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. Bond Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of or the accrual or receipt of interest on the Bonds. (See "TAX EXEMPTION" and Appendix A herein.)

$149,580,000
STATE OF NEW HAMPSHIRE
GENERAL OBLIGATION CAPITAL IMPROVEMENT BONDS
2008 SERIES C

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 May 1 and November 1 of each year, commencing May 1, 2009, until maturity or redemption prior to maturity. The Bonds are subject to redemption prior to maturity as provided herein.

Due May 1	Principal Amount	Interest Rate	Price/ Yield	CUSIP 644682†	Due May 1	Principal Amount	Interest Rate	Price/ Yield	CUSIP 644682†
2010	$8,975,000	4.00%	2.53%	ZJ8	2019*	$3,145,000	5.00%	4.60%	ZU3
2011	8,975,000	4.00	3.00	ZK5	2020	5,860,000	4.75	100	ZV1
2012	8,975,000	5.00	3.27	ZL3	2020*	3,120,000	5.00	4.75	ZW9
2013	8,975,000	4.00	3.48	ZM1	2021	4,750,000	4.75	4.85	ZX7
2014	8,975,000	4.00	3.70	ZN9	2021*	4,220,000	5.00	4.85	ZY5
2015	8,975,000	4.00	3.89	ZP4	2022	3,870,000	4.75	4.91	ZZ2
2016	8,980,000	4.00	4.05	ZQ2	2022*	2,110,000	5.00	4.91	A22
2017	8,975,000	5.00	4.22	ZR0	2023*	5,985,000	5.00	4.97	A30
2018	8,975,000	4.375	4.41	ZS8	2024	5,985,000	5.00	100	A48
2019	5,825,000	4.50	4.60	ZT6	2025	5,985,000	5.00	5.03	A55

$17,945,000 5.00% Term Bonds due May 1, 2028 – Priced to Yield 5.11% - CUSIP 644682A63

The Bonds are offered when, as and if issued and accepted by the Underwriters subject to the final approving opinion of Edwards Angell Palmer & Dodge LLP, Boston, Massachusetts, Bond Counsel, and to certain other conditions referred to herein. Certain legal matters will be passed upon for the Underwriters by their counsel, Rath, Young and Pignatelli, Professional Corporation, Concord, New Hampshire. Public Resources Advisory Group has acted as Financial Advisor to the State with respect to the Bonds. Delivery of the Bonds to DTC is expected on or about November 19, 2008.

Merrill Lynch & Co. **Citi** **Wachovia Bank, National Association**

Banc of America Securities LLC **Fidelity Capital Markets Services** **Goldman, Sachs & Co.**

Morgan Stanley **Raymond James & Associates, Inc.** **Robert W. Baird & Co. Incorporated**

November 4, 2008

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* Priced at the stated yield to the November 1, 2018 optional redemption date at a redemption price of 100%. See "THE BONDS – Redemption Provisions" herein.

The information set forth herein has been obtained from the State of New Hampshire and other sources which are believed to be reliable but is not guaranteed as to accuracy or completeness by, and is not to be construed as a representation by, the Underwriters. 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.

The Underwriters have provided the following sentence for inclusion in this Official Statement: The Underwriters have reviewed the information in this Official Statement in accordance with, and as part of, their responsibility to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information.

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 a representation of fact.

This Official Statement is provided only in connection with the sale of the Bonds by the State of New Hampshire 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.

In connection with an offering of the Bonds, the Underwriters may overallot or effect transactions which stabilize or maintain the market price of such Bonds at a level above that which might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued at any time.

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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
BEVERLY A. HOLLINGWORTH
DEBORA B. PIGNATELLI
JOHN D. SHEA
RAYMOND J. WIECZOREK

STATE TREASURER
CATHERINE A. PROVENCHER

SECRETARY OF STATE
WILLIAM M. GARDNER

ATTORNEY GENERAL
KELLY A. AYOTTE

COMMISSIONER OF ADMINISTRATIVE SERVICES
LINDA M. HODGDON

BUDGET DIRECTOR
KRISTYN A. MCLEOD

BOND COUNSEL
Edwards Angell Palmer & Dodge LLP
111 Huntington Avenue at Prudential Center
Boston, Massachusetts 02199-7613

FINANCIAL ADVISOR
Public Resources Advisory Group
40 Rector Street
New York, New York 10006

OFFICIAL STATEMENT

OF

THE STATE OF NEW HAMPSHIRE

pertaining to its

$149,580,000
GENERAL OBLIGATION CAPITAL IMPROVEMENT BONDS
2008 SERIES C

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 $149,580,000 aggregate principal amount of its General Obligation Capital Improvement Bonds, 2008 Series C, dated their date of delivery (the "Bonds").

This Official Statement consists of two parts: Part I (including the cover and Appendices A and B) and Part II, the State's Information Statement dated November 4, 2008 (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 incorporates by reference as Exhibit A the State's audited financial statements for fiscal year 2007. The fiscal year 2007 audited financial statements have been filed with the NRMSIRs. 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 2008 become available, the State intends to file them with the NRMSIRs. The release of the State's fiscal year 2008 audited financial statements is expected by December 31, 2008. See "STATE FINANCES - General" in the Information Statement included as Part II of this Official Statement.

THE BONDS

Description of the Bonds

The Bonds will be dated their date of delivery. The Bonds will bear interest payable semiannually on May 1 and November 1 of each year, commencing May 1, 2009, 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 on the dates and in the principal amounts 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 before May 1, 2018 are not subject to redemption prior to maturity. The Bonds maturing after May 1, 2018 are subject to redemption at the option of the State on and after November 1, 2018 in 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.

Mandatory Redemption

The Bonds maturing on May 1, 2028 (the "Term Bonds") are also subject to mandatory redemption in the following principal amounts on the redemption dates shown below:

Redemption Date	Principal Amount
May 1, 2026	$5,985,000
May 1, 2027	5,980,000
May 1, 2028 (final maturity)	5,980,000

Principal amounts to be redeemed in any year by mandatory redemption shall be redeemed at par (without premium), plus accrued interest to the redemption date, and shall be selected by lot from among the Term Bonds then subject to redemption. The State Treasurer may credit against any mandatory redemption requirement Term Bonds which have been purchased and cancelled by the State or have been redeemed and not theretofore applied as a credit against any mandatory redemption requirement.

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 to be used to fund various capital improvement projects of the State 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 3.5 million issues of U.S. and non-U.S. equity, 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 is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidies. 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 Paying 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 Paying 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 Paying 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 Paying 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.

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 expresses no opinion regarding any other federal tax consequences arising with respect to the ownership or disposition of, or the accrual or receipt of interest on, the Bonds.

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 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 expresses no opinion regarding any other New Hampshire tax consequences arising with respect to the Bonds. Bond Counsel has not opined 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 Beneficial 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. Beneficial Owners 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.

Bonds purchased, whether at original issuance or otherwise, for an amount greater than the stated principal amount to be paid at maturity of such Bonds, or, in some cases, at the earlier redemption date of such Bonds ("Premium Bonds"), will be treated as having amortizable bond premium for federal income tax purposes and for purposes of the New Hampshire personal income tax on interest and dividends. No deduction is allowable for the amortizable bond premium in the case of obligations, such as the Premium Bonds, the interest on which is excluded from gross income for federal income tax purposes. However, a Beneficial Owner's basis in a Premium Bond will be reduced by the amount of amortizable bond premium properly allocable to such Bondholder. Holders of Premium Bonds should consult their own tax advisors with respect to the proper treatment of amortizable bond premium in their particular circumstances.

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 pending or future legislation, including amendments to the Code, if enacted into law, or any proposed legislation, including amendments to the Code, or any future judicial, regulatory or administrative interpretation or development with respect to existing law, will not adversely affect the value of, or the tax status of interest on, the Bonds. Prospective Beneficial Owners 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 a Bondholder's federal or state tax liability. The nature and extent of these other tax consequences will depend upon the particular tax status of the Bondholder or the Bondholder's other items of income or deduction. Bond Counsel expresses no opinion regarding any such other tax consequences, and Bondholders should consult with their own tax advisors with respect to such consequences.

UNDERWRITING

The aggregate offering price of the Bonds to the public is $151,120,613.05, and the Underwriters have jointly and severally agreed, subject to certain conditions, to purchase from the State the Bonds at a purchase price of $150,287,765.21, and to reoffer the Bonds at no greater than the initial public offering price or prices set forth on the cover page hereof. The Bonds may be offered and sold to certain dealers (including dealers depositing the Bonds into investment trusts) at prices lower than such public offering prices, and such prices may be changed from time to time, by the Underwriters. The Underwriters will be obligated to purchase all the Bonds if any such Bonds are purchased.

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. A 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. Certain legal matters will be passed upon for the Underwriters by their counsel, Rath, Young and Pignatelli, Professional Corporation, Concord, New Hampshire.

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. An explanation of the significance of each such rating 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.

CONTINUING DISCLOSURE

In order to assist the Underwriters 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. Except as described below with respect to fiscal years 2005 and 2006, 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. 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. The State had undertaken pursuant to the Rule to provide its draft financial statements or audited financial statements for fiscal year 2006 to each NRMSIR by March 27, 2007, and on March 29, 2007, the State filed a notice of its failure to file such statements by the required date. The State's audited financial statements for fiscal year 2006 were filed on April 20, 2007. See "FINANCIAL STATEMENTS" in the Information Statement included as Part II of this Official Statement.

STATE OF NEW HAMPSHIRE

By: /s/ Catherine A. Provencher
State Treasurer

November 4, 2008

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 Catherine A. Provencher
State Treasurer
State House Annex
Concord, New Hampshire 03301

$149,580,000
State of New Hampshire
General Obligation Capital Improvement Bonds, 2008 Series C
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 $149,580,000 General Obligation Capital Improvement Bonds, 2008 Series C (the "Bonds"), dated their date of delivery. 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 each Repository 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 November 4, 2008 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, 4, 5 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 each Repository.

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: ____________, 2008

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

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

STATE OF NEW HAMPSHIRE

Catherine A. Provencher
State Treasurer

November 4, 2008

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STATE OF NEW HAMPSHIRE

GOVERNOR
JOHN H. LYNCH

EXECUTIVE COUNCIL
RAYMOND S. BURTON
BEVERLY A. HOLLINGWORTH
DEBORA B. PIGNATELLI
JOHN D. SHEA
RAYMOND J. WIECZOREK

STATE TREASURER
CATHERINE A. PROVENCHER

SECRETARY OF STATE
WILLIAM M. GARDNER

ATTORNEY GENERAL
KELLY A. AYOTTE

COMMISSIONER OF ADMINISTRATIVE SERVICES
LINDA M. HODGDON

BUDGET DIRECTOR
KRISTYN A. MCLEOD

STATE GOVERNMENT

Executive Branch

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

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

The State Comptroller position has been vacant since January, 2007. The State plans to contract with a recruiter for assistance in filling this position.

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 1997 and 2007, primarily as a result of net migration from neighboring states. The State's population was 1,315,828 in July 2007 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
1997	1,189	1.2%	13,642	0.6%	272,647	1.2%
1998	1,206	1.4	13,734	0.7	275,854	1.2
1999	1,222	1.3	13,838	0.8	279,040	1.1
2000	1,240	1.5	13,954	0.8	282,194	1.1
2001	1,257	1.3	14,050	0.7	285,112	1.0
2002	1,272	1.2	14,132	0.6	287,888	1.0
2003	1,283	0.8	14,187	0.4	290,448	0.9
2004	1,294	0.9	14,210	0.2	293,192	0.9
2005	1,303	0.7	14,217	0.1	295,896	0.9
2006	1,312	0.7	14,239	0.2	298,755	1.0
2007	1,316	0.3	14,264	0.2	301,621	1.0
Percent Change:						
1997–2007	--	9.6	--	4.4	--	9.6
2002–2007	--	3.3	--	0.9	--	4.6

Source: U.S. Census Bureau.

Personal Income

The State's per capita personal income increased 52.1% between 1997 and 2007 (as contrasted with an increase of 52.2% in the per capita personal income for the United States and a 59.2% increase for the New England region). The State's per capita personal income ranked 8th in 2007 with $41,512 or 107.5% of the national average. The State's total personal income for 2007 was $54.6 billion. The following table sets forth information on personal income for New Hampshire, New England and the United States since 1997.

Comparisons of New Hampshire Personal Income to New England and United States, 1997-2007

	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	
1997	$32,420	$27,257	$29,687	$25,334	3.0%	5.0%	4.6%	7
1998	35,149	29,147	31,677	26,883	6.5	6.3	5.8	7
1999	37,125	30,380	33,126	27,939	4.1	4.4	3.8	7
2000	41,429	33,399	36,117	29,845	9.0	8.3	6.4	6
2001	42,624	33,900	37,323	30,574	1.5	3.2	2.4	7
2002	43,393	34,109	37,364	30,821	0.6	0.1	0.8	6
2003	44,327	34,554	37,950	31,504	1.3	1.5	2.2	6
2004	47,190	36,460	40,058	33,123	5.2	5.3	4.9	6
2005	48,941	37,557	41,909	34,757	3.0	4.6	4.9	8
2006	52,149	39,753	44,327	36,714	5.8	5.8	5.6	7
2007	54,622	41,512	46,948	38,611	4.4	5.9	5.2	8

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

Civilian Labor Force, Employment and Unemployment

Employment in New Hampshire grew faster than in the region from 1997 to 2007. 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
	1997	2007	1997-2007
New Hampshire	635	712	1.15%
Connecticut	1,675	1,780	0.61
Maine	624	671	0.73
Massachusetts	3,159	3,256	0.30
Rhode Island	504	548	0.84
Vermont	316	340	0.73
New England	6,914	7,307	0.55
United States	129,558	146,047	1.21

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

Over the past ten years, New Hampshire's unemployment rate was lower than the rate for New England and the United States, and was often the lowest in the nation. Monthly unemployment data for September, 2008, 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 1997.

Labor Force Trends

	New Hampshire Labor Force (In Thousands)			Unemployment Rate		
Year	Civilian Labor Force	Employed	Unemployed	New Hampshire	New England	United States
1997	656	635	21	3.1%	4.4%	4.9%
1998	671	651	19	2.9	3.5	4.5
1999	685	666	19	2.8	3.2	4.2
2000	694	676	19	2.7	2.8	4.0
2001	705	681	24	3.4	3.6	4.7
2002	712	680	32	4.5	4.8	5.8
2003	711	679	32	4.5	5.4	6.0
2004	716	688	28	3.9	4.9	5.5
2005	723	697	26	3.6	4.7	5.1
2006	732	706	26	3.5	4.5	4.6
2007	738	712	26	3.6	4.4	4.6
September, 2008[1]	742	713	29	3.9	5.5	6.0

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 2007, accounting for 41.3% of nonagricultural employment, as compared to 37.7% in 1997. 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 42.4% of employment in 2007, up from 38.6% in 1997.

The second largest employment sector in New Hampshire during 2007 was wholesale and retail trade, accounting for 19.5% of total employment as compared to 15.6% nationally. In 1997, wholesale and retail trade accounted for 18.8% 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 12.0% of nonagricultural employment in 2007, down from 17.8% in 1997. For the United States as a whole, manufacturing accounted for 10.1% of nonagricultural employment in 2007, versus 14.2% in 1997. 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	
	1997	2007	1997	2007
Manufacturing	17.8%	12.0%	14.2%	10.1%
Durable Goods	13.1	9.2	8.7	6.4
Nondurable Goods	4.7	2.8	5.5	3.7
Nonmanufacturing	82.2	88.0	85.8	89.9
Construction & Mining	3.8	4.5	5.3	6.1
Wholesale and Retail Trade	18.8	19.5	16.3	15.6
Service Industries	37.7	41.3	38.6	42.4
Government	13.8	14.4	16.0	16.1
Finance, Insurance & Real Estate	5.6	5.9	5.8	6.0
Transportation & Public Utilities	2.5	2.4	3.8	3.7

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

Largest Employers

The following table lists the twenty largest private employers in the State and their approximate number of employees as of December 2007.

Largest Employers
(Excluding Federal, State and Local Governments)

	Company	Employees	Primary New Hampshire Site	Principal Product
1.	Wal-Mart Stores, Inc.	8,012	Bedford	Retail Department Stores
2.	DeMoulas & Market Basket	6,600	Nashua	Supermarkets
3.	Dartmouth Hitchcock Medical Center	6,211	Lebanon	Acute Care Hospital
4.	Fidelity Investments	5,430	Merrimack	Financial Services
5.	Shaw Supermarkets Inc.	4,700	Stratham	Supermarkets
6.	Hannaford Brothers-Shop 'N Save	4,663	Manchester	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.	Concord Hospital	2,836	Concord	Hospital
12.	Elliot Hospital	2,821	Manchester	Hospital
13.	Wentworth-Douglas Hospital	1,824	Dover	Hospital
14.	Southern New Hampshire Medical Center	1,719	Nashua	Healthcare Providers
15.	Catholic Medical Center	1,700	Manchester	Healthcare Providers
16.	Verizon Communications	1,650	Manchester	Telecommunications
17.	Osram Sylvania Inc.	1,530	Hillsboro	Light Sources
18.	New Hampshire International Speedway	1,500	Loudon	Motorsports Facility
19.	Sears at Fox Run Mall	1,500	Newington	Home and Automotive Products
20.	Freudenberg-NOK	1,165	Bristol	Custom-molded products

Source: *New Hampshire Business Review*, December, 2007.

State and Local Taxation

The State finances its operations through a combination of specialized taxes, user charges and revenues received from the State liquor sales and distribution system. The most important taxes are the business profits and business enterprise taxes and a meals and rooms tax. The State does not levy any personal earned income tax or general sales tax but does impose a tax on interest and dividends. The State believes its tax structure has played an important role in the State's economic growth. According to the U.S. Bureau of the Census, in 2007, individual income taxes represented 4.9% of the State's total government taxes. New Hampshire's per capita state taxes of $1,651 in 2007 were the second 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 2007, housing units in the State numbered 594,052. The median purchase price of a housing unit in 2007 was $269,900, an increase of 1.8% from 2006, and an increase of 130.7% over 1997. 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
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
2006	265,000	(1.9)	928	3.0
2007	269,900 [2]	1.8	946	1.9

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

According to a report issued by the New Hampshire Housing Finance Authority updated in July 2008, the "mortgage crisis in New Hampshire has deepened over the past year. The pace of foreclosure deed recordings continues to increase over prior years, and is now well above earlier projections. Foreclosure deeds in June of this year represent a 90% increase over the same month last year. Recorded foreclosures have exceeded 200 in 10 of the past 12 months, and at this pace will exceed 3,000 in the current year, an increase of more than 40% over 2007." The preliminary figure for median purchase price of a primary non-condominium home for January through May of 2008 was $255,000.

Building Activity

The pattern of building activity in New Hampshire in recent years, as evidenced by the issuance of residential building permits, has generally paralleled that of the New England region. There was growth in the 1992 to 2002 period in New Hampshire, New England, and the nation, while in 2003 the State experienced a 7.0% decrease in the number of permits. The number of permits and dollar value peaked in 2004 and declined in 2005, 2006 and 2007. In 2007, building permits totaled 4,561, with a value of $856 million. This represents a decrease of 19.7% in the number of permits, and a decrease of 17.5% in dollar value, from 2006. 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)

	1997	2003	2004	2005	2006	2007
New Hampshire						
Single Family	4,598	6,583	7,002	6,432	4,826	3,772
Multi-Family	806	2,058	1,651	1,154	851	789
Total.................	5,404	8,641	8,653	7,586	5,677	4,561
Value................	$572	$1,208	$1,385	$1,352	$1,037	$856
New England						
Single Family	35,838	39,486	43,749	41,812	33,204	26,079
Multi-Family	5,272	12,909	14,109	16,930	13,578	11,453
Total.................	41,110	52,395	57,858	58,742	46,782	37,532
Value................	$4,738	$7,825	$9,312	$9,791	$8,091	$7,119
United States						
Single Family	1,062,396	1,460,887	1,613,445	1,681,986	1,378,220	979,889
Multi-Family	378,740	428,327	456,632	473,330	460,683	418,526
Total.................	1,441,136	1,889,214	2,070,077	2,155,316	1,838,903	1,398,415
Value................	$141,004	$249,693	$292,414	$329,254	$291,314	$225,237

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, two of which have scheduled air service (Manchester and Lebanon), eight private commercial airports and nine private non-commercial airports. Manchester-Boston Regional Airport, the State's largest commercial 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 1,979,072 enplanements in fiscal year 2008. The Airport experienced a 4% increase in enplanements and passengers in fiscal year 2008 as compared with fiscal year 2007 enplanements. Manchester – Boston Regional Airport has undertaken a number of additional significant expansion, improvement and renovation projects, which were financed by the City of Manchester through the issuance of airport revenue bonds in October 1998, April 2000, June 2002, and July 2005; and a refunding of bonds in July 2008. The projects are expected to enhance the airport's capacity for increased passenger and freight traffic. The 1998, 2000, 2002, 2005 and 2008 bonds are not guaranteed by the State.

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

The New Hampshire Rail Transit Authority was created pursuant to Chapter 360 of the Laws of 2007 for the purpose of establishing regular commuter rail or other passenger rail service between points within and adjacent to the

State. See “STATE INDEBTEDNESS – Agencies, Authorities and Bonded or Guaranteed Indebtedness – New Hampshire Rail Transit Authority.”

Education

New Hampshire provides a mix of public and private educational opportunities. The education function of the State is carried out through the State Board of Education, the Department of Education and the University System of New Hampshire. The State Board and the Department of Education provide curriculum guidance and administrative support to 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 community colleges comprised of the New Hampshire Technical Institute in Concord and six other colleges located throughout the State. The Institute and colleges offer a two-year associates degree and a variety of certificates in approximately 100 different industrial, business and health programs. Since 1983, over 50% of New Hampshire high school graduates have continued their education beyond the high school level.

As the following table indicates, 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 U.S. 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 2008. The audited financial statements for fiscal year 2008 are not yet available as of the date of this Information Statement, but will be provided to each Nationally Recognized Municipal Securities Information Repository (“NRMSIR”) currently recognized under SEC Rule 15c2-12 upon release to the public. All fiscal year 2008 information referenced or set forth herein is unaudited and preliminary. See “FINANCIAL STATEMENTS.” The audited financial statements of the State for fiscal year 2007, together with the *qualified* report thereon of KPMG LLP, are included herein by reference. The State’s audited financial statements for fiscal year 2007 do not include certain information as required by GAAP. Accordingly, the report of KPMG LLP includes an adverse opinion and a qualified opinion with respect to certain aspects of the State's audited financial statements for fiscal year 2007. See "FINANCIAL STATEMENTS." The audited financial statements for fiscal year 2007 are also available as part of the State's fiscal year 2007 CAFR (pages 12 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.

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

For information relating to delays in the delivery of the audited financial statements for fiscal years 2005 and 2006, and matters relating to management letters delivered to the State for fiscal years 2005, 2006 and 2007, see "FINANCIAL STATEMENTS."

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.

Fund Types

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

Governmental Funds

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

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

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

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

Education 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 lottery 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.

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

Investment Policy

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

Budget and Appropriation Process

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

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.

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 including accounts payable, accounts receivable, assets and inventory, budgeting, financial accounting, grants and projects, human resources, payroll, benefits administration, purchasing, revenues and receipts, and treasury functions.

The original contract schedule with CIBER/Lawson which was approved in April, 2006 outlined a 3 phase implementation. Phase I (financial accounting, grants management, treasury functions and budgeting) was to be delivered by July 1, 2007, Phase II (assets and inventory management and purchasing) was to be delivered by September 30, 2008, and Phase III (human resources, payroll and benefits) was scheduled to be delivered by September 30, 2008. Due to resource constraints and the complex nature of this project, the originally planned approach could not be achieved and has been through two revisions.

The current version of the contract modified the implementation phases of the system. The first phase (Phase I) targets a three (3) step approach. The first step is the delivery of a new chart of accounts within the State's existing legacy financial system by July 1, 2008 to provide a foundation that could be used for the new ERP system. The new chart of accounts (COA) was successfully deployed on July 1, 2008. The second step targeted the delivery of the "new" budget development component of the ERP system so it could be used for fiscal years 2010-2011 budget planning. The new budget development system was deployed on August 1, 2008 and is currently operational. The third step was the deployment of the remaining financial, grants, procurement, revenue and receipts and treasury functions which are scheduled to be deployed at the end of fiscal year 2009. This effort is currently in progress.

After the financial system modules are implemented, subsequent activity will be planned accordingly for human resources, payroll, benefits administration, asset management and additional advanced functionality during fiscal year 2010. A capital funding request has been submitted for consideration in fiscal years 2010-2011 in the amount of $6.6 million.

The overall cost of the CIBER/Lawson contract has remained constant at this time. However, existing budgeted funds will be focused on the current financial system initiative. After the Phase I foundational financial business functionality is implemented, the Phase II human resources, payroll, benefits, asset management functionality and any required finances required to deploy these modules will be evaluated at that time.

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. As noted above, the position of the Comptroller has been vacant since January, 2007. The State is issuing a request for proposals from recruiting firms to aid in filling this position. See "STATE GOVERNMENT – Executive Branch" above.

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 2006, $51.7 million was transferred to the Revenue Stabilization Account, for a balance of $69.0 million at June 30, 2006.

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

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 2007 distribution to cities and towns was equal to 26.3% of the meals and rooms tax collections for fiscal year 2006. The fiscal year 2008 distribution to cities and towns is equal to 27.4% of the meals and rooms tax collections for fiscal year 2007. The fiscal year 2009 distribution to cities and towns is equal to 28.5% of the meals and rooms tax collections for fiscal year 2008.

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

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

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. Chapter 263 of the Laws of 2007 suspended this allocation for the biennium ending June 20, 2009, providing that all gross revenue derived by the liquor commission from the sale of liquor, or from license fees, shall be deposited into the general funds of the State.

Chapter 296 of the Laws of 2008 reduced the discounts offered to certain wine licensees. Discounts for holders of off-premises retail licenses with annual purchases of less than $350,000 continue to receive the discount of 15% less than the regular retail price at New Hampshire Liquor and Wine Outlets and 20% less than the regular F.O.B. price at the warehouse. Holders of off-premises retail licenses with annual purchases exceeding $350,000 shall receive a discount of 15% less than the regular F.O.B. price at the warehouse.

Tobacco Tax. Effective July 6, 1999, the cigarette tax rate increased by 15 cents to a rate of 52 cents per package of 20 cigarettes. The increase was dedicated for the Education Fund. Effective July 1, 2005, the tax was increased to 80 cents per pack, and effective July 1, 2007 the tax was increased to $1.08 per pack. Smokeless and loose tobacco is generally taxed at a rate proportionate to the cigarette tax, but was not subject to the tax increase effective July 1, 2007. Effective July 1, 2008, the definition of a cigarette was changed to include any roll of tobacco wrapped in any substance containing tobacco, weighing not more than 3 lbs. per thousand, which would include the taxation of some little cigars. Chapter 296 of the Laws of 2008 provided for a contingent 25 cent increase per package of 20 cigarettes. Because the tobacco tax revenue for the period July 1, 2008 through September 30, 2008 as certified by the Commissioner of Revenue Administration on October 15, 2008 was less than $50.0 million, the 25 cent per pack increase took effect on such date. The tobacco tax now amounts to $1.33 per package of 20 cigarettes. The State currently estimates an increase of approximately $17.0 million in tobacco tax revenue for fiscal year 2009 due to this increase.

Medicaid Enhancement Revenues. Effective July 1, 1993, the State lowered the Medicaid enhancement tax rate from 8% to 6%, and effective July 1, 2007, the State lowered such tax to 5.5%. Previously, the tax was assessed against the gross patient services revenue of hospitals operating in the State. "Gross patient services revenue" is defined as the amount that a hospital records at the hospital's established rates for patient services, regardless of whether full payment of such amounts is expected or paid. As of July 1, 2005, the tax is assessed against net patient services revenue, which means the gross charges of the hospital, less any deducted amount for bad debts, charity care and payor discounts. 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% and ocean marine insurance that will continue to be taxed on an underwriting profit basis. 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 changed the collection of the tax from quarterly to annually on or before March 15 of each year. Under an insurance retaliatory statute, the State collects the greater of premium tax calculated by the effective New Hampshire premium tax rate or premium tax calculated by the effective tax rate of the state of which each insurer is domiciled. As of December 31, 2007, companies of twenty-seven states having a higher premium tax rate in their domiciliary states were licensed in the State. Premium tax on unlicensed companies ranges from 2% to 4% of premiums written.

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

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

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

Real Estate Transfer Tax. The real estate transfer tax was first enacted in 1967. Chapter 17 of the Laws of 1999 increased the permanent tax rate assessed on the sale, granting, and transfer of real estate and any interest in real estate from $.50 per $100 to$.75 per $100, or fractional part thereof, of the price or consideration effective July 1, 1999. The increase has been dedicated to the Education Fund. This rate is assessed on both the buyer and the seller for the combined tax rate of $1.50 per $100. Where the price or consideration is $4,000 or less, there is a minimum tax of $20 assessed on both the buyer and seller. Chapter 158 of the Laws of 2001 removed the exception from the tax on transfer of real property for transfers of the title pursuant to a merger, consolidation or other reorganization qualifying as a tax-free reorganization. It also removed the exception of the transfer of title from one business entity to another, the ownership interest of which may be the same. These changes were effective for transfers occurring on or after July 1, 2001. Effective July 1, 2008, an additional $25 fee was legislated to be assessed for the recording of each deed, mortgage, mortgage discharge, or plan. This assessment is recorded with the LCHIP stamp.

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

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:

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

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

Fuel Tax. The State imposes a tax upon the sale of each gallon of motor fuel sold in the State at the rate of 18 cents per gallon for motor vehicle and marine fuels, 4 cents per gallon for aviation fuel, and 2 cents per gallon for aviation jet fuel. The proceeds from the aviation and aviation jet fuel tax are credited to the General Fund. The proceeds of the motor vehicle gasoline tax are credited to the Highway Fund and, while not pledged, are required to be used first for the payment of principal of and interest on bonds or notes of the State issued for highway purposes. Prior to July 1, 2007, 2.64 cents of the 18 cent motor vehicle fuel tax was allocated to a separate account in the Highway Fund, the Highway and Bridge Betterment Account. Effective July 1, 2007, the amount allocated to the separate Highway and Bridge Betterment Account was reduced to 1.76 cents.

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 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.

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's 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. 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 reduced 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's 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.

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

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

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

- Business Taxes (Business Profits Tax and Business Enterprise Tax) totaled $598.7 million for the year, which were $74.8 million ahead of plan and $52.5 million above the prior year. The growth in fiscal year 2007 was a combination of audit revenue collections during the year and increases in final returns and extensions filed in March and April.

- Interest & Dividends Tax collections were $108.1 million and were above plan by $34.8 million and $27.6 million above prior year. Stronger economic growth and higher interest and dividend activity resulted in many new taxpayers exceeding exemption thresholds.

- The “Other” category saw receipts of $191.8 million, which were $32.2 million above plan and $34.8 million above prior year due in large part to an escheatment processed by the Treasury Department which included unclaimed shares received by the State in fiscal year 2004 related to the demutualization of insurance companies. It should be noted, however, that in accordance with accounting standards, a substantial portion of this escheatment had been previously recognized as revenue and included in prior year surplus.

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

- The Real Estate Transfer Tax performed below expectations with receipts totaling $137.4 million, which were below the plan by $43.6 million and below prior year by $21.3 million.   Due to the significant downturn in the housing market, the weak performance of the Real Estate Transfer Tax which began during the second half of fiscal year 2006 continued throughout fiscal year 2007, ending the year 24.1% and 13.4% below estimates and prior year, respectively.

- Although the Meals and Rooms Tax performed below expectations with receipts totaling $209.8 million, which were $7.8 million (3.6%) below plan, receipts exceeded the prior year by $8.9 million (4.4%).

- The Tobacco Tax collected $143.6 million for the year, $0.9 million below plan and $7.2 million (4.8%) below prior year due to a decrease in demand for tobacco products.

Total net appropriations, including lapses, anticipated budget reductions and savings from budget initiatives, for the General and Education Fund were $2,229.6 million, which was a minimal 2% increase over the prior year. Lapses for fiscal 2007 for the General and Education Funds were $46.1 million as compared to $29.4 million for fiscal year 2006. Although lapses from salaries and benefits decreased from the prior year, these were more than offset by significant lapses from certain program areas including retiree benefits, 2006 flood relief and property tax relief.

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

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

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

- Real Estate Transfer Tax collections totaled $116.3 million, which were $23.7 million (17%) below plan and $21.1 million (15%) below the prior year.

- Business Taxes totaled $618.1 million, which were $19.9 million (3%) below plan and $19.4 million (3%) above the prior year.

- The Tobacco Tax collected $166.4 million, which was $17.0 million (9%) below plan and $22.8 million (16%) above the prior year due to the tax increase implemented at the beginning of the fiscal year.

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

- Executive Order 2008-1, issued on February 22, 2008, reduced expenditures by $3.4 million by freezing vacant positions, equipment, and out of state travel.

- Executive Order 2008-2, targeted savings of approximately $46.4 million, which included $44.4 million of appropriation reductions plus a $2.0 million payment from the University System in lieu of a reduction in appropriations. This order targeted cuts across all State agencies, with approximately $22.5 million coming from the Department of Health and Human Services. The actual fiscal year 2008 savings realized by this order totaled approximately $40.9 million.

- Executive Order 2008-5, issued on April 29, 2008, froze State purchases except those considered an emergency.

In addition to the executive orders discussed above, Chapter 1 of the 2008 Special Legislative Session mandates the Pease Development Authority repay the State $10 million loaned to the Authority in 1993 and 1994 for start up costs. The legislation requires the Authority repay the $10 million by December 1, 2008 and also increases the State guarantee limit on Authority related debt, in order to permit the Authority to finance the payment. The $10 million receivable from the Authority is included in the $17.2 million fiscal year 2008 surplus discussed above. It is expected that the Pease Development Authority will pay the State $10 million by December 1, 2008. In the event the Authority does not repay by December 1, 2008, the State's fiscal year 2008 surplus amount will decrease by the amount not paid by the Authority.

General and Education Fund total net appropriations for fiscal year 2008, including budget reductions and lapses, were $2,411.6 million, $182.0 million (8%) above the prior year primarily due to increases in education grants, health and social services and aid to cities and towns. Lapses for fiscal 2008 for the General and Education Funds were $61.3 million as compared to $46.1 million for fiscal year 2007. Salaries and benefits lapses accounted for slightly over half of this increase as a result of the hiring freezes and employee health benefit savings. Fiscal year 2008 lapses attributable to the Executive Orders and other targeted savings initiatives totaled approximately $35.3 million for fiscal year 2008.

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

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 2004 through 2008. The information for fiscal years 2004 through 2007 is derived from the State's audited financial statements. The fiscal year 2008 information is unaudited and subject to change.

GENERAL FUND AND EDUCATION FUND UNRESTRICTED REVENUES
FISCAL YEARS 2004-2008
(GAAP Basis-In Millions)

	FY 2004			FY 2005			FY 2006			FY 2007			(Unaudited) FY 2008		
Revenue Category	General	Education	Total	General	Education	Total	General	Education	Total	General	Education	Total	General	Education	Total
Business Profits Tax	$131.6	$ 41.0	$172.6	$196.6	$ 50.7	$247.3	$264.0	$56.6	$320.6	$287.4	$57.8	$345.2	$ 317.4	$68.0	$385.4
Business Enterprise Tax	118.5	116.9	235.4	114.1	130.6	244.7	75.2	150.4	225.6	79.3	174.2	253.5	77.7	155.0	232.7
Subtotal	250.1	157.9	408.0	310.7	181.3	492.0	339.2	207.0	546.2	366.7	232.0	598.7	395.1	223.0	618.1
Meals & Rooms Tax	178.5	6.9	185.4	186.5	7.1	193.6	193.8	7.1	200.9	202.6	7.2	209.8	206.7	7.5	214.2
Tobacco Tax	71.5	28.6	100.1	73.3	28.2	101.5	69.9	80.9	150.8	65.3	78.3	143.6	57.1	109.3	166.4
Liquor Sales and Distribution	106.7	-	106.7	112.6	-	112.6	120.6	-	120.6	124.7	-	124.7	133.1		133.1
Interest & Dividends Tax	55.6	-	55.6	67.9	-	67.9	80.5	-	80.5	108.1	-	108.1	118.8		118.8
Insurance Tax	86.2	-	86.2	88.7	-	88.7	90.5	-	90.5	97.9	-	97.9	95.9		95.9
Communications Tax	65.8	-	65.8	70.0	-	70.0	70.5	-	70.5	73.0	-	73.0	80.9		80.9
Real Estate Transfer Tax	95.2	47.5	142.7	107.8	52.0	159.8	106.2	52.5	158.7	91.7	45.7	137.4	77.7	38.6	116.3
Estate and Legacy Tax	27.0	-	27.0	11.7	-	11.7	3.2	-	3.2	0.6	-	0.6	0.2		0.2
Lottery Transfers	-	73.7	73.7	-	70.3	70.3	-	82.0	82.0	-	80.5	80.5		77.1	77.1
Tobacco Settlement	1.8	40.0	41.8	2.4	40.0	42.4	-	39.0	39.0	-	40.8	40.8	8.4	40.0	48.4
Utility Property Tax	-	20.2	20.2	-	20.1	20.1	-	20.9	20.9	-	21.8	21.8		24.2	24.2
State Property Tax[1]	-	473.2	473.2	-	371.3	371.3	-	363.4	363.4	-	363.3	363.3		363.1	363.1
Other	167.0	-	167.0	150.7	-	150.7	157.0	-	157.0	191.8	-	191.8	196.8	-	196.8
Subtotal	1,105.4	848.0	1,953.4	1,182.3	770.3	1,952.6	1,231.4	852.8	2,084.2	1,322.4	869.6	2,192.0	1,370.7	882.8	2,253.5
Net Medicaid Enhancement Revenues	149.8	-	149.8	147.2	-	147.2	73.6	-	73.6	83.3	-	83.3	93.1		93.1
Recoveries	20.4	-	20.4	23.0	-	23.0	24.5	-	24.5	15.9	-	15.9	20.1	-	20.1
Subtotal	1,275.6	848.0	2,123.6	1,352.5	770.3	2,122.8	1,329.5	852.8	2,182.3	1,421.6	869.6	2,291.2	1,483.9	882.8	2,366.7
Other Medicaid Enhancement Revenues to Fund Net Appropriations	35.1	-	35.1	39.1	-	39.1	-	-	-	-	-	-	-	-	-
Total	$1,310.7	$848.0	$2,158.7	$1,391.6	$770.3	$2,161.9	$1,329.5	$852.8	$2,182.3	$1,421.6	$869.6	$2,291.2	$1,483.9	$882.8	$2,366.7

[1] The amounts of the state property tax retained locally and not retained locally have been combined for fiscal year 2004. The amount of state property tax not retained locally was $29.8 million for fiscal year 2004.

GENERAL FUND AND EDUCATION FUND NET APPROPRIATIONS
FISCAL YEARS 2004-2008
(GAAP Basis)
(In Millions)

	FY 2004			FY 2005			FY 2006			FY 2007			(Unaudited) FY 2008		
Category of Government	General	Education	Total	General	Education	Total	General	Education	Total	General	Education	Total	General	Education	Total
General Government	$237.2	$0.0	$237.2	$238.0	$0.0	$238.0	$263.3	$0.0	$263.3	$276.2	$0.0	$276.2	$311.2	$0.0	$311.2
Justice and Public Protection	164.4	-	164.4	192.9	-	192.9	219.7	-	219.7	221.7	-	221.7	346.6	-	246.6
Resource Protection and Development	71.4	-	71.4	35.9	-	35.9	41.3	-	41.3	42.2	-	42.2	43.9	-	43.9
Transportation	2.4	-	2.4	2.4	-	2.4	6.0	-	6.0	2.6	-	2.6	1.1	-	1.1
Health and Social Services	605.6	-	605.6	626.0	-	626.0	604.8	-	604.8	626.4	-	626.4	675.6	-	675.6
Education	246.8	895.0	1,141.8	256.0	812.0	1,068.0	211.1	846.5	1,057.6	221.9	838.6	1,060.5	235.8	897.4	1,133.2
Net Appropriations	$1,327.8	$895.0	$2,222.8	$1,351.2	$812.0	$2,163.2	$1,346.2	$846.5	$2,192.7	$1,391.0	$838.6	$2,229.6	$1,514.2	$897.4	$2,411.6

The following table sets out the General Fund and Education Fund undesignated fund balances and the amounts reserved for the Revenue Stabilization Account for each of the fiscal years 2004 through 2008. The information for fiscal years 2004 through 2007 is derived from the State's audited financial statements. The fiscal year 2008 information is unaudited and is subject to change.

GENERAL FUND AND EDUCATION FUND BALANCES
FISCAL YEARS 2004–2008
(GAAP Basis - In Millions)

	FY 2004			FY 2005			FY 2006			FY 2007			(Unaudited) FY 2008		
	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	$15.3	$0.0	$15.3	$82.2	$0.0	$82.2	$26.0	$8.4	$34.4	$61.7	$0.0	$61.7
Additions:															
Unrestricted Revenue	1,310.7	848.0	2,158.7	1,391.6	770.3	2,161.9	1,329.5	852.8	2,182.3	1,421.6	869.6	2,291.2	1,483.9	882.8	2,366.7
Transfers from General Fund	-	62.6	62.6	-	61.4	61.4	-	-	-	-	-	-	-	-	-
Total Additions	1,310.7	910.6	2,221.3	1,391.6	831.7	2,223.3	1,329.5	852.8	2,182.3	1,421.6	869.6	2,291.2	1,483.9	882.8	2,366.7
Deductions:															
Appropriations Net of Estimated Revenues	(1,362.3)	(895.0)	(2,257.3)	(1,409.2)	(793.0)	(2,202.2)	(1,380.2)	(841.9)	(2,222.1)	(1,432.6)	(843.1)	(2,275.7)	(1,575.8)	(897.1)	(2,472.9)
Less: Lapses	34.5	-	34.5	58.0	(19.0)	39.0	34.0	(4.6)	29.4	41.6	4.5	46.1	61.6	(0.3)	61.3
Total Net Appropriations	(1,327.8)	(895.0)	(2,222.8)	(1,351.2)	(812.0)	(2,163.2)	(1,346.2)	(846.5)	(2,192.7)	(1,391.0)	(838.6)	(2,229.6)	(1,514.2)	(897.4)	(2,411.6)
GAAP and Other Adjustments	1.5	(7.7)	(6.2)	4.0	2.8	6.8	12.2	2.1	14.3	(15.5)	1.2	(14.3)	7.9	(0.7)	7.2
Other One-Time Revenue Adjustments:															
HHS Revenue Enhancements	19.2	-	19.2	-	-	-	-	-	-	-	-	-	-	-	-
Other Revenue Adjustments	3.8	-	3.8	-	-	-	-	-	-	-	-	-	-	-	-
Current Year Balance	7.4	7.9	15.3	44.4	22.5	66.9	(4.5)	8.4	3.9	15.1	32.2	47.3	(22.4)	(15.3)	(37.7)
Transfers (to)/from:															-
Revenue Stabilization Account	-	-	-	-	-	-	(51.7)	-	(51.7)	(20.0)	-	(20.0)			
Highway Fund	-	-	-	-	-	-	-	-	-	-	-	-	(6.8)		(6.8)
Education Fund	7.9	(7.9)	-	22.5	(22.5)	-	-	-	-	40.6	(40.6)	-	(15.3)	15.3	-
Undesignated Fund Balance, June 30	$15.3	$0.0	$15.3	$82.2	$0.0	$82.2	$26.0	$8.4	$34.4	$61.7	$0.0	$61.7	$17.2	$0.0	$17.2
Reserved for Revenue Stabilization Account	$17.3	-	$17.3	$17.3	-	$17.3	$69.0	-	$69.0	$89.0	-	$89.0	$89.0	-	$89.0
Total Equity	$32.6	$0.0	$32.6	$99.5	$0.0	$99.5	$95.0	$8.4	$103.4	$150.7	$0.0	$150.7	$106.2	(0.0)	$106.2

Fiscal Year 2009

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

General and Education Fund revenues for the first four months of fiscal year 2009 were $601.8 million, which were $71.5 million (10.6%) below plan and $32.4 million (5.1%) below the prior year. As experienced in fiscal year 2008, business taxes and the Real Estate Transfer Tax continue to drive the underperformance in revenues. Business taxes were $47.6 million (25.6%) below plan for the four months and $31.9 million (18.7%) below the prior year.

In preparing for an expected revenue shortfall of $90 million in fiscal year 2009, the Governor issued executive orders in fiscal year 2008 to reduce fiscal year 2009 spending:

- Executive Order 2008-1, initially issued on February 22, 2008 and expanded to include all of fiscal year 2009 on June 17, 2008, is expected to reduce expenditures by $8 million.

- Executive Order 2008-9, issued on June 17, 2008, reduced fiscal year 2009 appropriations by $30.1 million.

- Executive Order 2008-8, issued on June 17, 2008, froze state purchases except those considered an emergency.

In addition to the budget reductions made by the above-described executive orders, the Governor and the Legislature cut judicial and legislative budgets for a total of $2.1 million, decreased the discounts received by liquor distributors to raise an additional $7.5 million, and closed a loophole on games of chance revenue to raise $1.5 million. The executive orders, legislative reductions and increases are expected to result in an additional $49.2 million toward the shortfall in the operating budget. In addition, a provision was made in law to bond up to $40 million of the school building aid program, to the extent there is a general fund undesignated deficit at the end of fiscal year 2009. The school building aid program reimburses school districts for a portion of principal payments made on school construction debt. This program has historically been funded from current revenues rather than long term bonding.

On October 15, 2008, the Commissioner of Administrative Services reported that State General and Education Fund revenues for fiscal year 2009 could fall short of budgeted revenues by approximately $250 million. Business profits and enterprise taxes and real estate transfer tax make up 75% of that projected shortfall. On October 2, 2008 the Governor requested an 8% expense reduction plan from all agencies in addition to the reductions made through Executive Orders 2008-1 and 2008-9. These additional reductions will likely result in a November executive order that will further reduce expenditures by $55 million. The Governor continues to work on a plan to address the remaining revenue shortfall of approximately $100 million. Given the current nature of the national and regional economies and of the financial markets, these estimates are likely to change and are likely to worsen.

On September 24, 2008, Governor Lynch signed into law a bill that would provide $11.2 million in additional fuel assistance and enhanced weatherization services to income eligible New Hampshire citizens. Of the $11.2 million, $10 million will be reimbursed by recently approved federal heating assistance dollars. Revenues received from the Regional Greenhouse Gas Initiative (RGGI) carbon credits auction in December 2008 will reimburse the final $1.2 million. Pursuant to RSA 125-O Regional Greenhouse Gas Initiative (RGGI), the State will participate in periodic regional auctions of carbon credits. Proceeds from the auctions will be credited to a special nonlapsing fund to support energy efficiency, conservation and demand response programs to reduce greenhouse gas emissions.

Operating Budget

Fiscal Years 2010 and 2011. As required by statute, the Department of Administrative Services and State agencies are currently working on the State's operating budget for the next biennium (fiscal years 2010 and 2011). By law, agencies must submit a maintenance budget, requesting funding needed to maintain services currently being provided. In addition to the maintenance budget, the Governor has requested that all agencies submit a budget for fiscal year 2010 and fiscal year 2011 that represents 97% and 100%, respectively, of the reduced funding level for fiscal year 2009. As part of the implementation of the new statewide Enterprise Resource Planning system, the 2010-2011 biennial budget is being built and loaded into a new Affinity software system.

The following table presents a comparison of General Fund and Education Fund unrestricted revenues for fiscal years 2007 through 2009. The fiscal year 2007 information is derived from the State's audited financial statements, the fiscal year 2008 information is unaudited and subject to change, and the 2009 information is based on the biennial operating budget as in effect on July 1, 2007.

GENERAL FUND AND EDUCATION FUND UNRESTRICTED REVENUES
ACTUAL AND BUDGET
FISCAL YEARS 2007-2009
(GAAP Basis-In Millions)

	Actual Fiscal Year 2007			Actual (Unaudited) Fiscal Year 2008			Operating Budget Fiscal Year 2009		
Revenue Category	General	Education	Total	General	Education	Total	General	Education	Total
Business Profits Tax	$287.4	$57.8	$345.2	$317.4	$68.0	$385.4	$320.0	$68.6	$388.6
Business Enterprise Tax	79.3	174.2	253.5	77.4	155.0	232.7	95.1	190.3	285.4
Subtotal	366.7	232.0	598.7	395.1	223.01	618.1	415.1	258.9	674.0
Meals & Rooms Tax	202.6	7.2	209.8	206.7	7.5	214.2	221.8	8.2	230.0
Tobacco Tax	65.3	78.3	143.6	57.1	109.3	166.4	60.3	115.6	175.9
Liquor Sales and Distribution	124.7	-	124.7	133.1	-	133.1	146.1	-	146.1
Interest & Dividends Tax	108.1	-	108.1	118.8	-	118.8	126.0	-	126.0
Insurance Tax	97.9	-	97.9	95.9	-	95.9	98.3	-	98.3
Communications Tax	73.0	-	73.0	80.9	-	80.9	82.9	-	82.9
Real Estate Transfer Tax	91.7	45.7	137.4	77.7	38.6	116.3	97.1	48.5	145.6
Estate and Legacy Tax	0.6	-	0.6	0.2	-	0.2	-	-	-
Transfers from Lottery	-	80.5	80.5	-	77.1	77.1	-	89.3	89.3
Tobacco Settlement	-	40.8	40.8	8.4	40.0	48.4	9.3	40.0	49.3
Utility Property Tax	-	21.8	21.8	-	24.2	24.2	-	23.6	23.6
State Property Tax	-	363.3	363.3	-	363.1	363.1	-	363.0	363.0
Other	191.8	-	191.8	196.8	-	196.80	180.8	-	180.8
Subtotal	1,322.4	869.6	2,192.0	1,370.7	882.8	2,253.5	1,437.7	947.1	2,384.8
Net Medicaid Enhancement Revenues	83.3	-	83.3	93.1	-	93.1	91.8	-	91.8
Recoveries	15.9	-	15.9	20.1	-	20.1	14.6	-	14.6
Total	$1,421.6	$869.6	$2,291.2	$1,483.9	$882.8	$2,366.7	$1,544.1	$947.1	$2,491.2

The following table compares on a cash basis, for the four months ended October 31, 2008, General Fund and Education Fund unrestricted revenues for the fiscal years 2008 and 2009 and a comparison to the revenue estimates for fiscal year 2009. The revenue estimates reflected in the plan are based on those revenues defined in Chapter 262, Laws of 2007, the State budget law for fiscal year 2009, and do not reflect the more recent downward revisions described above. 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 FOUR MONTHS ENDED OCTOBER 31, 2008
(Cash Basis-In Millions)

Revenue Category	FY08 Actual	FY09 Actual	FY09 Plan	FY09 vs Plan Variance	FY09 vs Plan %Change	FY09 vs FY08 Variance	FY09 vs FY08 %Change
Business Profits Tax	$104.3	$ 80.5	$105.4	$ (24.9)	-23.6%	$ (23.8)	-22.8%
Business Enterprise Tax	65.9	57.8	80.5	(22.7)	-28.2	(8.1)	-12.3
Subtotal	170.2	138.3	185.9	(47.6)	-25.6	(31.9)	-18.7
Meals & Rooms Tax	87.2	86.4	91.9	(5.5)	-6.0	(0.8)	-0.9
Tobacco Tax	63.2	68.1	66.6	1.5	2.3	4.9	7.8
Liquor Sales and Distribution	47.6	49.6	52.1	(2.5)	-4.8	2.0	4.2
Interest & Dividends Tax	22.0	26.1	23.4	2.7	11.5	4.1	18.6
Insurance Tax	3.8	4.3	3.6	0.7	19.4	0.5	13.2
Communications Tax	26.4	27.7	27.6	0.1	0.4	1.3	4.9
Real Estate Transfer Tax	49.2	38.9	57.4	(18.5)	-32.2	(10.3)	-20.9
Estate and Legacy Tax	0.1	-	-	-	-	(0.1)	-100.0
Transfers from Lottery	22.2	18.0	22.2	(4.2)	-18.9	(4.2)	-18.9
Tobacco Settlement	-	-	-	-	-	-	-
Utility Property Tax	5.2	7.5	5.1	2.4	47.1	2.3	44.2
State Property Tax	-	-	-	-	-	-	-
Other	43.6	41.1	41.8	(0.7)	-1.7	(2.5)	-5.7
Subtotal	540.7	506.0	577.6	(71.6)	-12.4	(34.7)	-6.4
Net Medicaid Enhancement Revenues	88.7	89.7	90.9	(1.2)	-1.3	1.0	1.1
Recoveries	4.8	6.1	4.8	1.3	27.1	1.3	27.1
Total	$634.2	$601.8	$673.3	$(71.5)	-10.6%	(32.4)	-5.1%

The following table presents a comparison of General Fund and Education Fund net appropriations for fiscal years 2007, 2008 and 2009. The fiscal year 2007 information is derived from the State's audited financial statements. The fiscal year 2008 information is actual (unaudited) and subject to change, and the fiscal year 2009 information is based on the operating budget for fiscal year 2009 as in effect on July 1, 2007.

GENERAL FUND AND EDUCATION FUND NET APPROPRIATIONS
ACTUAL AND BUDGET
FISCAL YEARS 2007-2009
(In Millions)

	Actual FY 2007			Actual (Unaudited) FY 2008			Operating Budget FY 2009		
Category of Government	General	Education	Total	General	Education	Total	General	Education	Total
General Government	$276.2	$0.0	$276.2	$311.2	$0.0	$311.2	$326.3	$0.0	$326.3
Justice and Public Protection	221.7	-	221.7	246.6	-	246.6	258.9	-	258.9
Resource Protection and Development	42.2	-	42.2	43.9	-	43.9	46.8	-	46.8
Transportation	2.6	-	2.6	1.1	-	1.1	7.7	-	7.7
Health and Social Services	626.4	-	626.4	675.6	-	675.6	717.6	-	717.6
Education	221.9	838.6	1,060.5	235.8	897.4	1,133.2	248.2	897.7	1,145.9
Net Appropriations	$1,391.0	$838.6	$2,229.6	$1,514.2	$897.4	$2,411.6	$1,605.5	$897.7	$2,503.2

The following table sets out the General Fund and Education Fund undesignated fund balances and the amounts designated for the Revenue Stabilization Account for fiscal years 2007, 2008 and 2009. The fiscal year 2007 information is derived from the State's audited financial statements. The fiscal year 2008 information is unaudited and subject to change, and the fiscal year 2009 information is based on the operating budget (as in effect on July 1, 2007) and uses the actual (unaudited) undesignated fund balance at July 1, 2008.

GENERAL FUND AND EDUCATION FUND BALANCES
FISCAL YEARS 2007 – 2009
(GAAP Basis - In Millions)

	FY 2007			FY 2008			FY 2009		
	Actual			Actual (Unaudited)			Operating Budget		
	General	Education	Total	General	Education	Total	General	Education	Total
Undesignated Fund Balance, July 1	$26.0	$8.4	$34.4	$61.7	$0.0	$61.7	$17.2	$0.0	$17.2
Additions:									
Unrestricted Revenue	1,421.6	869.6	2,291.2	1483.9	882.8	2,366.7	1,544.2	947.1	2,491.3
Transfers from General Fund	-	-	-	-	-	-	-	-	-
Total Additions	1,421.6	869.6	2,291.2	1,483.9	882.8	2,366.7	1,544.2	947.1	2,491.3
Deductions:									
Appropriations Net of Estimated Revenues	(1,432.6)	(843.1)	(2,275.7)	(1,575.8)	(897.1)	(2,472.9)	(1,644.8)	(897.7)	(2,542.5)
Less: Lapses	41.6	4.5	46.1	61.6	(0.3)	61.3	39.3	-	39.3
Total Net Appropriations	(1,391.0)	(838.6)	(2,229.6)	(1,514.2)	(897.4)	(2,411.6)	(1,605.5)	(897.7)	(2,503.2)
GAAP and Other Adjustments	(15.5)	1.2	(14.3)	7.9	(0.7)	7.2	-	-	-
Current Year Balance	$15.1	$32.2	$47.3	$(22.4)	$(15.3)	$(37.7)	$(61.3)	$49.4	$(11.9)
Transfers (to)/from:									
Revenue Stabilization Account	(20.0)	-	(20.0)	-	-	-	-	-	-
Highway Fund	-	-	-	(6.8)		6.8	-	-	-
Education Fund	40.6	(40.6)	-	(15.3)	15.3	-	49.4	(49.4)	-
Undesignated Fund Balance, June 30	$61.7	$0.0	$61.7	$17.2	$0.0	$17.2	$5.3	$0.0	$5.3
Reserved for Revenue Stabilization Account	$89.0	-	$89.0	$89.0	-	$89.0	$89.0	-	$89.0
Total Equity	$150.7	$0.0	$150.7	$106.2	$0.0	$106.2	$94.3	$0.0	$94.3

MEDICAID PROGRAM

Office of the Inspector General Report. Starting in April 2005, auditors from the Office of the Inspector General ("OIG") of the Federal Department of Health and Human Services ("DHHS") began a review of the State's Department of Health and Human Services. The primary focus of their review was to determine whether the Disproportionate Share Hospital ("DSH") payments that the State agency claimed for Federal Fiscal Year ("FFY") 2004 complied with the hospital-specific DSH limits imposed by Federal requirements and the State plan. The auditors provided the State with a draft report in February 2007. The State responded to the draft report in April 2007. The OIG issued their final report in July 2007. The State's response to the draft report was included in the final OIG report. The State subsequently submitted a letter to the federal Centers for Medicare and Medicaid Services' action official in August 2007 outlining areas where the State believes the OIG auditors' interpretation and application of applicable regulations is in error. No further action has occurred as of this date.

The OIG report contends the State claimed disproportionate share hospital payments for FFY 2004 that did not comply with the hospital-specific disproportionate share hospital limits using Medicare cost principles of reimbursement. The OIG auditors recommend that the State refund $35 million to the federal government, work with the federal Centers for Medicare and Medicaid Services to review payments claimed after the audit period, and establish policies and procedures to ensure future compliance with calculating hospital-specific limits.

The State believes the auditors made incorrect findings using procedures not formally adopted in law or administrative rule, misapplied Medicare principles to the Medicaid program, and ignored long standing federal Centers for Medicare and Medicaid Services guidance to the State on how the program should be administered and payments calculated.

The OIG report is a review with findings and recommendations. Remedial action, if any, is left to the federal Centers for Medicare and Medicaid Services (CMS) through its action official to determine and implement in conjunction with the State. During a meeting with Boston regional CMS staff in 2008, the State was informed the audit was being handled by the headquarters office in Baltimore, Maryland and that the fall of 2008 was the earliest there would be comment. To date, the State has heard nothing further from CMS.

In years subsequent to FFY 2004, the State made two significant unrelated changes to the program in response to federal law and CMS guidance, both of which reduced the amount of federal DSH participation received by the State. The State General Fund currently receives approximately $90 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.

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 on August 17, 2007, the Supreme Court reversed the Superior Court's order and found that the taxpayers had failed to meet their burden. No motion to reconsider was filed. As a result, this matter is now concluded.

The case of *A.P. Tibbetts Trust, Donald Stevens, Linda Stevens, J.P. Nadeau, James P. Nadeau, III, Split Rock Cover Limited Partnership v. Town of Rye* and its companion case of *J.P. Nadeau, et al. v. City of Portsmouth* again challenge the constitutionality of the statewide education property tax as assessed against them in 2006. Petitioners are all property taxpayers in Rye and Portsmouth. They allege that the assessing practices throughout the State are not uniform enough to ensure the constitutionally required proportionality necessary for allocating the statewide property tax between individual taxpayers in different communities. They also allege that the statewide property tax is unconstitutional as the State did not define an adequate education resulting in the formula used to distribute State funds and assess the statewide property tax being unconstitutional. Petitioners voluntarily nonsuited. As a result, this matter is now concluded.

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 were 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 included 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 included 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 the request at that time.

The *Nashua* case was 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.

In January 2007, Governor Lynch organized a working group to draft the criteria and substantive programs for an adequate education. That draft definition was the basis for House Bill 927 ("HB 927"). HB 927 includes a detailed statement of purpose explaining its interaction with all of the State's education statutes and regulations. HB 927 defines nine essential opportunities for education from the State's school approval standards in: English/language arts, mathematics, science, social studies, art education, world languages, health education, physical education, technology education including information and communication technologies. HB 927 also adopts the State's curriculum frameworks in these essential opportunities as guides for teaching these subjects. A legislative oversight committee is also established in HB 927 to provide more direct input into modifications or additions to the State's school approval standards. A legislative costing committee is also established to determine the cost of an adequate education in accordance with HB 927's definition. HB 927 was the subject of at least seven public hearings across the State where legislators from both houses met and listened to comments from educators and the public. HB 927 passed both houses and was signed by Governor Lynch on June 29, 2007. See Chapter 270 of the Laws of 2007.

On July 20, 2007, the Supreme Court issued orders in both the *Londonderry* and *Nashua* cases requiring the parties to file a response as to whether the cases should be remanded based on the Legislature's actions. Londonderry filed a response offering to dismiss its case if the State agreed to cost and fund an adequate education and develop a new accountability system by June 30, 2008. The State declined this offer and asked that the matter either be dismissed or stayed until the end of the 2008 Legislative Session. Nashua responded that it wanted its appeal to proceed to argument and was requesting approximately $5 million in damages plus attorneys' fees. The State argued that Nashua was not entitled to either damages or attorneys' fees and that this matter should be dismissed as moot. On September 14, 2007, the Supreme Court issued an order in *Londonderry* staying the case until July 1, 2008, but allowing any party to move "for good cause shown to lift the stay." On September 20, 2007, the Supreme Court issued an order in *Nashua* remanding the case to the Hillsborough County Superior Court for further proceedings. In August, 2008 the State settled the Nashua case for a payment of $125,000.

On July 25, 2008, the New Hampshire Supreme Court issued an order in the Londonderry case requiring the parties to file a response as to whether the case should be dismissed without prejudice or remanded based on the Legislature's actions. Londonderry filed a response requesting that the Court retain jurisdiction. The State filed a response requesting that the Court dismiss the case because any challenge to the costing and funding challenged in the Londonderry case, namely Chapter 257 of the Laws of 2005 ("HB 616"), is moot as a result of the Legislature's enactment of Chapter 173 of the Laws of 2008 ("SB 539"). On October 15, 2008, the Supreme Court dismissed the case without prejudice. The case could be re-brought in Superior Court.

The legislative costing committee, established under HB 927, held regular meetings and took public and expert testimony on a funding formula for an adequate education. The committee issued its report on February 1, 2008. It can be viewed in its entirety at http://www.gencourt.state.nh.us/statstudcomm/reports/1900.pdf. Senate Bill 539 was introduced on February 21, 2008, to implement recommendations contained in the report for the fiscal year beginning July 1, 2009. The plan is expected to cost $940 million, approximately $44 million more than the State now spends. Senate Bill 539 was passed by the Legislature and enacted in accordance with Article 44, Part II of the New Hampshire Constitution without the signature of the Governor on June 10, 2008.

Currently, the legislative committee reviewing the education accountability system, established under Senate Bill 539, is meeting on a weekly basis performing its charge of reviewing all of the State's statutes and regulations relating to accountability. The committee's report is due on November 15, 2008.

In February, 2008, the companion cases of *Worth Development Corp. v. Department of Revenue Administration ("DRA"), 100 Market St. v. DRA, Lawrence P. McManus and Mary Elizabeth Herbert v. DRA, Dale W. Smith and Sharyn Smith v. DRA, Split Rock Cove Limited Partnership v. DRA, J.P. Nadeau v. DRA, Mirona Realty, Inc. v. DRA,* and *St. John's Masonic Assoc. v. DRA*, were filed. Petitioners appeal DRA's denial of their request for refund of all State Education Tax paid pursuant to RSA 76:3. Petitioners allege that the DRA's equalization process and the Tax and the system of assessment to determine the amount of Tax lack substantial uniformity and amount to intentional discrimination which results in the Petitioners being forced to pay an unjust, disproportionate, unconstitutional, and illegal tax. In June, 2008, the State filed a Motion to Dismiss the case alleging that Petitioners had failed to correctly appeal the denial of their requests for refund. The matter was heard in July, 2008, at which time, Petitioners filed a Motion to Amend their petition and added a declaratory judgment action challenging the constitutionality of the statewide education property tax. A decision on the State's Motion to Dismiss is pending. A trial is scheduled for September, 2009, on the declaratory judgment claim.

Hudson School District v. State of New Hampshire and Department of Education is a constitutional challenge to Chapter 384:3 of the Laws of 2008 requiring that all school districts institute public kindergarten by the 2009-2010 school year. In this petition for original jurisdiction filed in the New Hampshire Supreme Court, the Hudson School District is arguing that requiring public kindergarten is an unfunded mandate under the New Hampshire Constitution, Part 1, Article 28-A. The State intends to file a motion to dismiss this petition. Even if this motion to dismiss is granted, the Hudson School District could refile this suit in Superior Court.

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

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, 2008.

Debt Statement as of June 30, 2008
(In Thousands)

General Obligation Bonds:		
General Improvement	$468,489	
Turnpike[1]	2,682	
Highway	78,775	
University System of New Hampshire	138,652	
Total Direct General Obligation Debt		$688,598
Revenue Bonds:		
Turnpike System[2]		260,035
Contingent (Guaranteed) Debt:		
Water Pollution Control Bonds issued by Political Subdivisions	16,085	
Business Finance Authority	55,500	
Local School District School Bonds	8,975	
Pease Development Authority Revenue Bonds	0	
Local Landfill Bonds	295	
Division of Water Resources Board	0	
Housing Finance Authority-Child Care Providers	0	
Total Contingent Debt		80,855
Total Debt		1,029,488
Less: Self-Supporting and Contingent Debt:		
General Fund Self-Supporting Debt[3]	35,399	
Turnpike System Revenue Bonds	260,035	
Turnpike System General Obligation Bonds	2,682	
Highway	78,775	
University System of New Hampshire[4]	930	
Water Pollution Control Bonds	16,085	
Business Finance Authority	55,500	
Local School District School Bonds	8,975	
Pease Development Authority General Obligation Bonds	13,775	
Pease Development Authority Revenue Bonds	0	
Local Landfill Bonds	295	
Other[5]	3,805	
Total Self-Supporting and Contingent Debt		476,256
Total Net General Fund Debt[6]		$553,232

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

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[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 $3.8 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.

In addition to the debt presented above, at June 30, 2008, the State had short and long-term capital leases outstanding of $1,648,000 and $3,498,000, respectively, 89% of which relate to building space.

The State's debt management program has resulted in the State maintaining relatively low debt levels in recent years. The table below sets out the State's debt ratios over the past five years.

Certain General Obligation Debt Statistics
(Dollars in Thousands)

	June 30,				
	2004	2005	2006	2007	2008
Direct General Obligation Debt	$626,099[4]	$633,743	$644,715	$654,170	$688,598
Contingent (Guaranteed) Debt	116,467	101,526	97,401	87,455	80,855
Less: Self-Supporting Debt	(220,534)	(202,737)	(196,146)	(186,076)	(216,221)
Total Net General Fund Debt	$522,032	$532,532	$545,970	$555,549	$553,232
Per Capita Debt[1]:					
Direct General Obligation Bonds	$483	$486	$491	$497	$523
Net General Fund Debt	403	409	416	422	420
Ratio of Debt to Personal Income[1]:					
Direct General Obligation Bonds	1.3%	1.3%	1.2%	1.2%	1.3%
Net General Fund Debt	1.1	1.1	1.0	1.0	1.0%
Ratio of Debt to Estimated Full Value:					
Direct General Obligation Bonds	0.4%	0.4%	0.4%	0.4%	0.4%
Net General Fund Debt	0.4	0.3	0.3	0.3	0.3
General Fund Unrestricted Revenues[2]	$1,310,711	$1,391,586	$1,329,489	$1,421,700	$1,483,934
Debt Service Expenditures[3]	75,468	78,192	81,521	82,906	85,020
Debt Service as a Percent of General Fund Unrestricted Revenues	5.8%	5.6%	6.1%	5.8%	5.7%
Population (in thousands)	1,294	1,303	1,312	1,316	1,316
Total Personal Income (in millions)	$47,190	$48,941	$52,149	$54,622	$54,622
Estimated Full Value (in thousands)	$148,376,404	$165,222,644	$173,176,615	$173,624,015	$173,624,015

(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 2004 and 2005, 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, 2008

	General Obligation Debt	Net General Fund Debt
5 years	45%	44%
10 years	73	73
15 years	93	94
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,				
	2004	2005	2006	2007	2008
Beginning Debt	$606,585	$626,099	$633,743	$644,715	$654,170
Bonds Issued	80,000	117,800	75,000	196,885	161,320
Bond Anticipation Notes Issued	50,000	0	0	0	0
Total Net Debt	736,585	743,899	708,743	841,600	815,490
Less: Bonds Paid	60,486	60,156	64,028	64,866	66,892
Defeasance	0	0	0	122,564	60,000
Bond Anticipation Notes Paid	50,000	50,000	0	0	0
Ending Debt	$626,099	$633,743	$644,715	$654,170	$688,598

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, 2008.

Direct General Obligation Debt
as of June 30, 2008[(1)]
(In Thousands)

Fiscal Year Ending June 30,	Principal	Interest	Total
2009	$ 70,647	$39,048	$ 109,695
2010	66,996	36,618	103,614
2011	63.436	33,592	97,029
2012	55,496	27,265	82,761
2013	51,024	21,708	72,731
2014	44,714	18,760	63,473
2015	40,531	21,826	62,357
2016	38,691	17,228	55,919
2017	37,614	13,492	51,106
2018	35,910	9,403	45,313
2019	33,790	7,858	41,648
2020	29,295	6,368	35,663
2021	27,735	5,067	32,802
2022	24,030	4,004	28,034
2023	20,030	3,025	23,055
2024	19,630	2,147	21,777
2025	16,430	1,272	17,702
2026	7,200	536	7,736
2027	4,200	234	4,434
2028	1,200	57	1,257
Total	$688,598	$269,509	$958,107

(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. On October 8, 2008, the Governor and Council approved the issuance of up to $175 million of bond anticipation 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. There is currently no commercial paper outstanding.

Authorized But Unissued Debt

As of July 1, 2008 the State had statutorily authorized but unissued direct general obligation debt in the total principal amount of $251.3 million, 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. Additionally, this amount does not include amounts relative to the school building aid program as discussed below under the heading "Capital Budget."

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. See also material related to the Pease Development Authority under the headings "Capital Budget" and "Agencies, Authorities and Bonded or Guaranteed Indebtedness" below. As of June 30, 2008, the guaranteed limits as well as the remaining unused guarantee authorizations under the various statutory limitations were as set forth below. Chapter 49 of the Laws of 2008, which took effect July 1, 2008, reduced certain guarantee limits as shown below and resulted in an aggregate reduction of the State's statutory guarantee limits of $215 million. In addition, Chapter 1 of the Laws of 2008 Special Legislative Session increased the State's guarantee limit for bonds of the Pease Development Authority by $20 million effective June 10, 2008.

Purpose	Guarantee Limit as of June 30, 2008	Remaining Guarantee Capacity as of June 30, 2008	(Reduction)/Increase in Guarantee Limit and Guarantee Capacity as of July 1, 2008
Local Water Pollution Control Bonds	$175.0 million(1)(2)	$156.4 million	$(125.0) million(1)(2)
Local School Bonds	95.0 million(1)(2)	80.8 million	(65.0) million(1)(2)
Local Superfund Site Bonds	25.0 million(1)(2)	25.0 million(3)	(5.0) million(3)
Local Landfill and Waste Site Bonds	30.0 million(1)(2)(3)	29.7 million	(20.0) million(1)(2)
Business Finance Authority Bonds, Loans	95.0 million(1)	39.5 million	-0-
Pease Development Authority	85.0 million(3)(4)	36.4 million	20.0 million(4)
Division of Water Resources Bonds	5.0 million(3)	5.0 million(3)	-0-
Housing Finance Authority Child Care Loans	0.3 million(5)	0.3 million	-0-

(1) Revolving limit.
(2) Limit applies to total principal and interest.
(3) Plus interest.
(4) Guarantee limit as of June 9, 2008; increase in guarantee limit and capacity effective June 10, 2008.
(5) Limit applies to principal only.

Capital Budget

The following table sets out the State's capital appropriations as amended for the 2008-2009 biennium.

Biennium Capital Budget

	Biennium Ending June 30, 2009
Adjutant General	$45,072,000
Administrative Services	19,093,340
Agriculture	190,000
Community-Technical College System	35,123,167
Corrections	8,039,400
Education	14,200,000
Environmental Services	9,552,423
Fish & Game	450,000
Health & Human Services	3,250,000
NH Housing Authority	800,000
Liquor Commission	520,000
Pease Development Authority	3,860,000
Resources & Economic Development	9,867,758
Safety	3,708,000
Transportation	123,345,277
Veteran's Home	6,215,000
University System of New Hampshire[(1)]	35,000,000
Gross Appropriations	318,286,365
Less-Federal, Local & Other Funds	103,308,552
Net Bonds Authorized	$214,977,813
Funding of Bonds	
Highway Funded	73,303,260
Other Funded	11,942,135
General Funded	129,732,418
Net Bonds Authorized	$214,977,813

(1) This appropriation was made in the capital budget adopted in 2005 for the 2008-2009 biennium.

In addition to the 2008-2009 capital budget, Section 2 of Chapter 259 of the Laws of 2005 appropriates a total of $109.5 million to the University System of New Hampshire over an eight-year period. This appropriation is non-lapsing and shall not exceed $35 million for the biennium ending June 30, 2009 (which is included in the table above), $35 million for the biennium ending June 30, 2011, and $35 million for the biennium ending June 30, 2013.

In the 2008-2009 capital budget, $60 million was appropriated and general obligation bonds authorized for various transportation infrastructure programs, including municipal bridge aid, state match on federally funded highway projects, state aid to local highway projects and the betterment program. Debt service payments on the bonds authorized will be paid from the highway fund.

In addition to the 2008-2009 capital budget adopted pursuant to Chapter 264, Laws of 2007, additional contingent capital appropriations were made during a special session of the legislature. The school building aid program has historically been funded from current revenues. Chapter 1 of the Laws of 2008 Special Legislative Session funds the fiscal years 2008 and 2009 programs with bond proceeds up to the level of the general fund undesignated deficit at the end of the fiscal year, not to exceed $40 million per year. It is anticipated that none of the fiscal year 2008 building aid program will be bonded and that $40 million of the fiscal year 2009 building aid program will be funded with bond proceeds.

Chapter 1 of the Laws of 2008 Special Legislative Session also appropriates $10.0 million for the renovation of the new Pease Community College System campus location which will be funded through bond proceeds, if necessary. The first $3.0 million appropriated is to be funded from the sale of the former community college campus location in Stratham. The next $5.0 million is to be funded $2.5 million from the sale of the Stratham campus and $2.5 million from college tuition and fees. The last $2.0 million is to be funded by the General Fund. The Community College System has signed a purchase and sale agreement to sell the Statham campus for $5.5 million by June 30, 2010. It is anticipated that the State will use the proceeds from the sale to fund construction renovation at the Pease Campus and issue bonds for the remaining $4.5 million.

Agencies, Authorities and Bonded or Guaranteed Indebtedness

Described below are the principal State agencies or programs for which the State (a) issues revenue bonds, (b) provides State guarantees of payments of indebtedness, or (c) issues general obligation bonds supported in whole or in part by restricted revenues, rather than taxes or unrestricted General Fund revenues. (A summary of the State guarantee programs is also provided under the caption "Authorized But Unissued Debt" above.) Also described briefly below are the other independent State authorities that issue revenue bonds and notes that do not constitute a debt or obligation of the State. Except as noted below, guarantee limits and remaining guarantee capacity provided in the narrative below are as of June 30, 2008 to agree with the State's 2008 financial statements. As stated above under "Authorized But Unissued Debt," Chapter 49 of the Laws of 2008 effective July 1, 2008 reduced many of these guarantee limits.

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 $260.0 million of such bonds were outstanding as of June 30, 2008.

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 $137.7 million of such bonds were outstanding June 30, 2008, of which $1.0 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, 2008, $18.6 million of principal and interest was guaranteed under this program. Effective July 1, 2008, Chapter 49 of the Laws of 2008 reduced the State's total statutory guaranteed debt limit for this purpose to $50 million.

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, 2008, 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, 2008, $14.2 million of principal and interest was guaranteed under this program. Effective July 1, 2008, Chapter 49 of the Laws of 2008 reduced the State's total statutory guaranteed debt limit for this purpose to $30 million.

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 $25 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. Effective July 1, 2008, Chapter 49 of the Laws of 2008 reduced the State's total statutory guaranteed debt limit for this purpose to $20 million.

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, 2008, $0.3 million of principal and interest was guaranteed under this program. Effective July 1, 2008, Chapter 49 of the Laws of 2008 reduced the State's total statutory guaranteed debt limit for this purpose to $10 million.

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, 2008.

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; $4.5 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, 2008, $31.1 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, 2008, the Pease International Tradeport had 4.4 million square feet of new or renovated office/R&D/manufacturing space with over 250 companies employing over 7,000 people. As of June 30, 2008, 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 $70 million in principal amount plus interest on those bonds. The remaining guarantee capacity at June 30, 2008 was $56.4 million. Prior to enactment of Chapter 1 of the Laws of 2008 Special Legislative Session ("Chapter 1"), the State's total statutory guaranteed debt limit for this purpose was $50 million. Effective June 10, 2008, Chapter 1 increased this guarantee limit to $70 million.

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. Pursuant to Chapter 1, the Authority is required to repay $10 million to the State by December 1, 2008.

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. Lastly, the Governor and Council may award an unconditional State guarantee on $35 million, plus interest, for bonds issued by Pease after the approval of a comprehensive development plan submitted by Pease. Bonds have never been issued under these statutory provisions.

New Hampshire Housing Finance Authority. The New Hampshire Housing Finance Authority is a body politic and corporate having a distinct existence separate from the State and not constituting a department of State government. The Authority is generally authorized to provide direct construction and mortgage loans for residential housing and to make loans to and to purchase loans from lending institutions in order to expand available mortgage funds in the State. In order to carry out its corporate purposes, the Authority is authorized to issue its bonds or notes in an amount outstanding at any one time not to exceed $2 billion. Such bonds or notes are special obligations of the Authority, and do not constitute a debt or obligation of the State. By law, the Authority is authorized to issue up to $600 million on bonds supported by one or more reserve funds and to maintain in each fund for a specific series of bonds a bond reserve fund requirement established by resolution of the Authority in an amount not to exceed one year's debt service on the bonds secured by such fund. For bonds issued under this provision, the chairman of the Authority is directed to request an appropriation of the sum, if any, needed to maintain the bond reserve funds at their required levels. Amounts so requested are subject to appropriation by the Legislature and do not constitute a debt of the State. The Authority has not issued bonds under this provision since 1982 and there are currently no bonds outstanding subject to such a reserve fund.

Legislation enacted in 1989 authorizes the Authority to issue certificates of guarantee equal to 50% of the principal of loans made to eligible child care agencies or organizations, such principal guarantee not to exceed $10,000 per recipient. The full faith and credit of the State are pledged for such guarantees, provided that the total obligation of the State shall at no time exceed $300,000. As of June 30, 2008, no outstanding debt was guaranteed under this program.

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

The Bank is also authorized to issue revenue bonds in unlimited principal amount for small scale power facilities and to make loans to public utilities and to certain elementary and secondary educational institutions through the purchase by the Bank of bonds of such public utilities and educational institutions. Such bonds are issued through 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.

New Hampshire Rail Transit Authority. The New Hampshire Rail Transit Authority ("NHRTA") was established under RSA 238-A effective July 1, 2007 as a body corporate and politic in the State for the general purpose of developing and providing commuter rail or other similar forms of passenger rail service. The Authority is authorized to issue bonds to carry out its purposes. RSA 238-A provides that all obligations of the Authority shall be paid solely from funds provided to or obtained by the Authority and will not be deemed a debt of the State nor a pledge of the full faith and credit of the State. The NHRTA held its organizational meeting on September 30, 2007 and meets on a monthly basis. The Authority is currently developing plans and operating agreements for proposed passenger rail service between Manchester, New Hampshire and Lowell, Massachusetts. There are no specific plans for debt issuance at this time.

STATE RETIREMENT SYSTEM

Background

The New Hampshire Retirement System ("NHRS" or "System") covers effectively all State employees, all public primary and secondary teachers employed in New Hampshire, and all law enforcement and fire service employees in New Hampshire. Political subdivisions may elect to join the NHRS to cover their other employees. At June 30, 2008, there were approximately 54,320 active and inactive members and 22,870 retired members of the System. In addition, there were 1,423 terminated members with vested retirement benefits who had elected to defer receipt of those benefits to a future date. The System provides service, disability, death and vested pension retirement benefits to its members and their beneficiaries.

The System also provides a postemployment health benefit plan through a "medical subsidy". Medical subsidy payments are made by the System from a 401(h) subtrust on behalf of a closed group of retirees. Medical subsidy payments are made directly to former employers (State and local governments), insurance companies, and third party health insurance administrators to offset the cost of health insurance for the retiree. The balance of the insurance premium is paid by either the retiree or the former employer, depending on the employer's policy.

Financing

The financing of the System is provided through both member and employer contributions from the State and political subdivisions. The member contribution is set by State statute. The employer contribution rate is based on a biennial actuarial valuation performed by an independent actuary and then certified by the NHRS Board of Trustees. The State Constitution provides that the employer 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.

The pension plan is divided into two membership groups. Group I consists of State and local employees and teachers. Group II consists of firefighters and police officers. The postemployment health plan is divided into four groups: 1) State employees, 2) political subdivision employees, 3) teachers, and 4) police and fire. The State funds 100% of the employer cost for both plans for all State employees and 35% of the employer cost for teachers, firefighters and police officers employed by political subdivisions.

The total State contribution shown below represents both pension and postemployment health plans.

Fiscal Year	Total State Contribution	Percent of ARC
2007	$78.1 million	100%
2008	$106.8 million	75%
2009	$111.6 million (estimated)	75%
2010	$137.0 million (estimated)	100%
2011	$143.1 million (estimated)	100%

As discussed below under "Implementation of GASB 43 – Changes to Postemployment Health Benfit Plan," starting in fiscal year 2007, changes were made to the way the Postemployment Health Benefit Plan was accounted for and funded. For years prior to fiscal year 2008, and in accordance with State statute, 25% of employer contributions were credited to the 401(h) Postemployment Health Benefit Plan when received; the pension plan was then made whole by transferring assets from a Medical Special Account to the pension plan. On the advice of NHRS counsel, the NHRS stopped this practice effective for fiscal year 2008.

As a result of this changed practice, as reported in the draft June 30, 2008 actuarial valuation, only 75% of the Annual Required Contribution (ARC) was contributed in fiscal year 2008. While the State and all other employers had consistently paid 100% of the rates certified by the NHRS Board of Trustees, the rates certified by the NHRS Board of Trustees in 2005 with respect to fiscal years 2008 and 2009 did not include a separate component for the funding of the postemployment health benefit plan. At the time such rates were certified in 2005, the NHRS Board of Trustees was not aware that the pension plan would only be credited with 75% of the ARC for fiscal years 2008 and 2009, as a result of the change in practice with respect to the postemployment health plan described above, which first took effect in fiscal year 2008. It is currently estimated that the fiscal year 2009 contribution by the State will be approximately 75% of the ARC.

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

Results of Actuarial Valuations

The NHRS has actuarial valuations performed biennially in each odd-numbered year. In light of the many legislative changes to the System and the volatile market activity over the past eighteen months, the Board of Trustees voted to have a valuation perfomed as of June 30, 2008. Amounts contained herein from the June 30, 2008 actuarial valuation are preliminary and are subject to change pending Board approval expected in November 2008. As of June 30, 2008, the net assets available to pay pension benefits, at actuarial value, were reported to be $5,302.0 million. The total pension liability at June 30, 2008 was $7,821.3 million, resulting in an unfunded pension liability at June 30, 2008 of $2,519.3 million and a funding ratio of 67.8%. Effective June 30, 2007 the System's actuarial cost method changed from the open group aggregate cost method to the more widely used entry age normal cost method. The total liabilities as of June 30, 2007 and June 30, 2008 were determined using the entry age normal actuarial cost method.

As of June 30, 2008, the net assets available to pay postemployment health benefits, at actuarial value, were reported to be $175.2 million, with a corresponding liability of $669.9 million, resulting in an unfunded postemployment health benefit liability at June 30, 2008 of $494.7 million and an overall funding ratio of 26.2%. This liability is separate and distinct from the State OPEB liability discussed under HEALTH CARE COVERAGE FOR RETIRED EMPLOYEES.

The results of the biennial actuarial valuations performed in each odd-numbered year are used to determine the employer contribution rate for the next succeeding biennium. The actuarial valuation dated as of June 30, 2007 was used to determine the required contributions for fiscal years 2010 and 2011. The June 30, 2007 System actuarial valuation can be viewed in its entirety at www.nhrs.org. At this time, it is not anticipated that the June 30, 2008 valuation will be used to change 2010-2011 employer contribution rates certified by the Board of Trustees in September 2008.

Implementation of GASB 43 – Changes to Postemployment Health Benefit Plan

As required for its fiscal year 2007 implementation of GASB 43, the System conducted an actuarial valuation dated June 30, 2007 of its postemployment health benefit plan. As part of implementing GASB 43, the System underwent a compliance review of its medical subsidy program. The compliance review made multiple recommendations that were unanimously adopted by the System's Board of Trustees in November 2007. These recommendations included: (1) seeking IRS approval to correct a series of transfers that occurred from fiscal years 1990 through 2000 by participating in the IRS voluntary correction program (if approved, a transfer of at least $26 million would be made from the 401(h) medical subtrust to the pension reserve), (2) seeking ratification by corrective state legislation of the 33-1/3% employer contributions that were made and prospectively abide by the 25% statutory limitation, and (3) eliminating the financial reporting of the $295 million Medical Special Account as part of the Postemployment Medical Plan and reporting the $295 million as pension assets. Items (2) and (3) have been appropriately corrected. The System is currently working with the IRS to address and correct item (1) through the IRS' voluntary compliance program. The corrections made for items (2) and (3) are also being reviewed by the IRS as part of the System's overall voluntary compliance filing. It is not known at this time when the process will be complete or what the impact on the State might be.

To comply with GASB 43, the System received opinions from its legal counsel about the statutory construction of the postemployment health medical subsidy plans. Counsel concluded the System administers four medical subsidy plans: (1) Group II covering law enforcement and fire safety employees, (2) Teachers, (3) Employees of Political Subdivisions and (4) Employees of the State. These opinions resulted in a shift in the way the medical plans have been defined, accounted for and valued since inception. In the course of restructuring the accounting in accordance with GASB 43, it became apparent that contributions to the Political Subdivision Employee Group medical plan have subsidized medical benefits paid for the State Employee Group by approximately $17 million since inception. The NHRS and the State are currently in discussions to determine how this amount will be repaid. It is not possible to determine the outcome of these discussions at this time.

The significant changes to the System's financial statements resulting from the medical subsidy compliance review delayed issuance of the System's fiscal 2007 audited financial statements until September 2008. The System expects to issue timely audited financial statements for fiscal year 2008 on or before December 31, 2008.

Legislative Activity

Chapter 300 of the Laws of 2008 made significant changes to plan provisions which are summarized below.

- Non-vested employees who leave employment may leave their money in the Pension Plan and continue to earn the lesser of 2% below the Plan's assumed rate of return or 2% below the actual rate of return on their funds.

- After July 1, 2007, the 8% annual escalation increase in medical subsidy payments was frozen at 0% for four years, through and including July 1, 2011. The annual escalation increase will resume at a 4% rate effective July 1, 2012.

- During fiscal year 2008, $250 million was transferred from the Special Account reserve to the general account that funds the Plan's annual annuity payments.

- Established an additional employer contribution in instances where a member's pension benefits are greater than 125% of the member's base pay. This will have no immediate impact on the State because the majority of State employees are under contract. This new provision does not apply to employees under a current contract. There is no estimate at this time of the impact on the State after contracts expire.

- On July 1, 2008, retirees or beneficiaries will receive a 1.5% increase added to their base pension for the first $30,000 of their pension amount. In addition, 3 additional lump sum allowances were provided:

    1. Only for the fiscal year beginning July 1, 2008 - a supplemental allowance of $1,000 for any retired member who has been retired at least 12 months whose annual retirement is based on at least 15 years of service and is $20,000 or less;

    2. Only for the fiscal year beginning July 1, 2008 - a supplemental allowance of $500 for any retired member who retired prior to January 1, 1993 or any beneficiary of such member;

    3. For the fiscal years beginning July 1, 2008 up to and including the fiscal year beginning July 1, 2011 – a temporary supplemental allowance of $500 for retirees taking a one-person medical benefit and $1,000 for retirees taking a 2-person medical benefit; provided, however, that once a recipient is entitled to Medicare, the additional allowance shall be reduced to 60 percent of the non-Medicare eligible retiree amounts.

- Effective beginning July 1, 2009, employer contributions to the 401(h) subtrust for medical subsidy will be the lesser of 25% of the employers' contribution to the pension fund or the actuarial rate determined by the actuary to be the minimum amount necessary to maintain the benefits provided by statute. Under this provision the State's contribution to the postemployment health 401(h) subtrust will equal 3.03% of payroll which is 25% of the employer pension contribution rate. These amounts are included in the estimates for the total State contribution shown above for fiscal years 2010 and 2011.

- Establishes a Retiree Health Care Benefits Funding Commission to propose a future retiree health care benefits model and a COLA Study Commission to examine the feasibility of authorizing future COLAs for retirees.

- Requires new members of the Board of Trustees to have finance or business experience. Establishes voting status for the Board Chairperson in any Board action or resolution. Authorizes the Audit Committee to engage the services of an independent auditor, and to conduct performance audits.

- Establishes an independent investment committee of not more than five members, three of whom shall not be trustees and shall be appointed by the governor. Two members shall be NHRS trustees appointed by the chair of the NHRS Board of Trustees. The independent investment committee shall recommend an investment policy and investment consultants to the full board for approval. The independent investment committee shall review investment performance, choose fund managers, and make investments and deposits on behalf of the board.

This fiscal year 2008 legislation is reflected in the draft June 30, 2008 actuarial valuation of the System.

Current Market Conditions

During the fiscal year ended June 30, 2008, the investment markets declined driven by a depressed housing market, a liquidity crisis in the mortgage and credit markets and rising energy costs. For the fiscal year ended June 30, 2008, the System's total fund investment return declined 4.6% and net assets available for benefits declined $370 million.

Since June 30, 2008, the liquidity crisis in the credit and mortgage markets has blossomed into a "global economic crisis" of significant proportions. Both U.S. and global investment markets have experienced significant declines over the past three and one-half months. Through the close of business on October 24, 2008, the System's investment portfolio has declined by an additional $1.43 billion or 25.5%. Based on the System's current asset allocations and market index returns over the same period, the System's investment returns are consistent with investment market returns. The System is a long-term investor. No prediction can be made of the short-term or long-term investment prospects for the System's investment portfolio.

NEW HAMPSHIRE RETIREMENT SYSTEM
TEN YEAR HISTORY OF PLAN FUNDING STATUS
FISCAL YEARS 1999-2008
(All Dollar Amounts in Thousands, FY 2008 Data is preliminary and subject to change)

	Fiscal Year Ended 6/30/08	Fiscal Year Ended 6/30/2007	Fiscal Year Ended 6/30/2006	Fiscal Year Ended 6/30/2005	Fiscal Year Ended 6/30/2004	Fiscal Year Ended 6/30/2003	Fiscal Year Ended 6/30/2002	Fiscal Year Ended 6/30/2001	Fiscal Year Ended 6/30/2000	Fiscal Year Ended 6/30/1999
Long Range Pension Cost:										
Actuarial Accrued Liability	$7,821,316	$7,259,715	$6,402,875	$5,991,026	$5,029,877	$4,669,192	$4,196,314	$3,842,602	$3,460,259	$3,229,193
Actuarial Valuation Assets	5,302,034	4,862,256	3,928,270	3,610,800	3,575,641	3,500,037	3,443,395	3,264,901	3,109,734	2,886,526
Unfunded (Excess) Actuarial Accrued Liability	2,519,282	2,397,459	2,474,605	2,380,226	1,454,236	1,169,155	752,919	577,701	350,525	342,667
Pension Plan Funded Status	67.8%	67.0%	61.4%	60.3%	71.1%	75.0%	82.1%	85.0%	89.9%	89.4%
Long Range Post Employment Health Cost:										
Actuarial Accrued Liability	669,874	$638,410	$986,502	$930,675	$731,021	$701,408	$576,770	$429,773	$273,087	$261,620
Actuarial Valuation Assets	175,187	156,976	445,860	445,918	441,936	415,046	437,478	336,078	311,538	290,221
Unfunded (Excess) Actuarial Accrued Liability	494,687	481,434	540,642	484,757	289,085	286,362	139,292	93,695	(38,451)	(28,601)
Post Employment Health Plan Funded Status	26.2%	24.6%	45.2%	47.9%	60.5%	59.2%	75.8%	78.2%	114.1%	110.9%

NOTE: Liabilities for fiscal year 2007 and 2008 were determined under the entry age normal actuarial cost method. Liabilities for fiscal year 2006 and prior were determined under the projected unit credit actuarial cost method. Comparisons between fiscal year 2007 and prior years may not be comparable.

HEALTH CARE COVERAGE FOR RETIRED EMPLOYEES

In addition to pensions, many state and local governmental employers provide other postemployment benefits ("OPEB") as part of the total 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.

The Governmental Accounting Standards Board ("GASB") promulgated Statement Nos. 43 and 45 to address the reporting and disclosure requirements for OPEB. GASB Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, was effective for fiscal year 2007. This Statement required the NHRS to change its financial reporting and enhance disclosure of its postemployment health benefit medical subsidy program. GASB Statement No. 43 is not applicable to the financial reporting of the State. GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, was implemented by the State during fiscal year 2008, and requires that the long-term cost of retirement health care and obligations for other postemployment benefits ("OPEB") be determined on an actuarial basis and reported similar to pension plans.

In addition to providing pension benefits, state law provides health care benefits for certain retired employees within the limits of the funds appropriated. Eligible retirees currently do not contribute toward the cost of health care. 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, have 10 years of State service 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 are provided through the Employee and Retiree 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's General Fund contributed approximately $28.2 million to fund health care benefits on a pay-as-you-go basis for approximately 10,421 State retirees and covered dependents receiving a periodic pension benefit for the fiscal year ended June 30, 2008. A working rate holiday totaling $9.5 million in retiree "premium" lowered the State's fiscal year 2008 contribution. An additional $12.9 million was received from self-supporting State agencies. A further significant 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 $15.4 million for the fiscal year ended June 30, 2008. The budget for the fiscal years 2008 – 2009 biennium does not pre-fund any OPEB costs. However, it does, for the first time, establish an account for all resources accumulated for purposes of funding retiree health benefits.

In September 2006 the Department of Administrative Services renewed its contract with The Segal Company to assist, among other matters, in the determination and valuation of the State's OPEB liability under GASB Statement No. 45. Segal currently provides to the State benefits consulting, claims auditing and actuarial services for the purposes of setting rates for its self-funded health plan for both active and retired state employees. An OPEB liability actuarial valuation was completed in August, 2007 and updated in July, 2008. The report can be accessed through the State's website at http://admin.state.nh.us. The State is currently in the process of reviewing various alternatives, including methodology, discount rates, and other assumptions. GASB Statement No. 45 does not mandate the prefunding of postemployment benefit liabilities. The State currently plans to only partially fund (on a pay-as-you-go basis) the annual required contribution ("ARC"), an actuarially determined rate in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed thirty years. The following table presents the OPEB cost for the year, the amount contributed and the change in the net OPEB obligation recorded in the State's financial statements for fiscal year 2008 (dollar amounts in thousands):

Annual Required Contribution/OPEB Cost	$ 207,142
Contributions made (pay-as-you-go)	(51,735)
Increase in Net OPEB Obligation	155,407
Net OPEB Obligation - Beginning of Year	-
Net OPEB Obligation - End of Year	$ 155,407

The $155.4 million net OPEB obligation is reflected in the State's fiscal year 2008 government-wide financial statements as claims and compensated absences payable.

As of December 31, 2006, the actuarial valuation date, the actuarial accrued liability ("AAL") for benefits was $2,559.5 million, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability ("UAAL") of $2,559.5 million.

As described above under "STATE RETIREMENT SYSTEM," the NHRS currently provides medical subsidy payments on behalf of a closed group of retirees. For State retirees, these subsidy payments are made to the State offset the cost of health benefit coverage for the eligible retirees. The State OPEB valuation described above assumes that the medical subsidy runs out by 2023. Chapter 300 of the Laws of 2008 established a 19 member Commission on Retiree Health Care Benefits Funding to address the issue of retiree health for those public servants who are not included in the closed group covered by the NHRS funded medical subsidy. The Commission meets regularly and will issue an interim report on December 1, 2008 and a final report on December 1, 2009. The State cannot now predict what changes, if any, may be made to the medical subsidy benefit or any corresponding impact on the State budget.

STATE RETIREE HEALTH PLAN COMMISSION

Effective July 1, 2007, the State Retiree Health Plan Commission was established pursuant to RSA 100-A:56 to determine the actuarial assumptions to be used in the valuation of liabilities relative to State employee health benefits. The Commission membership includes one representative appointed by the Speaker of the House, one Senator appointed by the Senate President, one member appointed by the Governor, the State Treasurer and the Commissioner of Administrative Services. The Commission is in the process of understanding actuarial assumptions used in the State's OPEB valuation, eligibility requirements, and benefit structure.

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 was equal to the proceeds of such bonds. This valuation results in an unfunded liability as of January 1, 2005 equal to $869,534. Net assets of the plan reported in the January 1, 2006 actuarial valuation totaled $44,980,407. An unfunded liability of $2,173,046 was reported as of January 1, 2006 resulting in a plan funded ratio of 95%. Net assets of the plan reported in the January 1, 2008 actuarial valuation totaled $51,857,186. An unfunded liability of $4,330,338 was reported as of January 1, 2008 resulting in a plan funded ratio of 92%. The unfunded liability will be funded by future member and State employer contributions over a twenty year period as provided for in statute. The plan's next actuarial valuation will be performed as of January 1, 2010. Employer contribution rates will increase from the current 19.68% to 27.42% for the biennium beginning July 1, 2009. This will result in an increase of $625,000 per year in State contributions over the next biennium.

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 represented by the SEA, the Highway Patrol Officers and Fish & Game Conservation Officers filed a certification petition and voted to be represented by a new union, the New England Police Benevolent Association (the "NEPBA"). In addition, one SEA bargaining unit of approximately 60 employees, the Public Utilities Commission, filed a decertification petition and voted to decertify from the SEA. The SEA appealed the PUC election results to the New Hampshire Supreme Court and in November, 2007, the Court remanded the case to the Public Employee Labor Relations Board ("PELRB") for a new election. The new election for the PUC bargaining unit resulted in the decertification of the SEA. In July, 2007, approximately 600 employees in the Department of Corrections who were represented by the SEA filed two modification petitions requesting that they be allowed to vote to determine whether they should be represented by a new union, the NEPBA, or whether they would continue to be represented by their current union, the SEA. The PELRB granted these petitions and the Corrections bargaining unit elections resulted in the decertification of the SEA and the certification of the NEPBA as the exclusive representative of the uniformed officers and the uniformed supervisors of the Department of Corrections. 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, the NHTA, and the NEPBA that were effective July 1, 2007 and will expire on June 30, 2009. The next round of negotiations with the State's three unions will begin in October 2008 for the 2009 – 2011 collective bargaining agreements.

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:

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 Plaintiff 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 Plaintiff Counties for these services since at least 2002.

The second issue raised by the Plaintiff Counties in their suit is whether DHHS exceeded the statutory cap on the total amount that the Plaintiff 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 Plaintiff 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 Plaintiff Counties for their share of payments under RSA 167:18-b was approximately $62.1 million. However, DHHS gave the Plaintiff 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 Plaintiff 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. DHHS filed a notice of appeal in November, 2006.

On August 17, 2007, the Supreme Court issued an order in which it vacated the majority of the lower court's decision, affirmed it in part, and remanded it back to the lower court for additional factual findings. Most significantly, the Supreme Court held that the term "nursing home" in RSA 167-18-b means any institution certified by the federal Medicaid program to provide nursing facility services. The result is that the vast majority of the bills which were submitted to the Plaintiff Counties were appropriate and legal, and therefore the Plaintiff Counties will not be entitled to any reimbursement from the State of those amounts paid. In addition, the State will be able to demand payment for certain bills which the Plaintiff Counties refused to pay.

The Supreme Court also ruled that the cap provisions should be understood as limiting the Counties overall liability at $58 million. The Supreme Court held that since there was insufficient evidence in the record as to how much the Plaintiff Counties have reimbursed the State during the relevant period, the matter would need to be sent back to the trial court for further proceedings. The matter was remanded to the Merrimack County Superior Court , and cross motions for summary judgment were filed in November, 2007. To date the parties have not received a response from the Court.

It is not possible to calculate the likely fiscal impact to the State at this time. The most recent Supreme Court ruling means that the State will most likely not suffer any financial impact going forward (i.e. the State will not be required to expend any money to reimburse the Counties for monies previously collected) from the Plaintiff Counties. The question that remains unanswered is the extent to which the State will be allowed to recover approximately $5 million which was withheld by the Plaintiff Counties in prior fiscal years.

The Plaintiff Counties filed a second lawsuit in Merrimack County Superior Court, *New Hampshire Association of Counties, et al. v. Commissioner of Department of Health and Human Services ("NHAC II")*, challenging the manner in which the State assesses the Plaintiff Counties a portion of the cost for long-term care. In this lawsuit, the Plaintiff Counties claim that the most recent budget law, Chapter 262 of the Laws of 2007 violates Article 28-a of the New Hampshire Constitution in that it constitutes an "unfunded mandate."

Chapter 262 sets out a multi-year approach to this problem. In the first year, it continues the existing relationship with the Counties with regard to the sharing of the costs of long-term care. In the subsequent years, the new law changes the relationship between the Counties and the State, shifting certain costs onto the Counties, but taking other responsibilities away from the Counties.

The Plaintiff Counties filed a petition seeking a declaratory judgment and injunctive relief. They are seeking to be excused from having to contribute to the cost of long-term care for patients on Medicaid. The Plaintiff Counties currently pay approximately $70 million per year towards long-term care under Medicaid.

The parties filed cross-motions for summary judgment on November 7, 2007, and a hearing was held on February 13, 2008. The State prevailed on summary judgment and the Plaintiff Counties appealed to the New Hampshire Supreme Court. The State's brief was filed on September 15, 2008.

It is difficult to assess the likely fiscal impact to the State from this litigation. If the Plaintiff Counties were to prevail, it would result in a decrease in anticipated revenue for long-term care. This would result in the need to decrease the appropriation for long-term care, by reducing services, or increase revenue from some other source.

Two cases in the New Hampshire Supreme Court involved 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*, 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*, 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 to 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. Both sides filed briefs and oral argument occurred in April, 2007.

In the first case, *Appeals of: Chase Home, et al*., the Supreme Court held, on June 8, 2007, that the hearings officer had the authority to establish residential rates and determine when the rates become effective, but did not have the authority to order DHHS to make retroactive payments at the recalculated rate levels. The Supreme Court declined to decide what further remedies are available to the facilities, such as whether the petitioners could obtain relief in a civil action in superior court. No payment by the State was ordered.

In the second case, *Petition of the Division of Children, Youth and Families*, the Supreme Court held, on June 15, 2007, that the hearing officer's decision to establish the rate at the 2005 calculated rate plus 5%, and to set the effective date of the rate at July 1, 2005, were proper, but that the hearing officer's order requiring DCYF to render payment was beyond the scope of its authority and vacated that part of the decision. The Supreme Court declined to decide what further remedies are available to the facilities, such as whether the petitioners could obtain relief in a civil action in superior court, and no payment by the State was ordered.

These cases are now concluded and no payment was ordered. However, on November 7, 2007, the seven residential childcare providers initiated a new suit in Merrimack County Superior Court against DCYF, *Chase Home et al v. DCYF*. The claims include for 1) breach of contract, 2) breach of implied covenant of good faith and fair dealing, 3) unconstitutional taking, and 4) deprivation of rights under 42 U.S.C. §1983. The petitioners seek retroactive payment of more than $3 million as well as costs and attorneys' fees. The State intends to file a motion to dismiss on the grounds that DCYF does not have a contractual relationship with the providers. The parties stipulated to be prepared for mediation by September 29, 2008, and are participating in a mediation process. The case is scheduled for trial in January, 2009. At this time, it is not possible to predict the outcome of these matters or the amount, if any, the DHHS will be required to pay.

Holiday, et al v. Stephen Curry, Commissioner, NH DOC, et al. 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.

DOC has submitted its plan for the court to review. DOC also appealed parts, but not all, of the court's order asserting that the court exceeded its authority under the settlement agreements. The parties settled the matters on appeal and the appeal has been withdrawn. The trial court continues to schedule status conferences to discuss and monitor the progress of implementation. The DOC estimates that full implementation of the court's order will require approximately $9.0 million over this 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. The parties filed cross-motions for summary judgment in June, 2007 and the Court granted the State's motion for summary judgment in late December, 2007. Bel Air Associates appealed the decision to the New Hampshire Supreme Court. The parties filed briefs and oral argument was held on September 16, 2008. In December, 2006, DHHS also issued an emergency rule authorizing the capital costs cap and the budget neutrality factor. Those rules were made permanent in May, 2007. Various nursing homes threatened to file injunctions preventing enforcement of the emergency rule, but other than Bel Air, none have filed. 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.

In *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 were filed and oral argument occurred in March, 2007. The Supreme Court affirmed the ruling of the trial court on June 22, 2007. No date has been set for the initiation of the arbitration procedure, which is expected to last a year or more. The State is unable to predict the outcome at this time.

In *New Hampshire Internet Service Providers ("NHISPA") and Destek v. Department of Revenue Administration ("DRA")*, Plaintiffs claim that Verizon's and other carriers' collection of the Communications Services Tax on T-1 and T-3 services/lines is illegal as it is pre-empted by Federal law. DRA believes that collection of the tax is legitimate because DRA's right to collect the tax is grandfathered under Federal law. The lawsuit was originally filed in Federal Court but was dismissed on jurisdictional grounds. This suit was then re-filed in State court. DRA estimates that the loss of revenue, if the tax were declared invalid or the grandfathering provision were repealed, would be between $1.0 million and $3.0 million in regards to the T-1 and T-3 services and other similar lines. If broadband and ISP access telephone were also included, the amount of lost revenue is estimated to be an additional $3.0 million to $5.5 million. The federal Internet Tax Freedom Act was extended beyond November 2007, but the grandfathering section was likewise continued. In June 2008, the plaintiffs filed a voluntary nonsuit, without prejudice. This matter is now concluded.

Carter, Celluci, and Durgin v. Department of Health and Human Services ("DHHS") is a class action lawsuit, filed in the Federal District Court under 42 U.S.C. sec. 1983, seeking injunctive relief against DHHS for failure to make determinations relating to individuals seeking Aid To the Permanently and Totally Disabled within the 90-day time limit set by Federal regulations. The lawsuit also alleges that DHHS fails to provide a required notification for appeal if the determination is not going to be made within 90 days. The lawsuit was filed on January 30, 2007. On April 9, 2007, DHHS filed a Motion for Entry of Judgment acknowledging that it was not meeting the 90-day determination period and requesting 45 days to file a plan with the Federal Court detailing how it will comply with the Federal regulations. The cost of implementation of the plan is estimated to be less than $300,000 annually. The parties reached agreement on a final proposed order that resolves all issues except attorney's fees and future monitoring. The Court approved the Final Order on March 21, 2008. Plaintiffs have requested approximately $150,000 in attorneys' fees and the State has objected. At this time it is not possible to predict the amount of attorney's fees or monitoring fees, if any, that DHHS will be required to pay.

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

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

On January 30, 2007 the plaintiffs filed a motion seeking to enforce the consent decree, claiming that the Department was not in compliance with the terms of the decree. In particular, the plaintiffs allege that insufficient numbers of eligible children are receiving dental services. The motion does not specify any particular form of relief, but requests that the Court order the State do more to ensure that children receive dental services under Medicaid.

The Department filed an objection to the motion to enforce on March 1, 2007. On August 13, 2007 the Court issued an order in which it denied the plaintiffs' Motion to Enforce on the ground that the plaintiffs had failed to identify the legal basis for the relief that they were requesting. The Court's order left open the possibility that the plaintiffs could file a properly supported motion to enforce at a later date. The Court urged the parties to continue to work on resolving any disagreements regarding compliance with the Decree without judicial intervention.

To date, the plaintiffs have not gone back to Court seeking further enforcement action. They requested a meeting with the State, which was held on October 11, 2007. Mediation was held on October 17, 2007. The mediation did not result in a resolution of the dispute. The plaintiffs' ultimate goal is to try to require the State to spend additional funds to improve dental services for children - either by increasing dental reimbursement rates, opening dental clinics, hiring additional staff, or providing additional services. However, until such time as the issues become more refined, it is not possible to estimate the potential fiscal impact of further litigation on this matter.

On January 23, 2008, the parties held a conference call with the mediator. The additional assistance from the mediator was not successful, and the plaintiffs' counsel indicated that they would be going back to court. On March 6, 2008, the plaintiffs filed a motion to show cause as to why the State should not be found in violation of the consent agreement. On July 10, 2008, the Court denied the Plaintiffs' motion for contempt without prejudice. The Department continues to work with the Plaintiffs to resolve the issues identified in the most recent motion for contempt.

In the case of *John A. Brooks v. Kelly A. Ayotte, William L. Wrenn, and Richard M. Gerry*, a pretrial detainee charged with a capital offense involving murder for hire, filed a civil rights action, pursuant to 42 U.S.C. § 1983, challenging his transfer from the Strafford County House of Corrections ("SCHC") to the New Hampshire State Prison ("NHSP") where he is being held in the Secure Housing Unit. The plaintiff claims violations of his substantive and procedural due process rights and his right to counsel. He seeks an injunction, money damages, and attorney's fees. Should the plaintiff prevail, the amount of his attorneys' fees could be significant. A preliminary injunction hearing was held from January 2 through 4, 2008, and the magistrate judge ruled that the plaintiff was likely to succeed on the merits of his claim that the transfer from SCHC to the NHSP was punitive in nature in violation of the Fourteenth Amendment. The magistrate recommended that an injunction issue requiring, among other things, that the detainee be returned to a general population setting. The State filed an objection to the magistrate's report and recommendation on February 5, 2008. While the objection was pending before the federal judge, the plaintiff was transferred out of the NHSP to a county correctional facility. The plaintiff's claims for damages and attorneys fees remains outstanding. Should the plaintiff prevail, the amount of his attorneys' fees could be significant. Brooks has been found guilty of first degree murder and conspiracy to murder as well as other crimes. He is currently in the penalty phase under which the State is seeking the death penalty. No proceedings are scheduled in this civil case while the plaintiff's criminal case is proceeding. The State is unable to predict the outcome of this matter at this time.

Timothy Hallam and Joseph Laramie v. Shawn Stone and Todd Connor, Merrimack County Superior Court, is a wrongful termination action that was filed by two corrections officers against the Department of Corrections, the former warden of the state prison, and two corrections officers. Summary judgment was granted in favor of the Department and former warden, and the case proceeded to trial against two corrections officers. The plaintiffs asserted claims of intentional interference with employment relations and false light invasion of privacy, alleging that the defendants lied about them, causing them to be dismissed from employment with the Department. The jury found for the plaintiffs, awarding Timothy Hallam $1.3 million and Joseph Laramie $650,000 in damages. The defendants filed post-trial motions, including a motion for a new trial, motion for remititur, and motion to apply the statutory cap of $475,000 per claimant. The court denied these motions in October, 2008. The State's appeal is due in November, 2008 and an appeal will be filed. At this time it is not possible to predict the outcome of the case.

By letter dated June 3, 2008, the Department of Health and Human Services received a confidential draft report from the Office of Inspector General ("OIG") regarding an audit of the Department's bioterrorism and emergency preparedness funds for the period of July 1, 2003, through June 30, 2007. The draft report found that $9,167,761 in compensation costs was not allowable on grounds that the amount claimed was not supported by employee certifications and $114,135 constituted inappropriate charges due to clerical errors. The draft report recommended that at total of $9,281,896 be refunded to the Federal Government. The Department responded to the confidential draft report on July 23, 2008, stating its disagreement with the draft findings and recommendation. The Department also indicated that the $114,135 had been refunded. At this time it is not possible to predict whether or to what extent the final audit report will contain these findings or recommendations

The Community College System of New Hampshire ("CCSNH") is currently in negotiations with the United States Department of Education ("USDOE") regarding its use of financial aid program funds. The USDOE requested that the CCSNH perform a self-assessment of the 2004-2005 single audit of federal financial assistance programs. The CCSNH self-assessment revealed $191,341 in questioned costs and approximately $1.5 million in incorrect federal financial aid awards. CCSNH has been notified by the USDOE that the total liability assigned to CCSNH will be significantly reduced when the USDOE applies each college's loan default rate to the federal loan amount. It is expected that the CCSNH will not be required to repay amounts that are already being repaid by borrowers. The total liability to the CCSNH has not yet been determined. However, as the total will reflect a discount from the total self reported by CCSNH to USDOE, it is anticipated that the total liability will not exceed $800,000.

In eight cases, twenty-seven individual plaintiffs sued the Department of Corrections and Corrections Officer Douglas Tower alleging that Tower sexually assaulted them while they were inmates at Shea Farm, a half-way house for female inmates. The cases, generally known as the *Tower* cases, were grouped together for mediation and were settled on March 13, 2008, for a total settlement of $1.85 million. These matters are now all resolved.

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 2007 audited financial statements, which are available as described below.

FINANCIAL STATEMENTS

Fiscal Year 2005. 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 2006. The accompanying opinion of KPMG LLP reported that the audit of the New Hampshire Retirement System was not complete at that time 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.

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 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 has added personnel in the finance and accounting functions and is replacing its outmoded data processing systems.

Fiscal Year 2006. For fiscal year 2006, the combination of the implementation of a new computerized accounting system (see "STATE FINANCES – Financial Controls" above), the ongoing budget process and staff turnover in a variety of State agencies made the work of the independent auditor more complex than in prior periods. Accordingly, the State's audited financial statements were not filed with each NRMSIR until April, 2007. The State's Fiscal Year 2006 CAFR is available on the State's website at http://admin.state.nh.us/accounting/reports.asp#PAFR.

On June 28, 2007, the State received a management letter from KPMG detailing concerns identified during the fiscal year 2006 audit. The management letter identified as material weaknesses breakdowns in the financial reporting process causing the delay in issuing the 2006 financial statements, risks in implementing the State's new accounting and budgeting system, statewide succession planning, and four weaknesses in the processes employed by the Department of Transportation in accounting for and reporting Highway Fund activity. The management letter can be viewed in its entirety at http://www.gencourt.state.nh.us/lba/PDF/NHML_2006.pdf. See *"Fiscal Year 2007"* below.

To mitigate the risks associated with implementing a new statewide accounting and budget system, the State has provided additional funding for the fiscal years 2008-2009 biennium for a full time position with the responsibilities of developing policies and procedures, as well as a fulltime training specialist position, to assure that proper employee training will occur prior to the new system start up date.

To better position the State in addressing the lack of skilled financial resources in state government, a Workforce Program Specialist position has been created to identify the needs and provide planning for the succession requirements of critical professional fields that support state functions.

During fiscal year 2007, the Department of Transportation began an overhaul of its financial accounting methods and staffing to address the weaknesses identified by the auditors. Additional accounting resources were employed, outside finance expertise was sought and received from the Federal Highway Administration and an experienced interim commissioner was brought on in March 2007 to fill out the term of the previous commissioner. A new Commissioner is now in office. The fiscal year 2007 audited financial statements of the Turnpike System were issued in December, 2007 as required by the bond resolution pertaining to the State's Turnpike System Revenue Bonds.

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

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

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

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

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.

Fiscal Year 2008. The State expects that it will receive an unqualified auditor's opinion on its financial statements for the fiscal year ended June 30, 2008 pursuant to RSA 21-I:8(h). The unaudited financial statements were released on September 30, 2008. All information related to fiscal year 2008 herein is unaudited. The State is not yet aware of audit comments that will result from the audit of the 2008 financial statements. It is expected such audit comments will be known and made public during the first quarter of calendar year 2009.

ADDITIONAL INFORMATION

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

EXHIBIT A

STATE OF NEW HAMPSHIRE

AUDITED FINANCIAL STATEMENTS

FOR FISCAL YEAR 2007

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

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