimated. This higher estimate is primarily a result of the supplemental appropriations approved by the Legislature outside of the budget for the purpose of payment of Medicare Part D premiums to the Federal Centers for Medicare and Medicaid Services of phased-down State contribution, also known as the "clawback". There is a current year combined general and education fund deficit estimated to be $9.3 million. As described above under the heading "Fiscal Year 2006 (Unaudited)" the State had anticipated a larger deficit over the biennium and had allocated $30.5 million to finance this shortfall. Despite this modest deficit, present estimates are that the combined performance of the general and education funds will leave an undesignated fund balance of $25.1 million, plus the $69 million already in the Rainy Day Fund.

It is likely that the State will see continued weakness in the Real Estate Transfer Tax, but this weakness will be offset by continued strength in the Business and Interest and Dividends Taxes. The net result of these expected changes in the individual tax performance relative to the originally budgeted revenues is that overall tax revenues should perform in line with expectations.

Net appropriations in the category of Health and Social Services are lower in fiscal years 2006 and 2007 as compared to fiscal year 2005. As with the results for fiscal year 2006 discussed above under the heading "Fiscal Year 2006 (Unaudited)", this change in appropriation levels does not reflect a dramatic change in service or eligibility levels for health and social service programs administered by the State's Department of Health and Human Services. Rather much of this change results from changes in the method for funding a variety of social service programs, in particular Medicaid services and the operations of the State's acute psychiatric hospital. While General Fund net appropriation levels have been reduced for this category of government, the total appropriations including federal and local funding sources for a variety of social service programs funded by the federal Medicaid program is increasing slightly. The reduction in General Fund net appropriations reflects a change in how the costs of these programs are allocated among the federal, state and county governments.

Since April 2005, auditors from the Office of the Inspector General of the Federal Department of Health and Human Services have been conducting an audit of the State's Department of Health and Human Services. The primary focus of their audit has been to review the State's Medicaid disproportionate share hospital payments for Federal Fiscal Year 2004. See also "Medicaid General and Rehabilitative Disproportionate Share Hospital Program" below. The State believes that the audit work being conducted in New Hampshire is similar to other audits, both past and present, of disproportionate share hospital programs in other states. As with all audit processes there are various discussions ongoing between the State and federal representatives and while the auditors have expressed concern with the process by which the State applies the Medicaid Enhancement Tax and pays hospitals for Uncompensated Care, it is unknown what the final audit comments or recommendations will be from the federal government. It is also unknown when the audit will be completed. The State general fund currently receives approximately $75 million dollars per year as a result of this tax. It is unclear whether any portion of this unrestricted revenue would be in jeopardy or whether or if any financial impact on the State would be retroactive or prospective or both.

The following table presents a comparison of General Fund and Education Fund unrestricted revenues for fiscal years 2005 through 2007. The fiscal year 2005 information is derived from the State's audited financial statements. The fiscal year 2006 information is unaudited. The fiscal year 2007 information is based on the revised estimate.

GENERAL FUND AND EDUCATION FUND UNRESTRICTED REVENUES
ACTUAL AND BUDGET
FISCAL YEARS 2005-2007
(GAAP Basis-In Millions)

	Actual Fiscal Year 2005			Actual (Unaudited) Fiscal Year 2006			Revised Estimate Fiscal Year 2007		
Revenue Category	General	Education	Total	General	Education	Total	General	Education	Total
Business Profits Tax	$196.6	$50.7	$247.3	$264.0	$56.6	$320.6	$245.9	$52.7	$298.6
Business Enterprise Tax	114.1	130.6	244.7	75.2	150.4	225.6	75.1	150.2	225.3
Subtotal	310.7	181.3	492.0	339.2	207.0	546.2	321.0	202.9	523.9
Meals & Rooms Tax	186.5	7.1	193.6	193.8	7.1	200.9	209.9	7.7	217.6
Tobacco Tax	73.3	28.2	101.5	69.9	80.9	150.8	71.8	72.7	144.5
Liquor Sales and Distribution	112.6	-	112.6	120.6	-	120.6	129.0	-	129.0
Interest & Dividends Tax	67.9	-	67.9	80.5	-	80.5	73.3	-	73.3
Insurance Tax	88.7	-	88.7	90.5	-	90.5	95.3	-	95.3
Communications Tax	70.0	-	70.0	70.5	-	70.5	74.1	-	74.1
Real Estate Transfer Tax	107.8	52.0	159.8	106.2	52.5	158.7	120.7	60.3	181.0
Estate and Legacy Tax	11.7	-	11.7	3.2	-	3.2	4.1	-	4.1
Transfers from Sweepstakes	-	70.3	70.3	-	82.0	82.0	-	78.0	78.0
Tobacco Settlement	2.4	40.0	42.4	-	39.0	39.0	-	43.0	43.0
Utility Property Tax	-	20.1	20.1	-	20.9	20.9	-	24.1	24.1
State Property Tax	-	371.3	371.3	-	363.4	363.4	-	363.0	363.0
Other	150.7	-	150.7	157.0	-	157.0	159.6	-	159.6
Subtotal	1,182.3	770.3	1,952.6	1,231.4	852.8	2,084.2	1,258.8	851.7	2,110.5
Net Medicaid Enhancement Revenues	147.2	-	147.2	73.6	-	73.6	75.8	-	75.8
Recoveries	23.0	-	23.0	24.5	-	24.5	17.0	-	17.0
Subtotal	1,352.5	770.3	2,122.8	1,329.5	852.8	2,182.3	1,351.6	851.7	2,203.3
Other Medicaid Enhancement Revenues to Fund Net Appropriations	39.1	-	39.1	-	-	-	-	-	-
Total	$1,391.6	$770.3	$2,161.9	$1,329.5	$852.8	$2,182.3	$1,351.6	$851.7	$2,203.3

The following table compares on a cash basis, for the five months ended November 30, 2006, General Fund and Education Fund unrestricted revenues for the fiscal years 2006 and 2007 and a comparison to the revenue estimates for fiscal year 2006. The revenue estimates reflected in the plan are based on those revenues defined in Chapter 176, Laws of 2005, the State budget law for fiscal year 2007. Due to the combined filing of the business profits tax and business enterprise tax, it is not possible to measure accurately the individual effects of each of these taxes. They should be evaluated in their entirety. All information in this table is preliminary and unaudited.

GENERAL FUND AND EDUCATION FUND UNRESTRICTED REVENUES
FOR THE FIVE MONTHS ENDED NOVEMBER 30, 2006
(Cash Basis-In Millions)

Revenue Category	FY06 Actual	FY07 Actual	FY07 Plan	FY07 vs Plan Variance	FY07 vs Plan %Change	FY07 vs FY06 Variance	FY07 vs FY06 %Change
Business Profits Tax	$66.5	$87.5	$57.0	$ 30.5	53.5%	$21.0	31.6%
Business Enterprise Tax	90.3	77.1	71.1	6.0	8.4	(13.2)	(14.6)
Subtotal	156.8	164.6	128.1	36.5	28.5	7.8	5.0
Meals & Rooms Tax	97.8	101.8	105.8	(4.0)	(3.8)	4.0	4.1
Tobacco Tax	65.0	62.4	63.5	(1.1)	(1.7)	(2.6)	(4.0)
Liquor Sales and Distribution	51.9	55.6	55.1	0.5	0.9	3.7	7.1
Interest & Dividends Tax	14.9	18.0	14.4	3.6	25.0	3.1	20.8
Insurance Tax	22.8	23.4	23.0	0.4	1.7	0.6	2.6
Communications Tax	29.9	30.3	30.7	(0.4)	(1.3)	0.4	1.3
Real Estate Transfer Tax	79.8	69.2	88.1	(18.9)	(21.5)	(10.6)	(13.3)
Estate and Legacy Tax	3.5	0.4	1.5	(1.1)	(73.3)	(3.1)	(88.6)
Transfers from Lottery/Pari-Mutuel	24.9	25.9	26.0	(0.1)	(0.4)	1.0	4.0
Tobacco Settlement	0.5	-	-	-	-	(0.5)	(100.0)
Utility Property Tax	4.6	5.6	6.0	(0.4)	(6.7)	1.0	21.7
State Property Tax	-	-	-	-	-	-	-
Other	47.4	50.5	48.6	1.9	3.9	3.1	6.5
Subtotal	599.8	607.7	590.8	16.9	2.8	7.9	1.3
Net Medicaid Enhancement Revenues	72.1	74.9	75.0	(0.1)	(0.1)	2.8	3.9
Recoveries	8.8	5.5	6.8	(1.3)	(19.1)	(3.3)	(37.5)
Total	$680.7	$688.1	$672.6	$15.5	2.3%	$7.4	1.1%

Revenues for the first five months of fiscal year 2007 were $688.1 million, or 2.3%, ahead of plan. Year-to-date revenue is ahead of fiscal year 2006 by $7.4 million, or 1.1%, which can be attributed mainly to increased collections from business taxes, the Meals and Rooms Tax, Liquor Sales and Distribution, and Interest and Dividends Tax. Business tax revenue exceeded the year-to-date plan by $36.5 million and was $7.8 million, or 5.0%, above fiscal year 2006. Meals and Rooms Tax revenue was $4.0 million, or 4.1%, above fiscal year 2006. Liquor Sales and Distribution was $3.7 million, or 7.1%, above fiscal year 2006, and Interest and Dividends Tax was $3.1 million, or 20.8%, above fiscal year 2006. Real Estate Transfer Tax revenue was $10.6 million, or 13.3%, below fiscal year 2006, and $18.9 million, or 21.5%, below plan.

The following table presents a comparison of General Fund and Education Fund net appropriations for fiscal years 2005, 2006 and 2007. The fiscal year 2005 information is derived from the State's audited financial statements. The fiscal year 2006 information is unaudited. The fiscal year 2007 information for the General Fund is based on the current legislative estimate.

GENERAL FUND AND EDUCATION FUND NET APPROPRIATIONS
ACTUAL AND BUDGET
FISCAL YEARS 2005-2007 (GAAP Basis)
(In Millions)

	Actual FY 2005			Actual (Unaudited) FY 2006			Current Estimate FY 2007		
Category of Government	General	Education	Total	General	Education	Total	General	Education	Total
General Government	$238.0	$0.0	$238.0	$263.3	$0.0	$263.3	$278.4	$0.0	$278.4
Justice and Public Protection	192.9	-	192.9	219.7	-	219.7	216.1	-	216.1
Resource Protection and Development	35.9	-	35.9	41.3	-	41.3	41.8	-	41.8
Transportation	2.4	-	2.4	6.0	-	6.0	2.7	-	2.7
Health and Social Services	626.0	-	626.0	604.8	-	604.8	611.5	-	611.5
Education	256.0	812.0	1,068.0	211.1	846.5	1,057.6	221.4	840.7	1062.1
Net Appropriations	$1,351.2	$812.0	$2,163.2	$1,346.2	$846.5	$2,192.7	$1,371.9	$840.7	$2,212.6

The following table sets out the General Fund and Education Fund undesignated fund balances and the amounts designated for the Revenue Stabilization Account and Health Care Fund for fiscal years 2005, 2006 and 2007. The fiscal year 2005 information is derived from the State's audited financial statements. The fiscal year 2006 information is unaudited. The fiscal year 2007 information for the General Fund is based on the revised estimate.

GENERAL FUND AND EDUCATION FUND BALANCES
FISCAL YEARS 2005 – 2007
(GAAP Basis - In Millions)

	FY 2005			FY 2006			FY 2007		
	Actual			Actual (Unaudited)			Revised Estimate		
	General	Education	Total	General	Education	Total	General	Education	Total
Undesignated Fund Balance, July 1	$15.3	$0.0	$15.3	$82.2	$0.0	$82.2	$26.0	$8.4	$34.4
Additions:									
Unrestricted Revenue	1,391.6	770.3	2,161.9	1,329.5	852.8	2,182.3	1,351.6	851.7	2,203.3
Transfers from General Fund	-	61.4	61.4	-	-	-	-	-	-
Total Additions	1,391.6	831.7	2,223.3	1,329.5	852.8	2,182.3	1,351.6	851.7	2,203.3
Deductions:									
Appropriations Net of Estimated Revenues	(1,409.2)	(793.0)	(2,202.2)	(1,380.2)	(841.9)	(2,222.1)	(1,412.2)	(840.7)	(2,252.9)
Less: Lapses	58.0	(19.0)	39.0	34.0	(4.6)	29.4	40.3	-	40.3
Total Net Appropriations	(1,351.2)	(812.0)	(2,163.2)	(1,346.2)	(846.5)	(2,192.7)	(1,371.9)	(840.7)	(2,212.6)
GAAP and Other Adjustments	4.0	2.8	6.8	12.2	2.1	14.3	-	-	-
Other One-Time Revenue Enhancements:									
DHHS Enhancement Revenue	-	-	-	-	-	-	-	-	-
Other Revenue Adjustment	-	-	-	-	-	-	-	-	-
Current Year Balance	$44.4	$22.5	$66.9	$(4.5)	$8.4	$3.9	($20.3)	$11.0	($9.3)
Transfers (to)/from:									
Revenue Stabilization Account	-	-	-	(51.7)	-	(51.7)	-	-	-
Health Care Fund	-	-	-	-	-	-	-	-	-
Education Fund	22.5	(22.5)	-	-	-	-	-	-	-
Undesignated Fund Balance, June 30	$82.2	$0.0	$82.2	$26.0	$8.4	$34.4	$5.7	$19.4	$25.1
Reserved for Revenue Stabilization Account	$17.3	-	$17.3	$69.0	-	$69.0	$69.0	-	$69.0
Total Equity	$99.5	$0.0	$99.5	$95.0	$8.4	$103.4	$74.7	$19.4	$94.1

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

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

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

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

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

During late fiscal year 2003 and early to mid-fiscal year 2004, new questions arose about the general hospital tax as part of a CMS review of an unrelated Medicaid state plan amendment to increase the disproportionate share hospital payments for the single government owned and operated psychiatric hospital for the two year period from July 1, 2003 to June 30, 2005. The questions were unrelated to those detailed above. The new questions focused on the taxation basis of gross patient services revenue rather than net patient services revenue. The outcome of lengthy discussions between CMS and New Hampshire was that New Hampshire would change the tax basis to net patient services revenue effective July 1, 2005. The Medicaid state plan was revised accordingly and approved by CMS on February 20, 2004. State law was changed by Chapter 260 of the Laws of 2004 which became effective July 1, 2005.

The final agreement with CMS resulted in the retention of all prior year claimed expenditures with no retroactive settlements or adjustments. CMS did require that the State, as noted above, change the general hospital tax program prospectively by changing the basis of the Medicaid Enhancement Tax to net patient services revenue from gross patient services revenue. This issue has now been resolved.

Medicaid Proportionate Share Program. In July 2000, newspaper accounts reported CMS was concerned about states using a Medicaid regulation to increase payments from Medicaid, using the gain to benefit programs in each state, including medical programs. CMS indicated that at least fifteen states, including Pennsylvania, New York, Illinois, and Nebraska were being audited, with additional states possibly being reviewed in coming months. CMS's focus was on states which were using a process called intergovernmental transfers. New Hampshire's Proportionate Share Program utilizes such a process. Part of the CMS approved state plan is based on the federal requirement that payments to each group of health care facilities may not exceed the amount which can reasonably be estimated would have been paid had those services been provided using Medicare payment principles. The State's process is a comparison between actual Medicaid and comparable Medicare nursing home rates. The State makes payment to the county governments to reimburse their expenses at the Medicare level. The federal government then pays the State its 50% of the expense and these are apportioned to the State and county governments using a formula in State law. It is important to note that federal law explicitly permits county and local governments to contribute to the State's Medicaid match requirement. Under New Hampshire law, the counties pay fifty percent of the non-federal share of long-term nursing services, home and community-based care services for the elderly and chronically ill, mid-level services for the elderly, and long-term care-related medical provider payments. Since 1994, the State has realized a gain to State and county governments totaling $112 million from these intergovernmental transfers.

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

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

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

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

In June 2002, CMS notified the State that an evolving interpretation of how the transition period was being defined would enable the State to claim costs in full for non-state government owned and operated public facilities, such as county government owned and operated nursing homes. Costs for private facilities would still be limited to the amount paid in fiscal year 2000.

In March 2003, the State agreed with the federal government on a revised billing methodology for the Medicaid Proportionate Share Program with respect to fiscal years 2000, 2001 and 2002. For the quarter ended March 31, 2003, the State claimed the revised costs for such fiscal year and also received refunds from the counties. The gain from these prior year transactions totaled $47.2 million to the State, with $23.6 million accruing to the counties and $23.6 million to the State ($12.35 million to unrestricted revenue and $11.25 million to restricted revenue). This agreement on billing methodology resolved a number of outstanding issues with respect to the program.

The State submitted a Medicaid State Plan amendment to CMS in March, 2003. The amended plan changed the calculation method to acuity-based Resource Utilization Groups (from trend factor-based Prospective Payment System), made one payment each year in June (from an initial payment in March or April and a final payment in June), and affirmed the value of the private nursing home portion of the payment that will be phased out over the four year period beginning in state fiscal year 2003 per the above-mentioned law.

In June, 2003, CMS sent the State a letter, seeking additional clarifying information about the Medicaid state plan amendment. The State submitted a revised Medicaid state plan amendment with additional supporting information to the CMS on June 9, 2003. In July, 2003 and August, 2003, CMS sent the State letters seeking further clarifying information about the plan amendment. On September 5, 2003 the State responded to the CMS, supplementing the June 9, 2003 State letter and further responding to the CMS requests for additional information.

In September, 2003 CMS indicated that the State's September 5, 2003 letter was generally non-responsive to the CMS requests because the answers were not complete. CMS further indicated that a disapproval package was in the review process, and encouraged the State to withdraw their responses. The State then withdrew the June 9, 2003 and September 5, 2003 responses to CMS, essentially leaving CMS' June, 2003 request for additional information unanswered.

CMS then indicated that the Medicaid state plan amendment needed to be addressed because it could not be left open for an indefinite time. The state submitted a final Proportionate Share Payment plan amendment at CMS' direction that was approved by CMS on February 9, 2004. The plan amendment changes the payment computation method for supplemental payments to nursing homes in accordance with a federal law change, to be effective retroactive to fiscal year 2003. The retrospective payment system is being replaced with a prospective payment system. This method is based on the more detailed resource utilization groups, acuity-based method. In addition, the county nursing homes will retain the federal funds paid to them and no longer return some of the federal funds to the state effective July 1, 2005. These changes were further enacted by the State under Chapter 260 of the Laws of 2004. This issue has now been resolved.

Medicaid Enhancement Revenues. As part of changes made by Chapter 260 of the Laws of 2004 regarding the State's Medicaid program, beginning in fiscal year 2006, the Medicaid enhancement tax will be assessed against net patient service revenue as opposed to gross patient service revenue. This change resulted in the State receiving approximately $50 million less from this revenue source per year in future years as compared to the amount received in State fiscal year 2005.

Through an amendment to the State's Medicaid Plan, changes were made to the billing methodology for the State's single, government owned and operated psychiatric hospital so that the amount claimed for the two-year period of July 1, 2003 to June 30, 2005 could be made at 175% of cost in accordance with federal law. This was a special provision enacted by Congress so that the amount to be received through the disproportionate share hospital program could be increased for a temporary two-year period. The Medicaid State Plan was further amended effective July 1, 2005 to return to the prior 100% of cost rate. The impact of the change is a reduction of $12 million per year from the amounts received in State fiscal years 2004 and 2005.

Additionally, federally required changes were made to the Medicaid Proportionate Share Payment program to implement a prospective acuity-based reimbursement from a retrospective method effective February 17, 2003. A second federally required change effective July 1, 2005 will allow counties to keep all of the federal funds from the Proportionate Share Payment program and no longer return some of the federal funds to the State. The State's general fund revenue has been reduced by $12 million per year, as compared to the amount received in State fiscal year 2005. While this change will impact the State's general fund, it will also benefit county government by a like amount beginning July 1, 2005.

SCHOOL FUNDING

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

The first responsive plan was enacted on April 29, 1999, when the Legislature passed and the Governor signed Chapter 17 of the Laws of 1999 ("Chapter 17") that addressed the school funding issues. Chapter 17 contained the methods to be followed in determining the per pupil adequate education cost for each biennium and each municipality's adequate education grant for each fiscal year. In order to fund the adequate education cost, Chapter 17, as subsequently amended, established the Education Fund and earmarked funding from various State taxes including a portion from the newly instituted uniform education property tax.

In November, 1999, the Legislature approved and the Governor signed into law Chapter 338 of the Laws of 1999 ("Chapter 338"), which reenacted the uniform education property tax imposed under Chapter 17 at the rate of $6.60 per $1,000 of total equalized value to provide funding for an adequate public education. Chapter 338 did not contain a phase-in provision, but did provide education property tax hardship relief to qualifying low and moderate income taxpayers throughout the State.

In September, 2001, the plaintiffs in the original school funding matter *(Claremont School District v. Governor)* filed a Motion with the New Hampshire Supreme Court to have the then current school funding system declared unconstitutional. In December, 2001, the Supreme Court dismissed all of the plaintiffs' claims except one alleging that the State's definition of an adequate education was insufficient. In its order, the Supreme Court requested legal memoranda on the issue of whether the Supreme Court should invoke its continuing jurisdiction to determine if the State has met its obligation to define an adequate education. The State filed a legal memorandum arguing that the Court should not invoke its continuing jurisdiction and the plaintiffs filed one arguing that the Court should invoke its continuing jurisdiction. The Court subsequently decided to invoke its continuing jurisdiction, and in April, 2002, the Supreme Court declared that accountability is an essential component of the State's duty to provide an adequate education and that the then existing statutory scheme had deficiencies that were inconsistent with the State's duty. The Supreme Court's conclusion was that the State "needs to do more work" on creating a delivery system. There was no timeline imposed in the decision for the completion of the delivery system. The Court continues to hold jurisdiction in this matter.

During the 2004 legislative session, the Legislature enacted Chapter 200 of the Laws of 2004 ("Chapter 200"). Chapter 200 established the statewide education property tax rate at a rate necessary to generate revenue equal to the revenue generated in the previous year. As a result, the property tax rate was adjusted based on either an increase or a decrease in the statewide equalized valuation of property. The rate for fiscal year 2005 was $3.33 per $1,000 of equalized value. The per pupil adequacy cost was calculated using the 2004 fiscal year per pupil cost which was then to be adjusted every biennium through multiplying it by two times the average annual percentage rate of inflation for the immediately preceding four calendar years. Chapter 200 also had Targeted Aid which was directed to municipalities that had students receiving free or reduced-price meals and/or was directed to municipalities that were considered "property poor" because they had equalized tax valuation per pupil that was less than or equal to 90 percent of the statewide average equalized tax valuation per pupil. As a result, a municipality's total amount of adequate education grants included its per pupil adequacy cost multiplied by its average daily membership in residence, and the addition of either or both types of Targeted Aid.

There were two lawsuits challenging Chapter 200. The first was *Baines, et al. v. Eaton,* Merrimack County Superior Court, Docket No. 04-E-256, filed in July, 2004, which challenged the constitutionality of the enactment of Chapter 200 by alleging that the Legislature could not pass a money bill in a Senate Bill, that the Legislature did not follow its own internal rules in enacting this law, and that the enrolled bill amendment used to make technical corrections to the law was unlawful. The State defended against these claims and in August, 2004, the Court denied the petition. Petitioners appealed to the New Hampshire Supreme Court which upheld the Superior Court's decision in favor of the State on April 20, 2005.

The second lawsuit was *Hughes v. Chandler, et al.*, Merrimack County Superior Court, Docket No. 04-E-228. This case challenged Chapter 200 based on alleged violations of RSA 91-A, New Hampshire's Right-to-Know law. Petitioners alleged that the Legislature's Committee of Conference on SB 302 (Chapter 200) did not meet in public session while deciding final changes to the legislation thereby violating RSA 91-A. Petitioners argued that the appropriate remedy for this violation of RSA 91-A was the voiding of Chapter 200. The State was represented by counsel other than the Attorney General's Office as this was a defense of the Legislature's internal practices. The Superior Court found that the passage of Chapter 200 was unconstitutional finding that the Legislature violated RSA 91-A. The State appealed, and on April 20, 2005, the Supreme Court reversed and held that answering the question of whether the Legislature violated RSA 91-A would infringe on the Legislature's exclusive constitutional authority to adopt and enforce its own rules of procedure.

In the adequate education aid distribution for fiscal year 2004, one type of assistance was Targeted Education Grants with a total amount of $10 million to be distributed to municipalities with lower median family income and median home values. See 2003 New Hampshire Laws Chapter 241:8. When performing the calculations of the Targeted Education Grants, the Department of Education created a spreadsheet that had the column titled "median family income" but then mistakenly used "median household income" figures. The error caused some municipalities to be overpaid, in varying amounts, totaling $1.2 million; and some municipalities to be underpaid, in varying amounts, also totaling $1.2 million. In September, 2005, the State paid approximately $1.2 million to the municipalities that were underpaid.

The constitutionality of the statewide education property tax was challenged in abatement cases by 33 taxpayers alleging that because the State did not perform the assessing function for each community, the property tax was not levied on a proportional tax base for these taxpayers during the tax years of 2002 through 2004. The State was joined to these cases which were consolidated in January 2005 in the Rockingham County Superior Court under the lead case of *Gail C. Nadeau Trust v. City of Portsmouth*, Docket #03-E413. Discovery, including the disclosures of expert witnesses for all parties, occurred during the spring and summer. A four day trial occurred which started on August 29, 2005, with a decision in October finding the statewide property tax unconstitutional for the 2002 tax year. After motions for reconsideration were filed by all parties, including the State, the Court ruled, on November 29, 2005, that the tax was unconstitutional for the 2003 and 2004 tax years. The Court further ordered that any remedy only applies to the specific taxpayers in these cases. The State appealed these orders and briefs have been filed. Oral argument will be scheduled for early 2007 with a decision issued by the fall of 2007. The State cannot predict the outcome of this matter.

In 2005, the Legislature passed House Bill 616, now known as 2005 New Hampshire Laws Chapter 257, as the new education funding bill. Chapter 257 provides funding to schools based on four types of aid and revenue from the statewide enhanced education tax. Chapter 257 does not generally provide aid to municipalities on a per pupil basis. The four types of aid are: local tax capacity aid, targeted per pupil aid, statewide enhanced education tax capacity aid, and transition grants. Chapter 257 also includes the statewide enhanced education tax which is assessed at a uniform rate across the State at a rate necessary to raise $363.0 million. For fiscal year 2006, the total State education aid under Chapter 257 is more than $819.0 million.

Two lawsuits have been filed challenging the constitutionality of Chapter 257. The first is *City of Nashua v. State*, Docket No. 05-E-257, and the second is *Londonderry School District, et al. v. State*, Docket No. 05-E-406. Both of these suits were filed in August, 2005 in the Supreme Court. Both were dismissed from the Supreme Court with direction to the Superior Court that they be tried on an expedited basis.

Nashua's Petition includes four general claims: 1) a challenge to Chapter 257 for not providing for an adequate education by failing to "relate the taxes raised by it to the cost of an adequate education," 2) a claim that Chapter 257's transition grants create disproportional and unequal taxes, 3) a claim challenging Chapter 257's "reliance upon three-year old data to fund the cost of an adequate education today," and 4) a claim questioning whether Chapter 257 requires the use of data from April, 2003 for 'Equalized Valuation With Utilities' in order to correctly calculate the education grants under Chapter 257.

Londonderry's Petition includes the following four general claims: (1) an alleged facial challenge to HB 616 that "it fails to provide for an adequate education" because there is "nothing in the legislative record [that] would support a determination that the total funds to be distributed are 'lawfully and reasonably sufficient' to fulfill the State's constitutional obligation," (2) a claim that targeting aid to some municipalities has imposed on many of the remaining municipalities the burden of funding education through a local education tax, (3) a claim which asserts that HB 616 violates Part II, Article 5 because it results in property taxes that are not "proportional across the State" due to the transition grants, and (4) an equal protection claim.

The State moved to consolidate both cases but the Court allowed the cases to proceed on different tracks. The Nashua case was tried in mid-December 2005. The Londonderry case proceeded with a motion for summary judgment filed in January, 2006, with the State filing a timely response in February, 2006. On March 8, 2006, the Superior Court issued orders in both cases declaring Chapter 257 unconstitutional due to the State's failure to reasonably determine the cost of an adequate education. The Superior Court also found that the State has not defined an adequate education and has not enacted a constitutional accountability system.

The State filed, and the Court granted, an assented-to motion to stay the effect of the orders pending a final decision by the Supreme Court. The State filed timely appeals of these orders with the New Hampshire Supreme Court on April 7, 2006. The Londonderry Petitioners filed a timely cross-appeal in which they request that the Supreme Court order a remedy requiring the current law stay in effect during the 2007 and 2008 fiscal years in order to ensure funding to school districts.

The Supreme Court scheduled the Londonderry case for expedited briefing and argument. The parties briefed the matter and argued it on June 22, 2006. The Supreme Court issued its decision on September 8, 2006, holding that the State failed to define an adequate education and staying all remaining issues. The Court noted in its decision that any definition of constitutional adequacy must allow for an "objective determination of costs" and that "[w]hatever the State identifies as constitutional adequacy it must pay for. None of that financial obligation can be shifted to local school districts, regardless of their relative wealth or need." The Court gave the Legislature until the end of fiscal year 2007 to enact a definition.

Petitioners also moved for attorneys' fees, without disclosing the requested amount, and the State objected. The Court denied this request at this time.

The Nashua case is currently stayed by an order of the Court based on a motion filed by the State requesting that it be stayed until the end of fiscal year 2007.

The State is unable to predict the outcome of these matters at this time.

LBA Audit. On January 19, 2005, the Legislative Budget Assistant ("LBA") publicly released an audit of the Department of Education ("DOE"), which, among other matters, determined that DOE incorrectly calculated adequate education grants for school districts in fiscal years 2004 and 2005. LBA questioned both the years and the specific consumer price index used in calculating the amounts payable to school districts. LBA states that because DOE used different years to calculate the average of the consumer price index, the adequate education grants were $1.8 million less in fiscal year 2004 than they should have been and $1.4 million less in fiscal year 2005. As of the date of this Information Statement, there are no pending or threatened claims against the State alleging that it is liable to school districts or students for additional monies to pay for the cost of an adequate education pursuant to this audit observation. The State is unable to predict the likelihood of success of any such claim that might be brought.

STATE INDEBTEDNESS

Debt Management Program

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

Authorization and Classification of State Debt

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

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

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

Debt Statement

The following table sets forth the debt of the State as of June 30, 2006.

Debt Statement as of June 30, 2006 (Unaudited)
(In Thousands)

General Obligation Bonds:		
General Improvement	$477,759	
Turnpike[1]	6,834	
Highway	40,571	
University System of New Hampshire	119,551	
Total Direct General Obligation Debt		$644,715
Revenue Bonds:		
Turnpike System[2]		287,490
Contingent (Guaranteed) Debt:		
Water Pollution Control Bonds issued by Political Subdivisions	26,144	
Business Finance Authority	56,000	
Local School District School Bonds	14,842	
Pease Development Authority Revenue Bonds	0	
Local Landfill Bonds	415	
Division of Water Resources Board	0	
Housing Finance Authority-Child Care Providers	0	
Total Contingent Debt		97,401
Total Debt		1,029,606
Less: Self-Supporting and Contingent Debt:		
General Fund Self-Supporting Debt[3]	28,636	
Turnpike System Revenue Bonds	287,490	
Turnpike System General Obligation Bonds	6,834	
Highway	40,571	
University System of New Hampshire[4]	2,480	
Water Pollution Control Bonds	26,144	
Business Finance Authority	56,000	
Local School District School Bonds	14,842	
Pease Development Authority General Obligation Bonds	18,388	
Pease Development Authority Revenue Bonds	0	
Local Landfill Bonds	415	
Other[5]	1,836	
Total Self-Supporting and Contingent Debt		483,636
Total Net General Fund Debt[6]		$545,970

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

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

(2) Turnpike System revenue bonds are limited obligations of the State payable solely out of net revenues of the Turnpike System. Neither the full faith and credit nor the taxing power of the State is pledged for the payment of the Turnpike System revenue bonds.
(3) Includes bonds paid from General Fund restricted revenues (primarily user fees, criminal penalty assessments and lease revenues).
(4) In accordance with State statutes, the Board of Trustees of the University System maintains special funds and accounts for the deposit of dormitory rentals and income from housing facilities, dining halls, student unions, bookstores and other capital improvements constructed with the proceeds of such bonds. Revenues so deposited are used for the payment to the State Treasurer of amounts equal to the annual principal and interest requirements of the bonds issued by the State to construct such facilities. The Legislature has anticipated that such income will be sufficient to pay all debt service requirements on such bonds.
(5) Includes, among others, bonds paid from the Fish and Game Fund and other self supporting debt.
(6) Net General Fund debt is debt for which debt service payments are made directly by the State from its taxes and other unrestricted General Fund revenues. Also included is $5.4 million general obligation bonds paid by the State on behalf of the Pease Development Authority. If the Authority has sufficient funds, these bonds will be paid by the Authority.

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,				
	2002	2003	2004	2005	2006
Direct General Obligation Debt	$610,606	$606,585[4]	$626,099[4]	$633,743	$644,715
Contingent (Guaranteed) Debt	149,222	127,538	116,467	101,526	97,401
Less: Self-Supporting Debt	(275,493)	(230,851)	(220,534)	(202,737)	(196,146)
Total Net General Fund Debt	$484,335	$503,272	$522,032	$532,532	$545,970
Per Capita Debt[1]:					
Direct General Obligation Bonds	$479	$471	$482	$484	$492
Net General Fund Debt	380	391	402	407	417
Ratio of Debt to Personal Income[1]:					
Direct General Obligation Bonds	1.4%	1.4%	1.3%	1.3%	1.3%
Net General Fund Debt	1.1	1.1	1.1	1.1	1.1
Ratio of Debt to Estimated Full Value:					
Direct General Obligation Bonds	0.5%	0.5%	0.4%	0.4%	0.4%
Net General Fund Debt	0.4	0.4	0.4	0.3	0.3
General Fund Unrestricted Revenues[2]	$1,152,293	$1,206,339	$1,310,711	$1,391,586	$1,329,500
Debt Service Expenditures[3]	69,570	74,086	75,468	78,192	81,521
Debt Service as a Percent of General Fund Unrestricted Revenues	6.0%	6.1%	5.8%	5.6%	6.1%
Population (in thousands)	1,275	1,288	1,299	1,310	1,310
Total Personal Income (in millions)	$43,393	$44,422	$49,570	$49,561	$49,561
Estimated Full Value (in thousands)	$115,610,880	$132,019,011	$148,376,404	$166,149,977	$166,149,977

(1) Based on U.S. Department of Commerce and U.S. Bureau of the Census estimates for population and personal income.
(2) For fiscal years 2002 through 2006, includes Medicaid enhancement revenues to fund net appropriation for uncompensated care pool.
(3) Debt service on Net General Fund Debt. Does not include interest paid on revenue anticipation notes
(4) Includes $50 million outstanding commercial paper. See "Temporary Loans."

Rate of Debt Retirement[1]
(as of June 30, 2006)

	General Obligation Debt	Net General Fund Debt
5 years	46%	45%
10 years	74	72
15 years	92	91
20 years	100	100

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

Recent Debt Issuances

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

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

	Fiscal Year Ended June 30,				
	2002	2003	2004	2005	2006
Beginning Debt	$610,536	$610,606	$606,585	$626,099	$633,743
Bonds Issued	105,130	106,215	80,000	117,800	75,000
Bond Anticipation Notes Issued	0	50,000	50,000	0	0
Total Net Debt	715,666	766,821	736,585	743,899	708,743
Less: Bonds Paid	55,060	63,061	60,486	60,156	64,028
Defeasance	0	97,175	0	0	0
Bond Anticipation Notes Paid	50,000	0	50,000	50,000	0
Ending Debt	$610,606	$606,585	$626,099	$633,743	$644,715

Schedule of Debt Service Payments

The following table sets forth the projected principal and interest requirements of all general obligation bonds of the State at June 30, 2006.

Direct General Obligation Debt
as of June 30, 2006[1]
(In Thousands)

Fiscal Year Ending June 30,	Principal	Interest	Total
2007	$ 64,866	$ 35,802	$ 100,668
2008	62,393	32,857	95,250
2009	61,873	31,306	93,179
2010	56,316	29,349	85,665
2011	52,497	26,675	79,172
2012	44,591	20,716	65,307
2013	40,143	15,544	55,687
2014	33,828	13,001	46,829
2015	29,645	16,472	46,117
2016	28,090	12,412	40,502
2017	26,974	9,196	36,170
2018	25,300	5,624	30,924
2019	23,800	4,555	28,355
2020	20,800	3,622	24,422
2021	20,800	2,738	23,538
2022	17,200	1,941	19,141
2023	13,200	1,340	14,540
2024	12,800	839	13,639
2025	9,600	348	9,948
2026	0	0	0
Total	$644,715	$264,337	$909,053

[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. The State issued $75 million of revenue anticipation notes in March 2003 which matured and were paid in May 2003, and $75 million of revenue anticipation notes in December 2004 which matured and were paid June 1, 2005. Prior to these issues, the State had not issued revenue anticipation notes since fiscal year 1991.

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

The State Treasurer established a commercial paper program during fiscal year 1998 for the purpose of issuing bond anticipation notes. The maximum amount of commercial paper to be outstanding at any time is currently $50 million.

Authorized But Unissued Debt

As of July 1, 2006 the State had statutorily authorized but unissued direct general obligation debt in the total principal amount of $219.7 million (unaudited), under various laws. This amount does not include the State's Turnpike System authorizations or statutorily authorized guarantees, nor its authority to issue bonds in lieu of all or a portion of the State's guarantee of bonds of the Pease Development Authority.

Chapter 58 of the Laws of 2005, the "Federal Highway Anticipation Bond Act," authorized the State to issue federal highway grant anticipation bonds ("Garvee Bonds") in an amount not to exceed $195 million with the approval of the governor and council. The Garvee Bonds are to be 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 Garvee Bonds may be issued 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. As of the date hereof, the State has not issued any Garvee Bonds.

The State has various guarantee programs, which are described under the caption "Agencies, Authorities and Bonded or Guaranteed Indebtedness" below. The statutes authorizing the guarantee programs require approval by the Governor and Council of any award of a State guarantee. In addition, statutory limitations apply to all of the guarantee programs, but they vary in two major respects. First, the limit may be either on the total amount guaranteed or on the total amount guaranteed that remains outstanding at any time; the latter is a revolving limit, allowing additional guarantees to be awarded as guaranteed debt is retired. Second, the statutory dollar limit may represent either the total amount of principal and interest or only the total amount of principal that may be guaranteed; in the latter case interest on that principal amount may also be guaranteed but is not otherwise specifically limited. As of June 30, 2006 the remaining unused guarantee authorizations under the various statutory limitations were as follows:

Purpose	Guarantee Limit	Remaining Guarantee Capacity
Local Water Pollution Control Bonds	$175.0 million(1)(2)	$143.4 million
Local School Bonds	95.0 million(1)(2)	73.3 million
Local Superfund Site Bonds	50.0 million plus interest	50.0 million plus interest
Local Landfill and Waste Site Bonds	30.0 million(1)(2)	29.6 million
Business Finance Authority Bonds, Loans	95.0 million plus interest(1)	39.0 million
Pease Development Authority	85.0 million plus interest	36.4 million
Division of Water Resources Bonds	5.0 million plus interest	5.0 million plus interest
Housing Finance Authority Child Care Loans	0.3 million (principal only)	0.3 million

(1) Revolving limit.
(2) Limit applies to total principal and interest.

Capital Budget

The following table sets out the State's capital appropriations as amended for the 2006-2007 biennium.

Biennium Capital Budget

	Biennium Ending June 30, 2007
Adjutant General	$ 4,105,000
Administrative Services	16,957,500
Community-Technical College System	36,136,000
Secretary of State	1,150,000
Education	10,810,253
Environmental Services	8,748,530
Health & Human Services	3,394,000
Liquor Commission	859,000
Resources & Economic Development	3,240,000
Office of Information Technology	27,465,020
Transportation	63,910,614
Veteran's Home	2,944,000
Youth Development Services[(1)]	10,000,000
University System of New Hampshire[(2)]	35,500,000
Fish & Game	2,185,000
Safety	5,093,000
Corrections	3,917,000
Gross Appropriations	236,414,917
Less-Federal, Local & Other Funds	72,320,710
Net Bonds Authorized	$164,094,207
Funding of Bonds	
Highway Funded	12,383,000
Other Funded	25,027,000
General Funded	126,684,207
Net Bonds Authorized	$164,094,207

(1) The amount of $30,264,597 was appropriated in the 2004-2005 capital budget for Youth Development Services, of which the State portion was $19.3 million, to be financed with bonds payable from the General Fund. Of the $19.3 million of bonds, the State is authorized to issue a cumulative amount of up to $9.3 million in the 2004-2005 biennium, and up to $19.3 million in the 2006-2007 biennium.

(2) Of this appropriation, $31.0 million was made in the capital budget for the 2002-2003 biennium.

In addition to the 2006-2007 capital budget, Section 2 of Chapter 259 of the Laws of 2005, appropriates a total of $109.5 million to the University System of New Hampshire over an eight-year period. This appropriation is non-lapsing and shall not exceed $4.5 million for the biennium ending June 30, 2007 (which is included in the table above); $35 million for the biennium ending June 30, 2009; $35 million for the biennium ending June 30, 2011 and $35 million for the biennium ending June 30, 2013. In addition, Chapter 164 of the Laws of 2005 appropriates an additional $1.0 million to the Kindergarten Construction Program. This program, administered by the Department of Education is authorized to make grants available to eligible districts that currently do not operate a kindergarten program for 75% of the cost of construction, exclusive of site acquisition. This appropriation has been funded with general obligation bonds. Since inception of this program in the 1997 legislative session, and including this new authorization, the total amount authorized has been $29.5 million.

Agencies, Authorities and Bonded or Guaranteed Indebtedness

Described below are the principal State agencies or programs for which the State (a) issues revenue bonds, (b) provides State guarantees of payments of indebtedness, or (c) issues general obligation bonds supported in whole or in part by restricted revenues, rather than taxes or unrestricted General Fund revenues. (A summary of the State guarantee programs is also provided under the caption "Authorized But Unissued Debt" above.) Also described briefly below are the other independent State authorities that issue revenue bonds and notes that do not constitute a debt or obligation of the State.

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

Chapter 237-A of the New Hampshire Revised Statutes Annotated, as amended, provides for the issuance by the State Treasurer of revenue bonds of the State for the Turnpike System in such amounts as the Governor and the Council shall determine, from time to time, subject to the current statutory limit of $586.05 million (excluding bonds issued for refunding purposes). RSA 237-A expressly provides that the bond resolution authorizing Turnpike System revenue bonds may include provisions setting forth the duties of the State in relation to the fixing, revision and collection of tolls and further provides that the State has pledged to perform all such duties as set forth in such bond resolution. Turnpike System revenue bonds constitute limited obligations of the State, and the State has not pledged its full faith and credit for the payment of such bonds. Approximately $287.5 million of such bonds were outstanding as of June 30, 2006.

The University System of New Hampshire. The University System is a body politic and corporate created by State law under the control and supervision of a 25 member board of trustees. The board of trustees is entrusted with the management and control of all property comprising the University System and maintains the financial affairs of the University System separate and apart from the accounts of the State. Income received by the University System, except where specifically segregated, is retained by the University System for its general purposes. State statutes additionally provide for annual appropriations by the Legislature to be used for the general purposes of the University System. General obligation bonds issued by the State for the construction of capital improvements at the University System are supported in part by revenues from the University System. Approximately $119.5 million of such bonds were outstanding June 30, 2006, of which $2.5 million are self-supporting from dormitory rentals and other income. The University System has the power to borrow through the issuance of revenue bonds for dormitory or other housing facility purposes by the New Hampshire Higher Educational and Health Facilities Authority, without pledging the full faith and credit of the State or the University System for payment.

State Guaranteed Local Water Pollution Control Bonds. The State's programs for the protection of adequate water supplies and the control and elimination of water pollution are under the supervision of the Department of Environmental Services' Water Division. In order to assist municipalities in the financing of sewerage systems and sewage treatment and disposal plants for the control of water pollution, the Governor and Council are authorized to guarantee unconditionally as a general obligation of the State the payment of all or some portion of the principal of and interest on bonds or notes issued by any town, city, county or district for construction of such facilities. The outstanding State guaranteed amount of principal and interest of such bonds and notes may not exceed $175 million. As of June 30, 2006, $31.6 million of principal and interest was guaranteed under this program.

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

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

The Governor and Council are authorized to guarantee the payment of the principal and interest of not more than $5 million principal amount of bonds issued by the division. The full faith and credit of the State are pledged for such guarantee. As of June 30, 2006, no debt is guaranteed under this program.

State Guaranteed Local School Bonds. The Governor with the advice and consent of the Council may agree to award an unconditional State guarantee for the payment of not more than $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, 2006, $21.7 million of principal and interest was guaranteed under this program.

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

In addition, the Governor and Council may award an unconditional State guarantee for the payment of principal and interest on bonds issued by municipalities in the State for closing or cleanup of landfills, other solid waste facilities or hazardous waste sites. The outstanding State guaranteed amount of principal and interest on such bonds may not exceed $30 million at any one time. As of June 30, 2006, $0.4 million of principal and interest was guaranteed under this program.

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

In order to carry out its programs, the Authority was authorized to issue up to $25 million in principal amount of bonds as general obligations of the Authority, the principal of and interest on which is guaranteed by the State. The Authority issued $25 million State-guaranteed bonds in November, 1992. In April, 2002, the Authority issued an additional $10 million of State guaranteed bonds, half of which were used to refund then outstanding 1992 bonds. The Authority issued an additional $10 million of State guaranteed bonds in December 2002 to refund an equal amount of then outstanding 1992 bonds. The last $1.3 million of then outstanding 1992 bonds was redeemed on November 1, 2003, leaving the Authority with a total balance of $20 million of outstanding bonds as of June 30, 2006.

The Authority was authorized until June 30, 2002, to issue revenue bonds that are limited obligations of the Authority secured solely by specified revenues and assets. The principal of and interest on up to $15 million in principal amount of the Authority's revenue bonds could be guaranteed by the State with the approval of the Governor and Council; $5.2 million of such guaranteed revenue bonds are currently outstanding.

The Authority may also recommend that the Governor and Council award state guarantees of certain indebtedness of businesses, but the total principal amount of indebtedness guaranteed, when combined with the outstanding principal amount of State guaranteed bonds of the Authority, may not exceed $95 million at any time. As of June 30, 2006, $20.2 million of State-guaranteed loans were outstanding under those Authority programs. The Authority expects that over the next five years it will seek Governor and Council approval of State bond and loan guarantees at or near the current outstanding amount.

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

Pease Development Authority. Pease Air Force Base in the Portsmouth area closed on April 1, 1991. Under State legislation, the Pease Development Authority 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 September, 2006, the Pease International Tradeport had 4 million square feet of new or renovated office/R&D/manufacturing space with over 200 companies employing over 6,400 people. The Authority is authorized to issue bonds, not exceeding in the aggregate $250 million, and the Governor and Council may award an unconditional State guarantee to secure up to $85 million in principal amount plus interest on those bonds. The currently remaining guarantee capacity is $36.4 million. In addition, the State is authorized to issue up to $10 million general obligation bonds, the proceeds of which may be loaned to provide matching funds to private grants for development of a research district at the Tradeport.

The State is authorized to issue up to $50 million general obligation bonds in lieu of a portion of the guarantee, with the maximum amount to be guaranteed then reduced by the amount of such bonds issued by the State. In April 1993 the State issued $30 million of general obligation bonds for a project at the Tradeport consisting of construction and acquisition of certain manufacturing facilities to be leased to Celltech Biologics, Inc. (Celltech was acquired in June, 1996 by a British subsidiary of Alusuisse-Lonza of Switzerland, and is now called Lonza Biologics, Inc.) The State has also issued $7.6 million of general obligation bonds in lieu of state guarantees to make loans to the Pease Development Authority with respect to its operations.

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

Legislation enacted in 1989 authorizes the Authority to issue certificates of guarantee equal to 50% of the principal of loans made to eligible child care agencies or organizations, such principal guarantee not to exceed $10,000 per recipient. The full faith and credit of the State are pledged for such guarantees, provided that the total obligation of the State shall at no time exceed $300,000. As of June 30, 2006, no outstanding debt was guaranteed under this program.

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

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

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

STATE RETIREMENT SYSTEM

Prior to 1967 four separate retirement systems were operated by the State involving State and local employees, teachers, police officers and firefighters. Effective July 1, 1967, these four systems were combined under a common board of trustees in a new system known as the New Hampshire Retirement System (the "System") to include all employees hired subsequent to such time and to also include all members of the prior systems who elected to transfer to the new system. At June 30, 2006, there were approximately 56,699 active and inactive members and 19,711 retired members of the System. The System provides service, disability, death and vested retirement benefits to its members and their beneficiaries. It also provides health coverage or a "medical subsidy" to qualified members and their beneficiaries.

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

The 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 State funds 100% of the employer cost for all State employees and 35% of the employer cost for teachers, firefighters and police officers employed by political subdivisions. The total State contribution increased from $59.7 million in fiscal year 2005 to $72.7 million in fiscal year 2006. Total contributions by the State during fiscal year 2007 are estimated to be approximately $76 million. The State Constitution provides that the employer contribution certified as payable to the System to fund the System's liabilities, as determined by "sound actuarial valuation and practice," shall be appropriated each fiscal year in the amount so certified.

As of June 30, 2006, the net assets available to pay pension benefits of the combined retirement and "medical subsidy" programs, at fair value, were reported by the System to be $4,799.4 million. The total pension liability at June 30, 2006 was $6,674.0 million, resulting in an unfunded pension liability at June 30, 2006 of $1,874.6 million. The calculation of the unfunded pension liability at June 30, 2006 reflects a fiscal year 2005 decision of the board of trustees of the System to lower the assumed rate of investment return from 9.0% to 8.5%. This change will affect employer contributions beginning with the 2008-2009 biennium. This calculation of the unfunded pension liability at June 30, 2006 is based upon services performed and compensation earned to date as described below.

As described in more detail in the Comprehensive Annual Financial Report of the System for Fiscal Year 2005 (the "System CAFR"), the System determines the State's annual required contribution using the open group aggregate funding method with target funding as a minimum. The open group aggregate method does not identify or separately amortize unfunded actuarial liabilities. Actuarial valuations are generally performed biennially and the results of those valuations are used to determine contributions for the next succeeding biennium. For example, the most recent actuarial valuation is dated as of June 30, 2005 and its results will be used to determine the required contributions for fiscal years 2008 and 2009.

In determining the annual required contribution, the board of trustees of the System has established that target funding will be required such that the minimum normal contribution rate for any membership classification cannot be less than the normal contribution rate required to achieve and maintain certain funding levels for that membership classification. For purposes of determining contributions for fiscal year 2003 and prior, the results of the funding method cannot be less than the normal rates required to maintain a funded ratio of 130% over a 20 year horizon and an 8% interest rate. For purposes of determining contributions for fiscal years 2004 and 2005, the results of this method cannot be less than the normal rates required to maintain a funded ratio of 115% over a 20 year horizon and an 8% interest rate. For fiscal years 2006 and thereafter, the contributions cannot be less than the normal rates required to produce a funded ratio of 115% over a 30 year horizon and an 8% interest rate.

As described in more detail in the System CAFR, the board of trustees of the System annually reviews the funded ratios of the System using two actuarial cost bases: the unit credit actuarial cost basis and the projected unit credit actuarial cost basis. The liability determined using the unit credit actuarial cost basis is the present value of estimated pension benefits that will be paid in future years based on member services performed to date and on compensation earned to date. The liability determined using the projected unit actuarial cost basis is the present value of estimated pension benefits that will be paid in future years as a result of member services performed to date and is adjusted for the effects of projected salary increases. The latter approach results in lower funded ratios than the former one. The following tables set forth the funding history of the System for the years shown based upon the System's funding objectives described above, presented on both bases. The information in the tables was provided by the New Hampshire Retirement System.

NEW HAMPSHIRE RETIREMENT SYSTEM
TEN YEAR HISTORY OF PLAN FUNDING STATUS
FISCAL YEARS 1997-2006
BASED ON UNIT CREDIT ACTUARIAL COST BASIS
(All Dollar Amounts in Thousands)
Fiscal Year Ended June 30

	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997
Vested Benefits										
Participants Currently Receiving Benefits	$2,962,579	$2,745,323	$2,320,071	$2,123,689	$1,862,864	$1,675,941	$1,536,578	$1,464,941	$1,278,159	$1,172,285
Other Participants	2,647,288	2,490,800	2,186,484	2,036,552	1,876,846	1,735,410	1,554,329	1,421,842	1,317,415	1,201,724
Total Vested Benefits	$5,609,867	$5,236,123	$4,506,555	$4,160,241	$3,739,710	$3,411,351	$3,090,907	$2,886,783	$2,595,574	$2,374,009
Nonvested Benefits	77,668	67,760	47,053	41,454	38,096	34,105	30,247	29,276	28,052	29,054
Total Pension Liabilities	$5,687,535	$5,303,883	$4,553,608	$4,201,695	$3,777,806	$3,445,456	$3,121,154	$2,916,059	$2,623,626	$2,403,063
Fair Value of Assets	$5,112,257	$4,728,590	$4,391,286	$3,901,681	$3,936,475	$4,334,742	$4,754,284	$4,275,204	$3,805,422	$3,295,489
Less: Undesignated Special Account	312,838	302,770	325,510	361,985	398,317	609,845	731,648	432,922	469,479	234,652
Less: Account for Medical Insurance Subsidy	445,860	445,918	441,936	415,046	437,478	336,078	311,538	290,221	168,890	119,332
Net Fair Value of Assets Held in Trust for Benefits	$4,353,559	$3,979,902	$3,623,840	$3,124,650	$3,100,680	$3,388,819	$3,711,098	$3,552,061	$3,167,053	$2,941,505
Funding Ratio for Pension Liability	76.55%	75.04%	79.58%	74.37%	82.08%	98.36%	118.90%	121.81%	120.71%	122.41%
Actuarial Present Value of Postretirement Medical Liabilities:										
Active	$358,289	$331,734	$262,389	$240,045	$231,313	$157,706	$125,173	$115,110	$108,532	$66,565
Retired	628,213	598,941	468,632	461,363	345,457	272,067	147,914	146,510	57,770	56,781
Total Actuarial Present Value of Postretirement Medical Liabilities	$986,502	$930,675	$731,021	$701,408	$576,770	$429,773	$273,087	$261,620	$166,302	$123,346
Total Actuarial Present Value of Accrued Benefits	$6,674,037	$6,234,558	$5,284,629	$4,903,103	$4,354,576	$3,875,229	$3,394,241	$3,177,679	$2,789,928	$2,526,409
Fair Value of Assets Held in Trust for Benefits	$4,799,419	$4,425,820	$4,065,776	$3,539,696	$3,538,158	$3,724,897	$4,022,636	$3,842,282	$3,335,943	$3,060,837
Total Unfunded Accrued Liability	($1,874,618)	($1,808,738)	($1,218,853)	($1,363,407)	($816,418)	($150,332)	$628,395	$664,603	$546,015	$534,428
Overall Funded Ratio	71.91%	70.99%	76.94%	72.19%	81.25%	96.12%	118.51%	120.91%	119.57%	121.15%

NEW HAMPSHIRE RETIREMENT SYSTEM
TEN YEAR HISTORY OF PLAN FUNDING STATUS
FISCAL YEARS 1997-2006
BASED ON PROJECTED UNIT CREDIT ACTUARIAL COST BASIS
(All Dollar Amounts in Thousands)
Fiscal Year Ended June 30

	(Unaudited) 2006	2005	2004	2003	2002	2001	2000	1999	1998	1997
Projected Liability										
1. Retirees & Beneficiaries Currently Receiving Benefits & Terminated Employees Not Yet Entitled	$2,986,360	$2,767,242	$2,343,704	$2,145,796	$1,884,593	$1,696,253	$1,554,564	$1,481,589	$1,290,766	$1,184,008
2. Current Employees										
a. Accumulated Employee Contributions with Interest	2,133,842	2,016,420	1,864,275	1,754,619	1,575,703	1,481,974	1,309,395	1,229,239	1,174,732	1,027,616
b. Employer Financed	1,282,673	1,207,364	821,898	768,777	736,018	664,375	596,300	518,365	459,164	465,408
Total Pension Liabilities	$6,402,875	$5,991,026	$5,029,877	$4,669,192	$4,196,314	$3,842,602	$3,460,259	$3,229,193	$2,924,662	$2,677,032
Fair Value of Assets	$5,112,257	$4,728,590	$4,391,286	$3,901,681	$3,936,475	$4,334,742	$4,754,284	$4,275,204	$3,805,422	$3,295,489
Less: Undesignated Special Account	312,838	302,770	325,510	361,985	398,317	609,845	731,648	432,922	469,479	234,652
Less: Account for Medical Insurance Subsidy	445,860	445,918	441,936	415,046	437,478	336,078	311,538	290,221	168,890	119,332
Net Fair Value of Assets Held in Trust for Benefits	$4,353,559	$3,979,902	$3,623,840	$3,124,650	$3,100,680	$3,388,819	$3,711,098	$3,552,061	$3,167,053	$2,941,505
Unfunded (Assets In Excess Of) Pension Liability	$2,049,316	$2,011,124	$1,406,037	$1,544,542	$1,095,634	$453,783	($250,839)	($322,868)	($242,391)	($264,473)
Funding Ratio for Pension Liability	67.99%	66.43%	72.05%	66.92%	73.89%	88.19%	107.25%	110.00%	108.29%	109.88%
Actuarial Present Value of Postretirement Medical Liabilities:										
Active	$358,289	$331,734	$262,389	$240,045	$231,313	$157,706	$125,173	$115,110	$108,532	$66,565
Retired	628,213	598,941	468,632	461,363	345,457	272,067	147,914	146,510	57,770	56,781
Total Actuarial Present Value of Postretirement Medical Liabilities	$986,502	$930,675	$731,021	$701,408	$576,770	$429,773	$273,087	$261,620	$166,302	$123,346
Total Actuarial Present Value of Accrued Benefits	$7,389,377	$6,921,701	$5,760,898	$5,370,600	$4,773,084	$4,272,375	$3,733,346	$3,490,813	$3,090,964	$2,800,378
Fair Value of Assets Held in Trust for Benefits	$4,799,419	$4,425,820	$4,065,776	$3,539,696	$3,538,158	$3,724,897	$4,022,636	$3,842,282	$3,335,943	$3,060,837
Total Unfunded (Assets In Excess Of) Accrued Liability	$2,589,958	$2,495,881	$1,695,122	$1,830,904	$1,234,926	$547,478	($289,290)	($351,469)	($244,979)	($260,459)
Overall Funded Ratio	64.95%	63.94%	70.58%	65.91%	74.13%	87.19%	107.75%	110.07%	107.93%	109.30%

Additional information pertaining to the State's employee benefit plans may be found in Notes 6 and 10 to the State's fiscal year 2005 financial statements and in the Comprehensive Annual Financial Report of the System for Fiscal Year 2005, which report is available at www.nh.gov/retirement/2005cafr.pdf.

HEALTH CARE INSURANCE FOR RETIRED EMPLOYEES

In addition to providing pension benefits, state law provides health care benefits for certain retired employees. Substantially all of the State's employees who were hired on or before June 30, 2004 may become eligible for these benefits if they reach normal retirement age while working for the State and receive their pensions on a periodic basis rather than a lump sum. During fiscal year 2004, legislation was passed that requires State Group I employees hired on or after July 1, 2003 to have 20 years of State service in order to qualify for health coverage benefits. These and similar benefits for active employees are authorized by RSA 21-I:30 and provided through the Employee Benefit Risk Management Fund, which finances the State's self-funded employee and retiree health benefit program. The Fund, which was established in October 2003, is in turn financed through payments by the State of actuarially determined working rates. The State paid approximately $30.7 million to fund health care benefits for approximately 9,375 State retirees and covered dependents receiving a periodic pension benefit for the fiscal year ended June 30, 2006. Of the amount paid, $14.8 million was received from self-supporting State agencies. An additional major source of funding for retiree benefits is from the New Hampshire Retirement System's "medical subsidy" program for Group I and Group II employees, which totaled approximately $13.5 million for the fiscal year ended June 30, 2006.

JUDICIAL RETIREMENT PLAN

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

The State engaged a consultant to prepare an actuarial valuation as of January 1, 2005, based on the finalized plan provisions and reflecting an initial funding payment of $42.8 million, which amount was provided from the proceeds of general obligation bonds of the State. The 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 is equal to the proceeds of such bonds. This valuation results in an unfunded liability as of January 1, 2005 equal to $869,534. The next actuarial valuation is to be prepared as of January 1, 2007.

EMPLOYEE RELATIONS

The State Employees' Association of New Hampshire Inc.-SEIU Local 1984 (the "SEA") is the exclusive bargaining representative of the majority of classified (merit system) employees in the State, a group of approximately 10,000 employees. The sworn non-commissioned employees of the Division of State Police have been represented by the New Hampshire Troopers Association (the "NHTA") since 1997. In October, 2006 two additional law enforcement groups, the Highway Patrol Officers and Fish & Game Conservation Officers filed a certification petition and voted to be represented by a new union, the New England Police Benevolent Association (the "NEPBA"). In addition, one SEA bargaining unit of approximately 60 employees, the Public Utilities Commission, filed a decertification petition and voted to decertify from the SEA. The employees of the University System and the NH Retirement System are not included in any of these bargaining units. The State has collective bargaining agreements with the SEA and the Troopers that were effective July 1, 2005 and will expire on June 30, 2007. New negotiations with the SEA, the NHTA, and the NEPBA have begun, with the expectation that agreements for the next contract period of 2007 through 2009 will be reached prior to July 1, 2007.

LITIGATION

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

The following matters should be noted:

General Electric ("GE") appealed a decision by the Department of Revenue Administration ("DRA") claiming that the dividends received deduction allowed under RSA 77-A:4, IV should be invalidated because the statute discriminates against foreign commerce in violation of the commerce clause of the United States Constitution and results in unfair taxation out of proportion to GE's activities in New Hampshire in violation of the Due Process and Commerce Clauses of the United States Constitution.

In 2001, GE and DRA executed two settlement agreements substantially resolving GE's business profit tax liability for multiple tax years. The settlement agreements did not resolve the foreign dividend issue, which is the issue in this appeal, concerning tax years 1990-1999.

On August 19, 2005, the Merrimack County Superior Court issued an order granting DRA's Motion to Dismiss and its Motion for Summary Judgment. GE appealed the case to the New Hampshire Supreme Court, and on December 5, 2006, the New Hampshire Supreme Court issued an order affirming in part and reversing in part the lower court's decision. The court reversed the lower court's order dismissing the case because the Supreme Court found that GE did have standing to challenge the statute. Nevertheless, the Supreme Court affirmed the lower court's grant of summary judgment in favor of the Department and concluded that RSA 77-A:4, IV is not facially unconstitutional, finding that the statute does not facially discriminate against a dividend-paying foreign subsidiary that does not conduct business in New Hampshire. GE has 10 days to file a motion for reconsideration with the court. GE may appeal the case to the U.S. Supreme Court. If the matter is not appealed to the U.S. Supreme Court, and the decision stands favorable to the Department, GE will be required to pay $639,836 to the Department within 60 days of when the decision becomes final. The State cannot now predict the outcome of this matter.

Verizon NE v Public Utilities Commission, Civil Action 05-94-PB (USDC) is an action by Verizon challenging the Public Utilities Commission's (PUC) orders requiring it to share its lines and make other unbundled network elements available to Verizon's competitors at rates that Verizon claims are confiscatory. Verizon claimed that the PUC's orders violated federal law and sought declaratory and injunctive relief as well as unspecified damages.

On August 22, 2006, the United States District Court for the District of New Hampshire granted summary judgment in favor of Verizon and enjoined the PUC from enforcing its orders to the extent that they require Verizon to offer unbundled network elements to their competitors. The Court's Order did not contain an award of damages to Verizon. Verizon has not appealed the decision, but the State has. A briefing schedule has been set, with the State's opening brief due on December 15, 2006.

In *New Hampshire Association of Counties, et al. v. Commissioner of Department of Health and Human Services*, some of the State's ten Counties (the Plaintiff Counties) challenged the Department of Health and Human Services' ("DHHS") decision holding them responsible for paying a share of the cost of Medicaid payments for clients receiving Old Age Assistance ("OAA") or Aid to the Permanently and Totally Disabled ("APTD"). Under RSA 167:18-b, the counties are liable for one-half of the State's expenditures for OAA and APTD recipients who are "in nursing homes." DHHS believed that RSA 167:18-b also allowed it to bill the Counties for nursing services that are provided to recipients who are in institutions, such as rehabilitation hospitals, that are not licensed as "nursing homes" but are certified under Medicaid as nursing facilities authorized to provide nursing level care. DHHS has been billing the Counties for these services since at least 2002.

The second issue raised by the Counties in their suit is whether DHHS exceeded the statutory cap on the total amount that the Counties can be billed under RSA 167:18-b in fiscal year 2004. RSA 167:18-b establishes a $60 million cap on the total liability for the Counties under this section of the statute. The legal dispute in this case involves whether that figure should be interpreted as a gross amount or a net amount. In 2004, the total amount of the bills sent to the Counties for their share of payments under RSA 167:18-b was approximately $62.1 million. However, DHHS gave the Counties approximately $2.1 million in statutory credits, thereby bringing the total owed to $60 million. The Plaintiff Counties refused to pay the total amount, claiming that the statute limits the total amount that can be "billed" to the Counties at $60 million, and therefore the credits should have been subtracted from the $60 million, thereby limiting their liability to $57.9 million.

The parties filed cross-motions for summary judgment and on October 27, 2006, the Merrimack County Superior Court granted summary judgment in favor of the Plaintiff Counties on both issues. The deadline for DHHS to file a notice of appeal is November 26, 2006.

It is difficult to predict the likely fiscal impact to the State at this time. If the ruling stands, the current estimate is that the Plaintiff Counties have withheld approximately $5 million in payments billed by the State between 2002 and the present. Those moneys, which remain in those Counties' coffers, constitute an outstanding "account receivable" in DHHS's budget which would be written off if the ruling stands. In addition, the State estimates that, if ordered, it might have to refund, probably by means of a credit on future obligations, approximately $1 million that has been paid in the past by the non-Plaintiff Counties.

It is not possible to ascertain the likely fiscal impact on the State in future years. RSA 167:18-b is set to "sunset" in 2007, and therefore, the Legislature will need to review the issue of the Counties' responsibilities for their share of Medicaid payments.

There are two cases currently pending in the New Hampshire Supreme Court involving rates paid by the Division of Children, Youth and Families ("DCYF"). The first, *Appeals of: Chase Home for the Children, Child and Family Services; Hannah House, NFI North, Odyssey Home, Orion House, and Pine Haven Boys Center*, docket number 2006-070, involves the fiscal year 2004-2005 rates paid to residential child care facilities. The Hearings Panel, established pursuant to RSA 170-G:4-a, ruled that DCYF should have set the rates in accord with certain administrative rules. The hearings officer ordered DCYF to pay the higher rates but determined that he had no authority to order DCYF to pay them retroactively. The facilities appealed the ruling regarding denial of the retroactive payments. The second case is *Petition of the Division of Children, Youth and Families*, docket number 2006-510, in which DCYF is challenging a decision by the Hearing Panel ruling that DCYF is required to pay a 5% rate increase using the administrative rules rate as the base rate. And, the Hearings Panel ordered DCYF pay the higher rate retroactive to July 1, 2005. DCYF appealed so that the issues on appeal include whether the 5% rate increase should be calculated from the administrative rules rate as the base rate and whether the State may be required to pay retroactively. It is not possible to predict at this time the outcome of these cases or the amount, if any, that DCYF will be required to pay.

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

The DOC has submitted its plan for the court to review. The State also appealed parts, but not all, of the court's order asserting that the court exceeded its authority under the settlement agreements. The parties are involved in settlement negotiations to resolve the appeal. The financial impact on the State, however, is substantially unaffected by the appeal and/or settlement possibilities when viewing the court's order in its totality.

The DOC estimates that full implementation of the court's order will require approximately $9,000,000 over the next biennium.

Bel Air Associates v. Department of Health and Human Services was decided by the New Hampshire Supreme Court in September 2006 involving certain restrictions on the rates paid by the Department of Health and Human Services ("DHHS") to nursing home providers. The Supreme Court held that DHHS' capital costs cap and its budget neutrality factor should have been created by administrative rule. The Supreme Court further held that because they were not created as rules, they could not be applied against Bel Air Associates. The Supreme Court did not order any damages against DHHS as it did not allow a late attempt by Bel Air Associates to add a breach of contract claim. Bel Air Associates, however, filed a breach of contract claim in Merrimack County Superior Court in late November alleging approximately $600,000 in damages. In December, 2006, DHHS also issued an emergency rule authorizing the capital costs cap and the budget neutrality factor. Various nursing homes have threatened to file injunctions preventing enforcement of the emergency rule. At this time, it is not possible to predict the outcome of these matters or the amount, if any, that DHHS will be required to pay.

The State of New Hampshire v. Phillip Morris USA, RJ Reynolds, Inc. and Lorillard Tobacco Company. This is a petition for a declaratory order. The defendants are signatories to the Tobacco Master Settlement Agreement under which the defendants are required to make annual payments to all of the states, including the State of New Hampshire. The payment received in 2006 was approximately $5,000,000 below the required amount. On June 5, 2006 the Superior Court ordered the case to arbitration under the terms of the Master Settlement Agreement. A notice of appeal was filed to the New Hampshire Supreme Court on August 11, 2006. Briefs have been filed with the Court, but a date for oral argument has not been set. The State is unable to predict the outcome at this time.

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

For additional information relating to litigation involving the State, see also Note 13 to the State's fiscal year 2005 audited financial statements, which are available as described below.

FINANCIAL STATEMENTS

Fiscal Year 2005. Specific reference is made to the State's financial statements for the fiscal year ended June 30, 2005, presented in accordance with generally accepted accounting principles, and the report of the State's independent auditors with respect thereto, which have been filed with each Nationally Recognized Municipal Securities Information Repository currently recognized by the Securities and Exchange Commission. *KPMG LLP, the State's independent auditor, has not been engaged to perform and has not performed, since the date of its report referenced herein, any procedures on the financial statements addressed in that report. KPMG LLP has also not performed any procedures relating to this Information Statement.*

In connection with its audit of the State's fiscal year 2005 financial statements, KPMG LLP ("KPMG") sent a letter dated October 10, 2005 to the Fiscal Committee of the General Court and certain other State officials stating, in part, that KPMG had "become aware of information indicating that illegal acts have or may have occurred relating to the following activities/entities at the State of New Hampshire:

- The federally funded Student Financial Aid Cluster administered by the NH Community Technical College System (College) and
- The New Hampshire Retirement System (NHRS)."

The letter further stated that under professional standards applicable to it, KPMG is required to determine whether it is likely that illegal acts have occurred and, if so, is required to inform the Fiscal Committee about the matters unless the matters are "clearly inconsequential." The letter stated that, "[KPMG] understand[s] investigations are currently being performed by individuals or teams of individuals from within the State as well as individuals or teams from external organizations and/or regulatory agencies." The letter also outlined KPMG's expectations for receiving adequate cooperation and information with respect to these matters and stated that the pending investigations will likely cause KPMG to reassess its audit procedures and that depending on the circumstances, its opinions on the State's financial statements may be delayed.

Audited comprehensive financial statements for the State for fiscal year 2005 were issued in March 2005. The accompanying opinion of KPMG LLP reported that the audit of the New Hampshire Retirement System was not complete and that, therefore, the financial statements were not being presented as required by GAAP. Because of this circumstance, KPMG issued a qualified opinion regarding the State's Comprehensive financial statements. For the full text of the opinion of KPMG LLP with respect to the State's financial statements for fiscal year 2005, see pages 14 and 15 of the State's fiscal year 2005 CAFR at the website of the State's Department of Administrative Services, Bureau of Financial Reporting at http://admin.state.nh.us/accounting/reports.htm.

The audited financial statements for fiscal year 2005 for the NHRS were released on May 23, 2006 and are available on the NHRS website at http://state.nh.us/retirement/annual.htm.

Fiscal Year 2006. The audited financial statements for fiscal year 2006 are not yet available as of the date of this Information Statement, but will be provided to each Nationally Recognized Municipal Securities Information

Repository currently recognized under SEC Rule 15c2-12 upon release to the public. The State currently expects the fiscal year 2006 audited financial statements to be published by the end of March, 2007. See "STATE FINANCES - General" above.

ADDITIONAL INFORMATION

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

EXHIBIT A

STATE OF NEW HAMPSHIRE

AUDITED FINANCIAL STATEMENTS

FOR FISCAL YEAR 2005

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

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