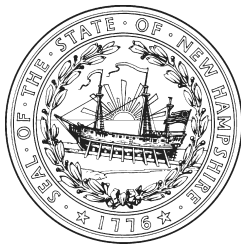


In the opinion of Edwards Angell Palmer & Dodge LLP, Bond Counsel, based upon an analysis of existing law and assuming, among other matters, compliance with certain covenants, interest on the Series B Bonds is excluded from gross income for federal income tax purposes under the Internal Revenue Code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

**\$125,000,000
STATE OF NEW HAMPSHIRE
GENERAL OBLIGATION CAPITAL IMPROVEMENT BONDS**



**\$50,000,000
2009 SERIES B**

AND

**\$75,000,000
2009 SERIES C
(Federally Taxable – Build America Bonds – Direct Payment)**

Dated: Date of Delivery

Due: as shown on the inside cover hereof

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 March 1 and September 1 of each year, commencing March 1, 2010 until maturity or redemption prior to maturity. The Series B Bonds are not subject to redemption prior to maturity. The Series C Bonds are subject to redemption prior to maturity as provided herein.

The Bonds are offered subject to the final approving opinion of Edwards Angell Palmer & Dodge LLP, Boston, Massachusetts, Bond Counsel, and to certain other conditions referred to in the Notices of Sale. Public Resources Advisory Group has acted as Financial Advisor to the State with respect to the Bonds. Delivery of the Bonds to DTC or its custodial agent is expected on or about December 22, 2009.

\$125,000,000
STATE OF NEW HAMPSHIRE
GENERAL OBLIGATION CAPITAL IMPROVEMENT BONDS

\$50,000,000
2009 SERIES B

<u>Due</u> <u>March 1</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Price or</u> <u>Yield</u>	<u>CUSIP*</u> <u>644682</u>	<u>Due</u> <u>March 1</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Price or</u> <u>Yield</u>	<u>CUSIP*</u> <u>644682</u>
2011	\$7,500,000	3.00%	0.40%	C20	2015	\$7,500,000	5.00%	1.78%	C61
2012	7,500,000	4.00	0.65	C38	2016	7,500,000	5.00	2.08	C79
2013	7,500,000	5.00	0.91	C46	2017	5,000,000	5.00	2.33	C87
2014	7,500,000	5.00	1.33	C53					

\$75,000,000
2009 SERIES C**
(Federally Taxable – Build America Bonds – Direct Payment)

<u>Due</u> <u>March 1</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Price or</u> <u>Yield</u>	<u>CUSIP*</u> <u>644682</u>	<u>Due</u> <u>March 1</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Price or</u> <u>Yield</u>	<u>CUSIP*</u> <u>644682</u>
2017	\$2,500,000	4.125%	3.93%	C95	2024	\$5,000,000	5.00%	100%	D86
2018	7,500,000	4.375	4.20	D29	2025	5,000,000	5.125	5.17	D94
2019	7,500,000	4.50	4.30	D37	2026	5,000,000	5.50	5.27	E28
2020	7,500,000	4.625	4.40	D45	2027	5,000,000	5.50	5.37	E36
2021	7,500,000	4.75	4.50	D52	2028	5,000,000	5.50	5.47	E44
2022	7,500,000	4.75	4.65	D60	2029	5,000,000	5.50	5.57	E51
2023	5,000,000	5.00	4.75	D78					

* Copyright 2008, American Bankers Association

** The Series C Bonds were awarded as Federally Taxable Build America Bonds (Direct Payment) as described herein under “Competitive Sale of Bonds”.

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

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. The information and expressions of opinion contained herein are subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in any of the information set forth herein since the date hereof.

This Official Statement is provided only in connection with the sale of the Bonds by the State of New Hampshire pursuant to the Notices of Sale dated December 8, 2009 and may not be reproduced or used in whole or in part for any other purpose without the express written consent of the State Treasurer. Reference is made to the Notices of Sale for a description of the terms and conditions of the sale of the Bonds to the original purchasers thereof.

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PART II. STATE OF NEW HAMPSHIRE INFORMATION STATEMENT DATED DECEMBER 15, 2009

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
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OFFICIAL STATEMENT
OF
THE STATE OF NEW HAMPSHIRE
\$125,000,000
GENERAL OBLIGATION CAPITAL IMPROVEMENT BONDS
\$50,000,000
2009 SERIES B
AND
\$75,000,000
2009 SERIES C
(Federally Taxable – Build America Bonds – Direct Payment)

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 \$50,000,000 aggregate principal amount of its General Obligation Capital Improvement Bonds, 2009 Series B (the “Series B Bonds”) and \$75,000,000 aggregate principal amount of its General Obligation Capital Improvement Bonds, 2009 Series C (Federally Taxable – Build America Bonds – Direct Payment) (the “Series C Bonds,” and collectively with the Series B Bonds, the “Bonds”) dated their date of delivery.

This Official Statement consists of two parts: Part I (including the cover and Appendices A, B, and C) and Part II, the State’s Information Statement dated December 15, 2009 (the “Information Statement”). The Information Statement will be provided to the Municipal Securities Rulemaking Board (“MSRB”) for purposes of Rule 15c2-12. The Information Statement incorporates by reference as Exhibit A the State’s audited financial statements for fiscal year 2008. 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 2009 become available, the State intends to file them with the MSRB. The release of the State’s fiscal year 2009 audited financial statements may be delayed. See “FINANCIAL STATEMENTS” in the Information Statement included as Part II of this Official Statement.

The Bonds were sold by competitive bid. At the time of sale, the State determined to issue the Series C Bonds as Federally Taxable Build America Bonds. See “Competitive Sale of Bonds”.

THE BONDS

Description of the Bonds

The Bonds will be dated their date of delivery and will bear interest payable semiannually on March 1 and September 1 of each year, commencing March 1, 2010, until maturity or redemption prior to maturity. The record date with respect to each payment of interest shall be the fifteenth day of the month preceding such interest payment date. The Bonds will mature in the years and in the principal amounts and bear interest at the rates shown on the inside cover page of this Official Statement. The Series B Bonds are not subject to redemption prior to maturity. The Series C 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.)

Build America Bonds

The State is authorized to issue the Series C Bonds as “Build America Bonds” pursuant to the American Recovery and Reinvestment Act of 2009 and to elect to receive a subsidy payment (“Direct Payments”) from United States Treasury equal to 35% of the taxable interest the State pays on the Series C Bonds. In order to receive the Direct Payments, the State is required to make certain filings with the Internal Revenue Service. If the State fails to make the required filings, it will not be eligible to receive the Direct Payments. The State will covenant to make all required filings in accordance with applicable rules of the United States Treasury in order to receive the Direct Payments contemporaneously with the payment of interest due on the Series C Bonds. Additionally, the proceeds of “Build America Bonds” have a number of limitations on their use. If the State were to use the proceeds of the Series C Bonds for expenditures other than capital expenditures, reasonably required reserve funds, and costs of issuance, the Series C Bonds would not be eligible for the Direct Payments. Direct Payments are treated as overpayments of tax, and accordingly are subject to offset against certain amounts that may be owed by the State to an agency of the United States of America. Finally, it is possible that the Direct Payments could be reduced or eliminated as a result of a change in federal law. See “Tax Matters” herein.

At the time of the competitive sale of the Series C Bonds the State determined to issue the Series C Bonds as Federally Taxable Build America Bonds (Direct Payment).

Redemption Provisions – Series B Bonds

The Series B Bonds are not subject to redemption prior to maturity.

Redemption Provisions – Series C Bonds

Optional Redemption for the Series C Bonds

The Series C Bonds are subject to redemption at the option of the State prior to maturity, in whole or in part (on a pro rata basis as described below), at any time, at the “Make-Whole Redemption Price.” The “Make Whole Redemption Price” is equal to the greater of:

- (i) 100% of the principal amount of the Series C Bonds to be redeemed; or
- (ii) the sum of the present values of the remaining scheduled payments of principal and interest on the Series C Bonds to be redeemed (exclusive of interest accrued to the redemption date) discounted to the date of redemption on a semiannual basis (assuming a 360-day year consisting of twelve 30-day months) at the Treasury Rate plus 25 basis points,

plus accrued and unpaid interest on the Series C Bonds being redeemed to the redemption date. For purpose of determining the Treasury Rate, the following definitions will apply:

“Comparable Treasury Issue” means, with respect to any redemption date for a particular Series C Bond, the United States Treasury security or securities selected by the Designated Investment Banker which has an actual or interpolated maturity comparable to the remaining average life of the applicable Series C Bonds to be redeemed, and that would be utilized in accordance with customary financial practice in pricing new issues of debt securities of comparable maturity to the remaining average life of the Series C Bonds to be redeemed.

“Comparable Treasury Price” means, with respect to any redemption date for a particular Series C Bond, (a) if the Designated Investment Banker receives at least four Reference Treasury Dealer Quotations,

the average of such quotations for such redemption date, after excluding the highest and lowest Reference Treasury Deal Quotations, or (b) if the Designated Investment Banker obtains fewer than four such Reference Treasury Dealer Quotations, the average of all such quotations.

“Designated Investment Banker” means one of the Reference Treasury Dealers appointed by the State.

“Reference Treasury Dealer” means the original underwriter of the Series C Bonds, and its successors and three other firms, specified by the State from time to time, that are primary U.S. Government securities dealers in the City of New York (each a “Primary Treasury Dealer”); provided, however, that if any of them ceases to be a Primary Treasury Dealer, the State shall substitute another Primary Treasury Dealer.

“Reference Treasury Deal Quotations” means, with respect to each Reference Treasury Dealer and any redemption date for a particular Series C Bond, the average, as determined by the Designated Investment Banker, of the bid and ask prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing to the Designated Investment Banker by such Reference Treasury Dealer at 3:30 p.m., New York City time, at least two (2) business days but not more than forty-five (45) calendar days preceding such redemption date.

“Remaining Scheduled Payments” means, with respect to the Series C Bonds of each maturity to be redeemed, the remaining scheduled payments of the principal thereof and interest thereon that would be due assuming such Series C Bonds were not so optionally redeemed but, however, giving effect to any mandatory sinking fund installments applicable to such Series C Bonds provided, however, that, if such redemption date is not an interest payment date with respect to the Series C Bonds, the amount of the next succeeding scheduled interest payment thereon will be deemed to be reduced by the amount of interest accrued thereon to such redemption date.

“Treasury Rate” means, with respect to any redemption date for a particular Series C Bond, the rate per annum, expressed as a percentage of the principal amount, equal to the semiannual equivalent yield to maturity or interpolated maturity of the Comparable Treasury Issue, assuming that the Comparable Treasury Issue is purchased on the redemption date for a price equal to the Comparable Treasury Price, as calculated by the Designated Investment Banker.

Extraordinary Optional Redemption

The Series C Bonds will be subject to extraordinary optional redemption prior to maturity, at the option of the State, upon the occurrence of an Extraordinary Event (defined below), in whole or in part (on a pro rata basis as described below), at any time, at the “Extraordinary Redemption Price.” The Extraordinary Redemption Price is equal to the greater of:

- (i) the issue price of the Series C Bonds set forth on the inside cover page hereof (but not less than 100%) of the principal amount of the Series C Bonds to be redeemed; or
- (ii) the sum of the present value of the remaining scheduled payments of principal and interest on the Series C Bonds to be redeemed to the maturity date of such Series C Bonds, not including any portion of those payments of interest accrued and unpaid as of the date on which the Series C Bonds are to be redeemed, discounted to the date on which the Series C Bonds are to be redeemed on a semi-annual basis, assuming a 360-day year containing twelve 30-day months, at the Treasury Rate plus 100 basis points,

plus accrued interest on the Series C Bonds to be redeemed to the redemption date.

An “Extraordinary Event” will have occurred if the State determines that a material adverse change has occurred to section 54AA or section 6431 of the Internal Revenue Code of 1986 (the “Code”) (as such sections were added by Section 1531 of the American Recovery and Reinvestment Act of 2009, pertaining to Build America Bonds) or there is any guidance published by the Internal Revenue Service or the Department of the Treasury with respect to such sections of the Code or any other determination by the Internal Revenue Service or the Department of the United States Treasury, which determination is not the result of an act or omission by the State to satisfy the requirements to receive the Direct Payments, pursuant to which the Direct Payments are reduced or eliminated.

Selection of Bonds to be Redeemed in Partial Redemption

So long as the Series C Bonds are registered in book-entry-only form and so long as DTC or a successor securities depository is the sole registered owner of the Series C Bonds, partial redemptions will be done in accordance with DTC procedures. It is the State's intent that DTC, the DTC Participants and such other intermediaries that may exist between the State and the beneficial owners effect a pro rata reduction of principal (subject to minimum authorized denomination restrictions and DTC procedures) of all outstanding Series C Bonds according to the beneficial interest in the Series C Bonds that DTC records list as owned by each DTC participant as of the record date for such payment. However, the State can provide no assurance that DTC, the DTC Participants or any other intermediaries will allocate redemptions or reductions in principal among beneficial owners on such a proportional basis.

If the Series C Bonds are no longer registered in book-entry-only form, any redemption of less than all of the Series C Bonds of any maturity will be allocated among the registered owners of such Series C Bonds as nearly as practicable in proportion to the principal amounts of the Series C Bonds of such maturity owned by each registered owner, subject to the authorized denominations applicable to the Series C Bonds. This will be calculated based on the formula: (principal amount of applicable maturity to be redeemed) x (principal amount of applicable maturity owned by owner) / (principal amount of applicable maturity outstanding). The particular Series C Bonds to be redeemed will be determined by the Paying Agent, using such method as it deems fair and appropriate.

Notice of Redemption

So long as DTC is the registered owner of the Series C Bonds, notice of any redemption of Series C Bonds prior to their maturities, specifying the Series C 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 Series C Bonds, if sufficient moneys are deposited with U.S. Bank National Association, or its successor, 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 Series B Bonds are expected to be used to finance or refinance all or a portion of the costs of a number of capital projects, including the refunding of bond anticipation notes of the State, and to pay issuance costs. The proceeds of the Series C Bonds are expected to be used to finance all or a portion of the costs of a number of capital projects and to pay issuance costs.

Book-Entry Only System

The Depository Trust Company (“DTC”), New York, NY, will act as securities depository for the Bonds. The Bonds will be issued in fully-registered form 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 certificate will be issued for each maturity of each series of the Bonds, each in the aggregate principal amount of such maturity, and each such certificate will be deposited with DTC.

DTC, the world's largest securities 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 issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC 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 subsidiaries. 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 deposited with DTC must be made by or through Direct Participants, which will receive a credit for such securities on DTC's records. The ownership interest of each actual purchaser of each security deposited with DTC (“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 securities deposited with DTC 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 securities deposited with DTC, except in the event that use of the book-entry system for such 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 may be requested by an authorized representative of DTC. The deposit of securities 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 deposited with it; 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 a maturity is 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, unless other arrangements are made between DTC and the State.

Neither DTC nor Cede & Co. (nor such other DTC nominee) will consent or vote with respect to securities deposited with it unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the issuer of such securities or its paying agent 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 securities deposited with DTC 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 issuer of such securities or its 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 issuer of such securities or its 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 issuer of such securities or its 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 securities held by it at any time by giving reasonable notice to the issuer of such securities or its paying agent. Under such circumstances, in the event that a successor depository is not obtained, physical certificates are required to be printed and delivered to Beneficial Owners.

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

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 MATTERS

Tax-Exempt Bonds – Series B Bonds

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 Series B 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 Series B Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes and is not included in adjusted current earnings when calculating corporate alternative minimum taxable income. The foregoing reflects the enactment of the American Recovery and Reinvestment Act of 2009 which includes provisions that modify the treatment under the alternative minimum tax of interest on certain bonds of state and local government entities and that modify Section 265(b)(3) of the Code. 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 Series B 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 Series B Bonds. Failure to comply with these requirements may result in interest on the Series B Bonds being included in gross income for federal income tax purposes, possibly

from the date of original issuance of the Series B Bonds. The State has covenanted to comply with such requirements to ensure that interest on the Series B 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 Series B 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 Series B Bonds. Bond Counsel also has not opined as to the taxability of the Series B 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 Series B Bonds is less than the amount to be paid at maturity of such Series B Bonds (excluding amounts stated to be interest and payable at least annually over the term of such Series B 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 Series B 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 Series B Bonds is the first price at which a substantial amount of such maturity of the Series B 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 Series B Bonds accrues daily over the term to maturity of such Series B 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 Series B Bonds to determine taxable gain or loss upon disposition (including sale, redemption, or payment on maturity) of such Series B Bonds. Beneficial Owners of the Series B Bonds should consult their own tax advisors with respect to the tax consequences of ownership of Series B Bonds with original issue discount, including the treatment of purchasers who do not purchase such Series B Bonds in the original offering to the public at the first price at which a substantial amount of such Series B Bonds is sold to the public.

Series B Bonds purchased, whether at original issuance or otherwise, for an amount greater than the stated principal amount to be paid at maturity of such Series B Bonds, or, in some cases, at the earlier redemption date of such Series B Bonds (“Premium Series B 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 Series B 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 Beneficial Owner. Beneficial Owners of Premium Series B 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 Series B Bonds may adversely affect the value of, or the tax status of interest on, the Series B 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 Series B 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 Series B 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 Series B Bonds may otherwise affect a Beneficial Owner’s federal or state tax liability. The nature and extent of all such other tax consequences will depend upon the particular tax status of the Beneficial Owner or the Beneficial Owner’s other items of income or deduction. Bond Counsel expresses no opinion regarding any such other tax consequences, and Beneficial Owners should consult with their own tax advisors with respect to such consequences.

Federally Taxable Build America Bonds (Direct Payment) – Series C Bonds

Under existing law, interest on the Series C Bonds is included in gross income for federal income tax purposes. Bond Counsel expresses no opinion regarding any other federal tax law consequences related to the ownership or disposition of, or accrual or receipt of interest on, the Series C Bonds.

Bond Counsel is also of the opinion that, under existing law, interest on the Series C 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 Series C Bonds. Bond Counsel also has not opined as to the taxability of the Series C 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 with respect to the Series C Bonds is set forth in Appendix A hereto.

The following discussion summarizes certain U.S. federal tax considerations generally applicable to beneficial owners of the Series C Bonds that acquire their Series C Bonds in the initial offering. The discussion below is based upon laws, regulations, rulings, and decisions in effect and available on the date hereof, all of which are subject to change, possibly with retroactive effect. Prospective investors should note that no rulings have been or are expected to be sought from the IRS with respect to any of the U.S. federal income tax consequences discussed below, and no assurance can be given that the IRS will not take contrary positions. Further, the following discussion does not address all U.S. federal income tax consequences applicable to any given investor, nor does it address the U.S. federal income tax considerations applicable to investors who may be subject to special taxing rules (regardless of whether or not such persons constitute U.S. Holders), such as certain U.S. expatriates, banks, real estate investment trusts, regulated investment companies, insurance companies, tax-exempt organizations, dealers or traders in securities or currencies, partnerships, S corporations, estates and trusts, investors who hold their Series C Bonds as part of a hedge, straddle or an integrated or conversion transaction, or investors whose “functional currency” is not the U.S. dollar. Furthermore, the following discussion does not address (i) alternative minimum tax consequences or (ii) the indirect effects on persons who hold equity interests in a beneficial owner of Series C Bonds. In addition, this summary generally is limited to investors who become beneficial owners of Series C Bonds pursuant to the initial offering for the issue price that is applicable to such Series C Bonds (i.e., the price at which a substantial amount of such Series C Bonds is first sold to the public) and who will hold their Series C Bonds as “capital assets” within the meaning of the Code.

As used herein, “U.S. Holder” means a beneficial owner of a Series C Bond who for U.S. federal income tax purposes is an individual citizen or resident of the United States, a corporation or other entity taxable as a corporation created or organized in or under the laws of the United States or any State thereof (including the District of Columbia), an estate the income of which is subject to U.S. federal income taxation regardless of its source or a trust with respect to which a court within the United States is able to exercise primary supervision over the administration of the trust and one or more United States persons (as defined in the Code) have the authority to control all substantial decisions of the trust (or a trust that has made a valid election under Treasury Regulations to be treated as a domestic trust). As used herein, “Non-U.S. Holder” generally means a beneficial owner of a Series C Bond (other than a partnership) who is not a U.S. Holder. If an entity classified as a partnership for U.S. federal income tax purposes is a beneficial owner of Series C Bonds, the tax treatment of a partner in such partnership generally will depend upon the status of the partner and upon the activities of the partnership. Partners in such partnerships should consult their own tax advisors regarding the tax consequences of an investment in the Series C Bonds (including their status as U.S. Holders or Non-U.S. Holders).

U.S. Holders

Interest. Stated interest on the Series C Bonds generally will be taxable to a U.S. Holder as ordinary interest income at the time such amounts are accrued or received, in accordance with the U.S. Holder’s method of accounting for U.S. federal income tax purposes.

“Original issue discount” will arise for U.S. federal income tax purposes in respect of any Series C Bond if its stated redemption price at maturity exceeds its issue price by more than a de minimis amount (as determined for tax purposes). For any Series C Bonds issued with original issue discount, the excess of the stated redemption price at maturity of that Series C Bond over its issue price will constitute original issue discount for U.S. federal income

tax purposes. The stated redemption price at maturity of a Series C Bond is the sum of all scheduled amounts payable on such Series C Bond other than qualified stated interest. U.S. Holders of Series C Bonds generally will be required to include any original issue discount in income for U.S. federal income tax purposes as it accrues, in accordance with a constant yield method based on a compounding of interest (which may be before the receipt of cash payments attributable to such income). Under this method, U.S. Holders of Series C Bonds issued with original issue discount generally will be required to include in income increasingly greater amounts of original issue discount in successive accrual periods.

“Premium” generally will arise for U.S. federal income tax purposes in respect of any Series C Bond to the extent its issue price exceeds its stated principal amount. A U.S. Holder of a Series C Bond issued at a premium may make an election, applicable to all debt securities purchased at a premium by such U.S. Holder, to amortize such premium, using a constant yield method over the term of such Series C Bond.

Disposition of the Series C Bonds. Unless a nonrecognition provision of the Code applies, the sale, exchange, redemption, retirement (including pursuant to an offer by the State), reissuance or other disposition of a Series C Bond will be a taxable event for U.S. federal income tax purposes. In such event, a U.S. Holder of a Series C Bond generally will recognize gain or loss equal to the difference between (i) the amount of cash plus the fair market value of property received (except to the extent attributable to accrued but unpaid interest on the Series C Bond which will be taxed in the manner described above under “Interest”) and (ii) the U.S. Holder’s adjusted tax basis in the Series C Bond (generally, the purchase price paid by the U.S. Holder for the Series C Bond, increased by the amount of any original issue discount previously included in income by such U.S. Holder with respect to such Series C Bond and decreased by any payments previously made on such Series C Bond, other than payments of qualified stated interest, or decreased by any amortized premium). Any such gain or loss generally will be capital gain or loss. Defeasance or material modification of the terms of any Series C Bond may result in a deemed reissuance thereof, in which event a beneficial owner of the defeased Series C Bonds generally will recognize taxable gain or loss equal to the difference between the amount realized from the sale, exchange or retirement (less any accrued qualified stated interest which will be taxable as such) and the beneficial owner’s adjusted tax basis in the Series C Bond.

In the case of a non-corporate U.S. Holder of the Series C Bonds, the maximum marginal U.S. federal income tax rate applicable to any such gain may be lower than the maximum marginal U.S. federal income tax rate applicable to ordinary income if such U.S. holder’s holding period for the Series C Bonds exceeds one year. The deductibility of capital losses is subject to limitations.

Non-U.S. Holders

The following discussion applies only to non-U.S. Holders. This discussion does not address all aspects of U.S. federal income taxation that may be relevant to non-U.S. Holders in light of their particular circumstances. For example, special rules may apply to a non-U.S. Holder that is a “controlled foreign corporation” or a “passive foreign investment company,” and, accordingly, non-U.S. Holders should consult their own tax advisors to determine the United States federal, state, local and other tax consequences of holding the Series C Bonds that may be relevant to them.

Interest. Subject to the discussion below under the heading “Information Reporting and Backup Withholding,” payments of principal of, and interest on, any Series C Bond to a Non-U.S. Holder, other than a bank which acquires such Series C Bond in consideration of an extension of credit made pursuant to a loan agreement entered into in the ordinary course of business, generally will not be subject to any U.S. withholding tax provided that the beneficial owner of the Series C Bond provides a certification completed in compliance with applicable statutory and regulatory requirements, which requirements are discussed below under the heading “Information Reporting and Backup Withholding,” or an exemption is otherwise established.

Disposition of the Series C Bonds. Subject to the discussion below under the heading “Information Reporting and Backup Withholding,” any gain realized by a Non-U.S. Holder upon the sale, exchange, redemption, retirement (including pursuant to an offer by the State), reissuance or other disposition of a Series C Bond generally will not be subject to U.S. federal income tax, unless (i) such gain is effectively connected with the conduct by such Non-U.S. Holder of a trade or business within the United States; or (ii) in the case of any gain realized by an

individual Non-U.S. Holder, such holder is present in the United States for 183 days or more in the taxable year of such sale, exchange, redemption, retirement (including pursuant to an offer by the State), reissuance or other disposition and certain other conditions are met.

U.S. Federal Estate Tax. A Series C Bond that is held by an individual who at the time of death is not a citizen or resident of the United States will not be subject to U.S. federal estate tax as a result of such individual's death, provided that at the time of such individual's death, payments of interest with respect to such Series C Bond would not have been effectively connected with the conduct by such individual of a trade or business within the United States.

Information Reporting and Backup Withholding—U.S. Holders and non-U.S. Holders

Interest on, and proceeds received from the sale of, a Series C Bond generally will be reported to U.S. Holders, other than certain exempt recipients, such as corporations, on IRS Form 1099. In addition, a backup withholding tax may apply to payments with respect to the Series C Bonds if the U.S. Holder fails to furnish the payor with a correct taxpayer identification number or other required certification or fails to report interest or dividends required to be shown on the U.S. Holder's federal income tax returns.

In general, a non-U.S. Holder will not be subject to backup withholding with respect to interest payments on the Series C Bonds if such non-U.S. Holder has certified to the payor under penalties of perjury (i) the name and address of such non-U.S. Holder and (ii) that such non-U.S. Holder is not a United States person, or, in the case of an individual, that such non-U.S. Holder is neither a citizen nor a resident of the United States, and the payor does not know or have reason to know that such certifications are false. However, information reporting on IRS Form 1042-S may still apply to interest payments on the Series C Bonds made to non-U.S. Holders not subject to backup withholding. In addition, a non-U.S. Holder will not be subject to backup withholding with respect to the proceeds of the sale of a Series C Bond made within the United States or conducted through certain U.S. financial intermediaries if the payor receives the certifications described above and the payor does not know or have reason to know that such certifications are false, or if the non-U.S. Holder otherwise establishes an exemption. Non-U.S. Holders should consult their own tax advisors regarding the application of information reporting and backup withholding in their particular circumstances, the availability of exemptions and the procedure for obtaining such exemptions, if available.

Backup withholding is not an additional tax, and amounts withheld as backup withholding are allowed as a refund or credit against a holder's federal income tax liability, provided that the required information as to withholding is furnished to the IRS.

The foregoing summary is included herein for general information only and does not discuss all aspects of U.S. federal income taxation that may be relevant to a particular Beneficial Owner of Series C Bonds in light of the Beneficial Owner's particular circumstances and income tax situation. Prospective investors are urged to consult their own tax advisors as to any tax consequences to them from the purchase, ownership and disposition of Series C Bonds, including the application and effect of state, local, foreign and other tax laws.

Circular 230 Disclaimer

The preceding tax matters discussion related to the Series C Bonds is not intended or written to be used, and cannot be used, for the purpose of avoiding penalties that may be imposed under federal tax law in connection with the Series C Bonds. Such discussion was written to support the promotion or marketing of the Series C Bonds. Each purchaser of the Series C Bonds should seek advice based on such purchaser's particular circumstances from an independent tax advisor.

LEGAL MATTERS

Legal matters incident to the authorization and sale of the Bonds are subject to the approval of Edwards Angell Palmer & Dodge LLP, Boston, Massachusetts, Bond Counsel. The proposed forms of the approving

opinions of Edwards Angell Palmer & Dodge LLP are set forth in Appendix A. The opinions will be dated the date of the issuance of the Bonds and will speak only as of that date.

FINANCIAL ADVISOR

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

RATINGS

Fitch Ratings, Moody's Investors Service, Inc. and Standard & Poor's have assigned the Bonds the ratings of AA, Aa2, and AA, respectively. 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.

COMPETITIVE SALE OF BONDS

After competitive bidding on December 15, 2009, the Series B Bonds were awarded to Merrill Lynch, Pierce, Fenner & Smith, Incorporated (the "Series B Underwriter"). The Series B Underwriter has supplied the information as to the public offering yields or prices of the Bonds set forth on the inside cover hereof. The Series B Underwriter has informed the State that if all of the Series B Bonds are resold to the public at those yields or prices, it anticipates the total Series B Underwriter's compensation to be \$103,750.00. The Series B Underwriter may change the public offering yields or prices from time to time.

After competitive bidding on December 15, 2009, the Series C Bonds were awarded as Federally Taxable Build America Bonds (Direct Payment) to a group of underwriters managed by Robert W. Baird & Co., Inc. (the "Series C Underwriters"). The Series C Underwriters have supplied the information as to the public offering yields or prices of the Series C Bonds set forth on the inside cover hereof. The Series C Underwriters have informed the State that if all of the Series C Bonds are resold to the public at those yields or prices, they anticipate the total Series C Underwriters' compensation to be \$696,875.03. The Series C Underwriters may change the public offering yields or prices from time to time.

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 nationally recognized municipal securities information repository 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

December 15, 2009

**PROPOSED FORM OF OPINION OF BOND COUNSEL – TAX-EXEMPT BONDS -SERIES B BONDS –
TAX-EXEMPT BONDS**

The following proposed form of opinion of bond counsel shall be delivered in connection with the Series B Bonds.

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

\$50,000,000
State of New Hampshire
General Obligation Capital Improvement Bonds, 2009 Series B
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 and such interest is not 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

**PROPOSED FORM OF OPINION OF BOND COUNSEL – SERIES C BONDS
(FEDERALLY TAXABLE - BUILD AMERICA BONDS - DIRECT PAYMENT)**

The following proposed form of opinion of bond counsel shall be delivered in connection with the Series C Bonds.

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

\$75,000,000
State of New Hampshire
General Obligation Capital Improvement Bonds, 2009 Series C
(Federally Taxable – Build America Bonds – Direct Payment) (the “Bonds”)
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 included in the gross income of the owners of the Bonds for federal income tax purposes. We express no opinion regarding any other federal tax consequences arising with respect to the Bonds.

This opinion is not intended or written by Edwards Angell Palmer & Dodge LLP to be used and cannot be used by you for the purpose of avoiding penalties that may be imposed under federal tax law in connection with 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 and the Resolution are subject to bankruptcy, 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

**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 \$50,000,000 General Obligation Capital Improvement Bonds, 2009 Series B and \$75,000,000 General Obligation Capital Improvement Bonds, 2009 Series C, dated their date of delivery (collectively, the “Bonds”). The State covenants and agrees as follows:

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

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

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

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

“MSRB” shall mean the Municipal Securities Rulemaking Board as established pursuant to Section 15B(b)(1) of the Securities Exchange Act of 1934, or any successor thereto or to the functions of the MSRB contemplated by this Disclosure Certificate. Filing information relating to the MSRB is set forth in 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.

“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.

SECTION 3. Provision of Annual Reports.

(a) The State shall, not later than 270 days after the end of each fiscal year, provide to the MSRB 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 MSRB an Annual Report by the date required in subsection (a), the State shall send a notice to the MSRB in substantially the form attached as Exhibit B.

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

(a) quantitative information for the preceding fiscal year of the type presented in the State’s Information Statement dated December 15, 2009 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 (i) are available to the public on the MSRB Internet Website or (ii) have been filed with the Securities and Exchange Commission. 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.

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

SECTION 6. Transmission of Information and Notices. Unless otherwise required by law, all notices, documents and information provided to the MSRB shall be provided in electronic format as prescribed by the MSRB and shall be accompanied by identifying information as prescribed by the MSRB.

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 the MSRB.

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: December 22, 2009

STATE OF NEW HAMPSHIRE

By: _____
State Treasurer

Governor

[EXHIBIT A: Filing Information for the MSRB – to be attached]

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

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NOTICES OF SALE

\$50,000,000*

**STATE OF NEW HAMPSHIRE
GENERAL OBLIGATION CAPITAL IMPROVEMENT BONDS
2009 SERIES B**

Notice is hereby given that electronic bids will be received until 11:00 A.M. (local Concord, New Hampshire time) on Tuesday, December 15, 2009 by Catherine A. Provencher, State Treasurer of the State of New Hampshire, for the purchase of \$50,000,000* State of New Hampshire General Obligation Capital Improvement Bonds, 2009 Series B (the "Bonds").

Description of the Bonds

The Bonds will be issued only as fully registered bonds in book-entry form. The Bonds will be dated their date of delivery and will be issued in denominations of \$5,000 or any integral multiple thereof. Interest on the Bonds will be calculated on a 30/360 day basis and will be payable semi-annually on March 1 and September 1, commencing March 1, 2010.

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

<u>Year</u>	<u>Principal Amount⁽¹⁾</u>	<u>Year</u>	<u>Principal Amount⁽¹⁾</u>
2011	\$7,500,000	2015	\$7,500,000
2012	7,500,000	2016	7,500,000
2013	7,500,000	2017	5,000,000
2014	7,500,000		

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

Authorization and Security

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

Redemption

The Bonds are not subject to optional or mandatory redemption prior to maturity.

Book-Entry Only

Initially, one bond certificate for each maturity will be issued to The Depository Trust Company, New York, New York ("DTC") or its nominee, which will be designated as the securities depository for the Bonds. So long as DTC is acting as securities depository for the Bonds, a book-entry system will be employed, evidencing ownership of the Bonds in principal amounts of \$5,000 and multiples thereof, with transfers of ownership effected

* Preliminary, subject to change.

on the records of DTC and its participants pursuant to rules and procedures established by DTC and its participants. Principal of and interest on the Bonds will be payable to DTC or its nominee as registered owner of the Bonds. Principal of and interest on the Bonds will be payable in lawful money of the United States of America by U.S. Bank National Association, as Paying Agent. Transfers of principal and interest payments to beneficial owners (the "Beneficial Owners") will be the responsibility of such participants and other nominees of the Beneficial Owners. The State will not be responsible or liable for maintaining, supervising or reviewing the records maintained by DTC, its participants or persons acting through such participants.

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

Electronic Bidding Procedures

Proposals to purchase bonds (all or none) must be submitted electronically via *PARITY*. Bids will be communicated electronically to the State at 11:00 a.m., local Concord, New Hampshire time, on Tuesday, December 15, 2009. Prior to that time, a prospective bidder may (1) submit the proposed terms of its bid via *PARITY*, (2) modify the proposed terms of its bid, in which event the proposed terms as last modified will (unless the bid is withdrawn as described herein) constitute its bid for the Bonds or (3) withdraw its proposed bid. Once the bids are communicated electronically via *PARITY* to the State, each bid will constitute an irrevocable offer to purchase the Bonds on the terms therein provided. For purposes of the electronic bidding process, the time as maintained on *PARITY* shall constitute the official time. The State will not accept bids by any means other than electronically via *PARITY*.

Disclaimer

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

Bid Specifications

Bidders should state the rate or rates of interest that the Bonds are to bear, in multiples of 1/8 or 1/20 of one percent. Any number of rates may be named, except that bonds maturing on the same date must bear interest at the same rate. Bids must be for not less than 100% of the par value of the aggregate principal amount of the Bonds. No interest rate may exceed 5.00%. No bid for other than all of the Bonds will be accepted.

Serial Bonds and Term Bonds

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

Bond Insurance

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

Basis of Award

The Bonds will be awarded to the bidder offering to purchase all of the Bonds at the lowest interest cost to the State. The lowest interest cost shall be determined in accordance with the true interest cost (TIC) method by doubling the semi-annual interest rate (compounded semi-annually) necessary to discount the debt service payments from the payment dates to the date of the Bonds (December 22, 2009) and to the price bid, excluding interest accrued to the date of delivery. If there is more than one such proposal making said offer at the same lowest true interest cost, the Bonds will be sold to the bidder whose proposal is selected by the Treasurer by lot from among all such proposals at the same lowest true interest cost. It is requested that each bid be accompanied by a statement of the true interest cost computed at the interest rate or rates stated in such bid in accordance with the above method of calculation (computed to six decimal places) but such statement will not be considered as a part of the bid.

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

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

Right to Change the Notice of Sale and to Postpone Offering

The State reserves the right to make changes to the Notice of Sale and also reserves the right to postpone, from time to time, the date and time established for the receipt of bids. **ANY SUCH POSTPONEMENT WILL BE ANNOUNCED VIA TM3 NOT LATER THAN 9:00 A.M. (E.S.T.) ON THE ANNOUNCED DATE FOR RECEIPT OF BIDS.** If any date and time fixed for the receipt of bids and the sale of the Bonds is postponed, an alternative sale date and time will be announced via TM3 at least 48 hours prior to such alternative sale date. On any such alternative sale date and time, any bidder may submit an electronic bid for the purchase of the Bonds in conformity in all respects with the provisions of this Notice of Sale, except for the date and time of sale and except for any changes announced over TM3 at the time the sale date and time are announced.

Changes to Preliminary Principal Amounts

The preliminary aggregate principal amount of the Bonds and the preliminary annual principal amounts as set forth in this Notice of Sale (the "Preliminary Aggregate Principal Amount" and the "Preliminary Annual Principal Amounts," respectively, and collectively, the "Preliminary Amounts") may be revised before the date established for submission of electronic bids. Also, additional annual principal amounts in years following 2017 could be added or any one or more of the annual principal amounts could be eliminated. **ANY SUCH REVISIONS (THE "REVISED AGGREGATE PRINCIPAL AMOUNT" AND THE "REVISED ANNUAL PRINCIPAL AMOUNTS," RESPECTIVELY, AND COLLECTIVELY, THE "REVISED AMOUNTS") WILL BE**

PUBLISHED AS AN AMENDMENT TO THE NOTICE OF SALE AND DISTRIBUTED ON THOMSON MUNICIPAL MARKET MONITOR (“TM3”) (www. TM3.com) NO LATER THAN 4:00 P.M., CONCORD, NEW HAMPSHIRE TIME ON THE LAST BUSINESS DAY PRIOR TO THE DATE FOR RECEIPT OF BIDS. In the event that no such revisions are made, the Preliminary Amounts will constitute the Revised Amounts. BIDDERS SHALL SUBMIT BIDS BASED ON THE REVISED AMOUNTS AND THE REVISED AMOUNTS WILL BE USED TO COMPARE BIDS AND SELECT A WINNING BIDDER. There will be no further adjustments to the aggregate principal amount or annual principal amounts of the Bonds after the bids are received.

CUSIP Numbers

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

Expenses

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

Undertakings of the Successful Bidder

The successful bidder shall make a bona fide public offering of the Bonds and shall, within 30 minutes of being notified of the award of the Bonds, advise the State in writing (via facsimile transmission) of the initial public offering prices of the Bonds (the "Initial Reoffering Prices"). The successful bidder must, by facsimile transmission or delivery received by the State Treasurer within 24 hours after notification of the award, furnish the following information to Bond Counsel to complete the Official Statement in final form, as described below:

- A. Selling compensation (aggregate total anticipated compensation to the underwriters expressed in dollars, based on the expectation that all Bonds are sold at the prices or yields at which the successful bidder advised the State Treasurer that the Bonds were initially offered to the public).
- B. The identity of the underwriters if the successful bidder is part of a group or syndicate.
- C. Any other material information the State Treasurer determines is necessary to complete the Official Statement in final form.

On or prior to the date of delivery of the Bonds, the successful bidder shall furnish to the State a certificate acceptable to Bond Counsel to the State generally to the effect that (i) as of December 15, 2009 (the “Sale Date”), the successful bidder had offered or reasonably expected to offer all of the Bonds to the general public (excluding bond houses, brokers, or similar persons acting in the capacity of underwriters or wholesalers) in a bona fide public offering at the prices set forth in such certificate, plus accrued interest, if any, (ii) such prices represent fair market prices of the Bonds as of the Sale Date, and (iii) as of the date of such certificate, all of the Bonds have been offered to the general public in a bona fide offering at the prices set forth in such certificate, and at least 10% of each maturity of the Bonds actually has been sold to the general public at such prices. To the extent the certifications described in the preceding sentence are not factually accurate with respect to the reoffering of the Bonds, Bond Counsel should be consulted by the bidder as to alternative certifications that will be suitable to establish the “issue price” of the Bonds for federal tax law purposes. If a municipal bond insurance policy or similar credit enhancement is obtained with respect to the Bonds by the successful bidder, such bidder will also be required to certify as to the net present value savings on the Bonds resulting from payment of insurance premiums or other credit enhancement fees.

Delivery of the Bonds

The Bonds will be delivered on or about December 22, 2009 (unless a notice of change in the delivery date is announced on TM3 not later than 1:00 p.m. (E.S.T.) on the last business day prior to any announced date for receipt of bids) in Boston on behalf of DTC against payment of the purchase price therefor in Federal Funds.

Documents to be Delivered at Closing

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

Official Statement

The Preliminary Official Statement dated December 8, 2009 and the information contained therein have been deemed final by the State as of its date within the meaning of Rule 15c2-12 of the Securities and Exchange Commission ("Rule 15c2-12") with permitted omissions, but is subject to change without notice and to completion or amendment in the Official Statement in final form (the "Final Official Statement").

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

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

Continuing Disclosure

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

Additional Information

For further information relating to the Bonds, reference is made to the Preliminary Official Statement dated December 8, 2009 prepared for and authorized by the State Treasurer. The Preliminary Official Statement may be obtained by accessing the following website: www.muniOS.com. For further information, please contact the undersigned at the Office of the State Treasurer, State House Annex, Concord, New Hampshire 03301 (telephone 603-271-2621; telecopy 603-271-3922) or from Public Resources Advisory Group, 40 Rector Street, Suite 1600, New York, New York 10006, Attention: Michael Ablowich (telephone 617-342-7264 or 212-566-7800; telecopy 212-566-7816).

THE STATE OF NEW HAMPSHIRE

By Catherine A. Provencher
State Treasurer

Date: December 8, 2009

NOTICE OF SALE

\$75,000,000*

**STATE OF NEW HAMPSHIRE
GENERAL OBLIGATION CAPITAL IMPROVEMENT BONDS
2009 SERIES C**

Notice is hereby given that electronic bids will be received until 11:30 A.M. (local Concord, New Hampshire time) on Tuesday, December 15, 2009 by Catherine A. Provencher, State Treasurer of the State of New Hampshire, for the purchase of \$75,000,000* State of New Hampshire General Obligation Capital Improvement Bonds, 2009 Series C (the "Bonds").

Description of the Bonds

The Bonds will be issued only as fully registered bonds in book-entry form. The Bonds will be dated their date of delivery and will be issued in denominations of \$5,000 or any integral multiple thereof. Interest on the Bonds will be calculated on a 30/360 day basis and will be payable semi-annually on March 1 and September 1, commencing March 1, 2010.

The bidder may elect whether to bid on the Bonds as "Tax-Exempt Bonds" or "Taxable Bonds" as described below.

Tax-Exempt Bonds. Interest on Tax-Exempt Bonds is excluded from gross income for Federal income tax purposes and is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxable income and is not included in adjusted current earnings when calculating corporate alternative minimum tax income.

Taxable Bonds. Interest on Taxable Bonds is included in gross income for Federal income tax purposes. The Taxable Bonds will be qualified as Build America Bonds, and the State will elect to receive from the United States Treasury on each interest payment date a direct payment in the amount of 35 percent of the interest payable by the State. Although the Taxable Bonds will be qualified as Build America Bonds, the tax credit will be allowed to the State only and not to the beneficial owners of the Taxable Bonds.

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

<u>Year</u>	<u>Principal Amount</u> ⁽¹⁾	<u>Year</u>	<u>Principal Amount</u> ⁽¹⁾
2017	\$2,500,000	2024	\$5,000,000
2018	7,500,000	2025	5,000,000
2019	7,500,000	2026	5,000,000
2020	7,500,000	2027	5,000,000
2021	7,500,000	2028	5,000,000
2022	7,500,000	2029	5,000,000
2023	5,000,000		

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

* Preliminary, subject to change.

Authorization and Security

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

Optional Redemption for the Bonds if Issued as Tax-Exempt Bonds

The Bonds maturing on and before March 1, 2020 are not subject to redemption prior to maturity. The Bonds maturing after March 1, 2020, are subject to redemption at the option of the State on and after March 1, 2020 in whole or in part at any time, with maturities to be designated by the State (and by lot within a maturity as described below), at the price of the par amount of bonds to be redeemed, plus accrued interest to the redemption date.

Optional Redemption for the Bonds if Issued as Federally Taxable Build America Bonds (Direct Payment)

The Bonds are subject to redemption at the option of the State prior to maturity, in whole or in part (on a pro rata basis as described below), at any time, at the “Make-Whole Redemption Price.” The “Make Whole Redemption Price” is equal to the greater of:

- (i) 100% of the principal amount of the Bonds to be redeemed; or
- (ii) the sum of the present values of the remaining scheduled payments of principal and interest on the Bonds to be redeemed (exclusive of interest accrued to the redemption date) discounted to the date of redemption on a semiannual basis (assuming a 360-day year consisting of twelve 30-day months) at the Treasury Rate plus 25 basis points,

plus accrued and unpaid interest on the Bonds being redeemed to the redemption date. For purpose of determining the Treasury Rate, the following definitions will apply:

“Comparable Treasury Issue” means, with respect to any redemption date for a particular Bond, the United States Treasury security or securities selected by the Designated Investment Banker which has an actual or interpolated maturity comparable to the remaining average life of the applicable Bonds to be redeemed, and that would be utilized in accordance with customary financial practice in pricing new issues of debt securities of comparable maturity to the remaining average life of the Bonds to be redeemed.

“Comparable Treasury Price” means, with respect to any redemption date for a particular Bond, (a) if the Designated Investment Banker receives at least four Reference Treasury Dealer Quotations, the average of such quotations for such redemption date, after excluding the highest and lowest Reference Treasury Deal Quotations, or (b) if the Designated Investment Banker obtains fewer than four such Reference Treasury Dealer Quotations, the average of all such quotations.

“Designated Investment Banker” means one of the Reference Treasury Dealers appointed by the State.

“Reference Treasury Dealer” means the four firms, specified by the State from time to time, that are primary U.S. Government securities dealers in the City of New York (each a “Primary Treasury Dealer”); provided, however, that if any of them ceases to be a Primary Treasury Dealer, the State shall substitute another Primary Treasury Dealer.

“Reference Treasury Deal Quotations” means, with respect to each Reference Treasury Dealer and any redemption date for a particular Bond, the average, as determined by the Designated Investment Banker, of the bid and ask prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing to the Designated Investment Banker by such Reference Treasury Dealer at 3:30 p.m., New York City time, at least two (2) business days but not more than forty-five (45) calendar days preceding such redemption date.

“Remaining Scheduled Payments” means, with respect to the Bonds of each maturity to be redeemed, the remaining scheduled payments of the principal thereof and interest thereon that would be due assuming such Bonds were not so optionally redeemed but, however, giving effect to any mandatory

sinking fund installments applicable to such Bonds provided, however, that, if such redemption date is not an interest payment date with respect to the Bonds, the amount of the next succeeding scheduled interest payment thereon will be deemed to be reduced by the amount of interest accrued thereon to such redemption date.

“Treasury Rate” means, with respect to any redemption date for a particular Bond, the rate per annum, expressed as a percentage of the principal amount, equal to the semiannual equivalent yield to maturity or interpolated maturity of the Comparable Treasury Issue, assuming that the Comparable Treasury Issue is purchased on the redemption date for a price equal to the Comparable Treasury Price, as calculated by the Designated Investment Banker.

Extraordinary Optional Redemption

The Bonds will be subject to extraordinary optional redemption prior to maturity, at the option of the State, upon the occurrence of an Extraordinary Event (defined below), in whole or in part (on a pro rata basis as described below), at any time, at the “Extraordinary Redemption Price.” The Extraordinary Redemption Price is equal to the greater of:

- (i) the issue price of the Bonds set forth on the inside cover page hereof (but not less than 100%) of the principal amount of the Bonds to be redeemed; or
- (ii) the sum of the present value of the remaining scheduled payments of principal and interest on the Bonds to be redeemed to the maturity date of such Bonds, not including any portion of those payments of interest accrued and unpaid as of the date on which the Bonds are to be redeemed, discounted to the date on which the Bonds are to be redeemed on a semi-annual basis, assuming a 360-day year containing twelve 30-day months, at the Treasury Rate (as defined above) plus 100 basis points,

plus accrued interest on the Bonds to be redeemed to the redemption date.

An “Extraordinary Event” will have occurred if the State determines that a material adverse change has occurred to section 54AA or section 6431 of the Internal Revenue Code of 1986 (the “Code”) (as such sections were added by Section 1531 of the American Recovery and Reinvestment Act of 2009, pertaining to Build America Bonds) or there is any guidance published by the Internal Revenue Service or the Department of the Treasury with respect to such sections of the Code or any other determination by the Internal Revenue Service or the Department of the United States Treasury, which determination is not the result of an act or omission by the State to satisfy the requirements to receive the Direct Payments, pursuant to which the Direct Payments are reduced or eliminated.

Mandatory Redemption

The prospective bidder may designate two or more of the consecutive serial maturities of the Bonds as one or more term bonds. Any such term bond shall be subject to mandatory redemption commencing on March 1 of the first year which has been combined to form such term bond and continuing on March 1 in each year thereafter until the stated maturity date of that term bond. The amount Bonds to be redeemed in any year by mandatory sinking fund redemption shall be redeemed at par and selected as provided below from among the Bonds of the same maturity. The State Treasurer may credit against any mandatory redemption requirement term bonds of the maturity then subject to redemption which have been purchased and canceled by the State or have been redeemed and not theretofore applied as a credit against any mandatory redemption requirement.

Selection of Bonds To Be Redeemed in Partial Redemption

If the Bonds are issued as Tax-Exempt Bonds, the following provisions shall apply:

In the event of a partial redemption of any maturity of the Bonds, the identity of the beneficial owners whose beneficial interests in the Bonds will be redeemed and the amount of any such redemption will be determined by DTC and its participants by lot in such manner as DTC and its participants deem appropriate.

If the Bonds are issued as Taxable Bonds, the following provisions shall apply:

So long as the Bonds are registered in book-entry-only form and so long as DTC or a successor securities depository is the sole registered owner of the Bonds, partial redemptions will be done in accordance with DTC procedures. It is the State's intent that DTC, the DTC Participants and such other intermediaries that may exist between the State and the beneficial owners effect a pro rata reduction of principal (subject to minimum authorized denomination restrictions and DTC procedures) of all outstanding Bonds according to the beneficial interest in the Bonds that DTC records list as owned by each DTC participant as of the record date for such payment. However, the State can provide no assurance that DTC, the DTC Participants or any other intermediaries will allocate redemptions or reductions in principal among beneficial owners on such a proportional basis.

If the Bonds are no longer registered in book-entry-only form, any redemption of less than all of the Bonds of any maturity will be allocated among the registered owners of such Bonds as nearly as practicable in proportion to the principal amounts of the Bonds of such maturity owned by each registered owner, subject to the authorized denominations applicable to the Bonds. This will be calculated based on the formula: (principal amount of applicable maturity to be redeemed) x (principal amount of applicable maturity owned by owner) / (principal amount of applicable maturity outstanding). The particular Bonds to be redeemed will be determined by the Paying Agent, using such method as it deems fair and appropriate.

Notice of Redemption

So long as DTC is the registered owner of the Series C Bonds, notice of any redemption of the Series C Bonds prior to their maturities, specifying the Series C 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 the Series C Bonds, if sufficient moneys are deposited with U.S. Bank National Association, or its successor, as Paying Agent (the "Paying Agent") for redemption, interest thereon ceases to accrue as of the redemption date.

Book-Entry Only

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

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

Electronic Bidding Procedures

Proposals to purchase bonds (all or none) must be submitted electronically via *PARITY*. Bids will be communicated electronically to the State at 11:30 a.m., local Concord, New Hampshire time, on December 15, 2009. Prior to that time, a prospective bidder may (1) submit the proposed terms of its bid via *PARITY*, (2) modify the proposed terms of its bid, in which event the proposed terms as last modified will (unless the bid is withdrawn as

described herein) constitute its bid for the Bonds or (3) withdraw its proposed bid. Once the bids are communicated electronically via *PARITY* to the State, each bid will constitute an irrevocable offer to purchase the Bonds on the terms therein provided. For purposes of the electronic bidding process, the time as maintained on *PARITY* shall constitute the official time. The State will not accept bids by any means other than electronically via *PARITY*.

Disclaimer

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

Bid Specifications

Bidders should state whether the bid is for Tax-Exempt or Taxable Bonds. Bidders should state the rate or rates of interest that the Bonds are to bear, in multiples of 1/8 or 1/20 of one percent. Any number of rates may be named, except that Bonds maturing on the same date must bear interest at the same rate. Bids must be for not less than 100% of the par value of the aggregate principal amount of the Bonds. No bid for other than all of the Bonds will be accepted. No interest rate for a Tax-Exempt Bond may exceed 5.00%. For Taxable Bonds, bidders must specify the expected reoffering price for such Bonds, and in all events the actual reoffering price for any maturity of Taxable Bonds cannot exceed the par amount of the maturity by more than 0.25 percent multiplied by the number of whole years to the maturity date of such Bonds, as set forth in the following table. The actual reoffering prices of the Taxable Bonds cannot exceed the maximum reoffering prices for each maturity set forth below:

Maturity Date (<u>March 1</u>)	Maximum Reoffering Price of Taxable Bonds	Maturity Date (<u>March 1</u>)	Maximum Reoffering Price of Taxable Bonds
2017	101.75%	2024	103.50%
2018	102.00	2025	103.75
2019	102.25	2026	104.00
2020	102.50	2027	104.25
2021	102.75	2028	104.50
2022	103.00	2029	104.75
2023	103.25		

Serial Bonds and Term Bonds

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

Bond Insurance

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

Basis of Award

The Bonds will be awarded to the bidder offering to purchase all of the Bonds at the lowest interest cost to the State. The lowest interest cost shall be determined in accordance with the true interest cost (TIC) method by doubling the semi-annual interest rate (compounded semi-annually) necessary to discount the debt service payments from the payment dates to the date of the Bonds (December 22, 2009) and to the price bid, excluding interest accrued to the date of delivery. For bids submitted as Taxable Bonds, the TIC rate on the Taxable Bonds will be determined after subtracting 35 percent of each interest payment (reflecting the tax credit that the State will elect to receive as a result of the Bonds being qualified Build America Bonds.) If there is more than one such proposal making said offer at the same lowest true interest cost, the Bonds will be sold to the bidder whose proposal is selected by the Treasurer by lot from among all such proposals at the same lowest true interest cost. It is requested that each bid be accompanied by a statement of the true interest cost computed at the interest rate or rates stated in such bid in accordance with the above method of calculation (computed to six decimal places) but such statement will not be considered as a part of the bid.

Bids will be accepted or rejected promptly after receipt and not later than 3:30 p.m. (Concord, New Hampshire time.) on the date of the sale.

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

Right to Change the Notice of Sale and to Postpone Offering

The State reserves the right to make changes to the Notice of Sale and also reserves the right to postpone, from time to time, the date and time established for the receipt of bids. **ANY SUCH POSTPONEMENT WILL BE ANNOUNCED VIA TM3 NOT LATER THAN 4:00 P.M. CONCORD, NEW HAMPSHIRE TIME ON THE LAST BUSINESS DAY PRIOR TO THE ANNOUNCED DATE FOR RECEIPT OF BIDS.** If any date and time fixed for the receipt of bids and the sale of the Bonds is postponed, an alternative sale date and time will be announced via TM3 at least 48 hours prior to such alternative sale date. On any such alternative sale date and time, any bidder may submit an electronic bid for the purchase of the Bonds in conformity in all respects with the provisions of this Notice of Sale, except for the date and time of sale and except for any changes announced over TM3 at the time the sale date and time are announced.

Changes to Preliminary Principal Amounts

The preliminary aggregate principal amount of the Bonds and the preliminary annual principal amounts as set forth in this Notice of Sale (the "Preliminary Aggregate Principal Amount" and the "Preliminary Annual Principal Amounts," respectively, and collectively, the "Preliminary Amounts") may be revised before the date established for submission of electronic bids. Also, additional annual principal amounts in years prior to 2017 could be added or any one or more of the annual principal amounts could be eliminated. **ANY SUCH REVISIONS (THE "REVISED AGGREGATE PRINCIPAL AMOUNT" AND THE "REVISED ANNUAL PRINCIPAL AMOUNTS," RESPECTIVELY, AND COLLECTIVELY, THE "REVISED AMOUNTS") WILL BE PUBLISHED AS AN AMENDMENT TO THE NOTICE OF SALE AND DISTRIBUTED ON THOMSON MUNICIPAL MARKET MONITOR ("TM3") (www. TM3.com) NO LATER THAN 4:00 P.M., CONCORD,**

NEW HAMPSHIRE TIME ON THE LAST BUSINESS DAY PRIOR TO THE DATE FOR RECEIPT OF BIDS. In the event that no such revisions are made, the Preliminary Amounts will constitute the Revised Amounts. BIDDERS SHALL SUBMIT BIDS BASED ON THE REVISED AMOUNTS AND THE REVISED AMOUNTS WILL BE USED TO COMPARE BIDS AND SELECT A WINNING BIDDER. There will be no further adjustments to the aggregate principal amount or annual principal amounts of the Bonds after the bids are received.

CUSIP Numbers

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

Expenses

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

Undertakings of the Successful Bidder

The successful bidder shall make a bona fide public offering of the Bonds and shall, within 30 minutes of being notified of the award of the Bonds, advise the State in writing (via facsimile transmission) of the initial public offering prices of the Bonds (the "Initial Reoffering Prices"). The successful bidder must, by facsimile transmission or delivery received by the State Treasurer within 24 hours after notification of the award, furnish the following information to Bond Counsel to complete the Official Statement in final form, as described below:

- A. Selling compensation (aggregate total anticipated compensation to the underwriters expressed in dollars, based on the expectation that all Bonds are sold at the prices or yields at which the successful bidder advised the State Treasurer that the Bonds were initially offered to the public).
- B. The identity of the underwriters if the successful bidder is part of a group or syndicate.
- C. Any other material information the State Treasurer determines is necessary to complete the Official Statement in final form.

On or prior to the date of delivery of the Bonds, the successful bidder shall furnish to the State a certificate acceptable to Bond Counsel to the State generally to the effect that (i) as of December 15, 2009 (the "Sale Date"), the successful bidder had offered or reasonably expected to offer all of the Bonds to the general public (excluding bond houses, brokers, or similar persons acting in the capacity of underwriters or wholesalers) in a bona fide public offering at the prices set forth in such certificate, plus accrued interest, if any, (ii) such prices represent fair market prices of the Bonds as of the Sale Date, and (iii) as of the date of such certificate, all of the Bonds have been offered to the general public in a bona fide offering at the prices set forth in such certificate, and at least 10% of each maturity of the Bonds actually has been sold to the general public at such prices. To the extent the certifications described in the preceding sentence are not factually accurate with respect to the reoffering of the Bonds, Bond Counsel should be consulted by the bidder as to alternative certifications that will be suitable to establish the "issue price" of the Bonds for federal tax law purposes. If a municipal bond insurance policy or similar credit enhancement is obtained with respect to the Bonds by the successful bidder, such bidder will also be required to certify as to the net present value savings on the Bonds resulting from payment of insurance premiums or other credit enhancement fees.

Delivery of the Bonds

The Bonds will be delivered on or about December 22, 2009 (unless a notice of change in the delivery date is announced on TM3 not later than 1:00 p.m. (E.S.T.) on the last business day prior to any announced date for receipt of bids) in Boston on behalf of DTC against payment of the purchase price therefor in Federal Funds.

Documents to be Delivered at Closing

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

Official Statement

The Preliminary Official Statement dated December 8, 2009 and the information contained therein have been deemed final by the State as of its date within the meaning of Rule 15c2-12 of the Securities and Exchange Commission ("Rule 15c2-12") with permitted omissions, but is subject to change without notice and to completion or amendment in the Official Statement in final form (the "Final Official Statement").

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

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

Continuing Disclosure

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

Additional Information

For further information relating to the Bonds, reference is made to the Preliminary Official Statement dated December 8, 2009 prepared for and authorized by the State Treasurer. The Preliminary Official Statement may be obtained by accessing the following website: www.munios.com. For further information, please contact the undersigned at the Office of the State Treasurer, State House Annex, Concord, New Hampshire 03301 (telephone 603-271-2621; telecopy 603-271-3922) or from Public Resources Advisory Group, 40 Rector Street, Suite 1600, New York, New York 10006, Attention: Michael Ablowich (telephone 617-342-7264 or 212-566-7800; telecopy 212-566-7816).

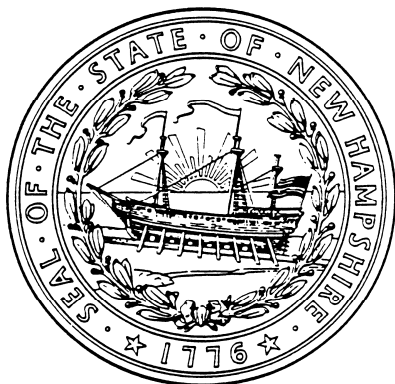
THE STATE OF NEW HAMPSHIRE

By Catherine A. Provencher
State Treasurer

Date: December 8, 2009

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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

December 15, 2009

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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
MICHAEL A. DELANEY

COMMISSIONER OF ADMINISTRATIVE SERVICES
LINDA M. HODGDON

COMPTROLLER
EDGAR R. CARTER

BUDGET DIRECTOR
KRISTYN A. VAN OSTERN

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STATE GOVERNMENT

Executive Branch

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

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 was filled in October, 2009, after having been vacant since January, 2007. The Governor and Council confirmed Edgar R. Carter to the position on October 21, 2009. The State's Attorney General resigned effective July 17, 2009 to seek elective office. The Governor nominated Michael A. Delaney, the Governor's legal counsel and former Deputy Attorney General, to the Attorney General post. The Executive Council confirmed the appointment on August 19, 2009.

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 with 11 sites, Probate Courts with 10 sites, 33 District Courts and 23 Family Division Courts. All justices and judges are appointed by the Governor and Council and may 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 1998 and 2008, primarily as a result of net migration from neighboring states. The State's population was 1,315,809 in July 2008 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)

<u>Year</u>	<u>New Hampshire</u>	<u>Change During Period</u>	<u>New England</u>	<u>Change During Period</u>	<u>United States</u>	<u>Change During Period</u>
1998	1,206	1.4%	13,734	0.7%	275,854	1.2%
1999	1,222	1.3	13,838	0.8	279,040	1.2
2000	1,240	1.5	13,952	0.8	282,172	1.1
2001	1,257	1.4	14,046	0.7	285,040	1.0
2002	1,271	1.1	14,126	0.6	287,727	0.9
2003	1,281	0.8	14,181	0.4	290,211	0.9
2004	1,292	0.9	14,202	0.1	293,892	0.9
2005	1,301	0.7	14,208	0.0	295,561	0.9
2006	1,309	0.6	14,232	0.2	298,363	0.9
2007	1,312	0.2	14,259	0.2	301,290	1.0
2008	1,316	0.3	14,304	0.3	304,060	0.9
 <u>Percent Change:</u>						
1998–2008	--	9.1	--	4.2	--	10.2
2003–2008	--	2.7	--	0.9	--	4.7

Source: U.S. Census Bureau.

Personal Income

The State's per capita personal income increased 47.1% between 1998 and 2008 (as contrasted with an increase of 47.5% in the per capita personal income for the United States and a 53.0% increase for the New England region). The State's per capita personal income ranked 10th in 2008 with \$43,623 or 108.5% of the national average. The State's total personal income for 2008 was \$57.4 billion. The following table sets forth information on personal income for New Hampshire, New England and the United States since 1998.

**Comparisons of New Hampshire Personal Income
to New England and United States, 1998-2008**

	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	
1998.....	\$35,773	\$29,664	\$32,128	\$27,258	7.7%	6.8%	6.3%	7
1999.....	37,926	31,036	33,581	28,333	4.6	4.5	3.9	6
2000.....	42,283	34,089	36,603	30,318	9.8	9.0	7.0	6
2001.....	43,625	34,716	37,979	31,149	1.8	3.8	2.7	7
2002.....	44,635	35,126	38,113	31,470	1.2	0.4	1.0	6
2003.....	45,739	35,699	38,788	32,284	1.6	1.8	2.6	6
2004.....	48,597	37,612	40,842	33,899	5.4	5.3	5.0	6
2005.....	49,956	38,412	42,391	35,447	2.1	3.8	4.6	10
2006.....	53,661	40,999	45,652	37,728	6.7	7.7	6.4	9
2007.....	56,205	42,831	48,027	39,430	4.5	5.2	4.5	9
2008.....	57,399	43,623	49,146	40,208	1.8	2.3	2.0	10

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 1998 to 2008. 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
	1998	2008	1998-2008
New Hampshire.....	651	711	0.89%
Connecticut.....	1,685	1,769	0.49
Maine.....	628	669	0.63
Massachusetts.....	3,209	3,244	0.11
Rhode Island.....	510	523	0.25
Vermont.....	322	339	0.52
New England.....	7,004	7,254	0.35
United States.....	131,463	145,362	1.01

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 October, 2009, 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 1998.

Year	Labor Force Trends New Hampshire Labor Force (In Thousands)			Unemployment Rate		
	Civilian	Employed	Unemployed	New	New	United
	Labor Force			Hampshire	England	States
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	733	707	26	3.5	4.5	4.6
2007	738	712	26	3.5	4.5	4.6
2008	739	711	28	3.8	5.4	5.8
October, 2009 ¹	735	688	47	6.5	8.3	9.5

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

Composition of Employment

The service sector was the largest employment sector in New Hampshire in 2008, accounting for 41.8% of nonagricultural employment, as compared to 37.9% in 1998. 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 42.8% of employment in 2008, up from 39.0% in 1998.

The second largest employment sector in New Hampshire during 2008 was wholesale and retail trade, accounting for 19.4% of total employment as compared to 15.6% nationally. In 1998, 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 11.7% of nonagricultural employment in 2008, down from 17.6% in 1998. For the United States as a whole, manufacturing accounted for 9.8% of nonagricultural employment in 2008, versus 13.9% in 1998. 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	
	1998	2008	1998	2008
Manufacturing	17.6%	11.7%	13.9%	9.8%
Durable Goods	13.1	8.9	8.7	6.2
Nondurable Goods.....	4.4	2.8	5.3	3.6
Nonmanufacturing	82.4	88.3	86.1	90.2
Construction & Mining	4.1	4.2	5.4	5.8
Wholesale and Retail Trade	18.8	19.4	16.2	15.6
Service Industries	37.9	41.8	39.0	42.8
Government.....	13.5	14.7	15.8	16.4
Finance, Insurance & Real Estate.....	5.5	5.9	5.9	5.9
Transportation & Public Utilities	2.6	2.3	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 2008.

**Largest Employers
(Excluding Federal, State and Local Governments)**

<u>Company</u>	<u>Employees</u>	<u>Primary New Hampshire Site</u>	<u>Principal Product</u>
1. Wal-Mart Stores, Inc.	9,017	Bedford	Retail Department Stores
2. Dartmouth Hitchcock Medical Center.	8,025	Lebanon	Acute Care Hospital
3. DeMoulas & Market Basket	6,000	Nashua	Supermarkets
4. Fidelity Investments.....	5,500	Merrimack	Financial Services
5. BAE Systems.....	4,700	Nashua	Communications
6. Shaw Supermarkets Inc.	4,516	Stratham	Supermarkets
7. Hannaford Brothers-Shop 'N Save	4,474	Manchester	Supermarkets
8. Dartmouth College.....	4,407	Hanover	Private College
9. Liberty Mutual.....	4,241	Bedford	Financial Services
10. Concord Hospital	3,117	Concord	Hospital
11. Elliot Hospital.....	3,060	Manchester	Hospital
12. Home Depot.....	2,560	Manchester	Hardware Store
13. Southern New Hampshire Medical Center	2,200	Nashua	Healthcare Providers
14. Wentworth-Douglas Hospital	2,067	Dover	Hospital
15. Catholic Medical Center	1,700	Manchester	Healthcare Providers
16. Verizon Communications	1,650	Manchester	Telecommunications
17. Sunbridge NH Region.....	1,600	Exeter	Long Term Care Providers
18. Target Stores	1,550	Nashua	Retail Department Stores
19. New Hampshire Motor Speedway	1,500	Loudon	Motorsports Facility
20. Sears at Fox Run Mall	1,500	Newington	Home and Automotive Products

Source: *New Hampshire Business Review, Book of Lists 2009.*

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 2008, individual income taxes represented 5.2% of the State's total government taxes. New Hampshire's per capita state taxes of \$1,711 in 2008 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 U.S. Census 2007 American Community Survey 1-year estimates, housing units in the State numbered 589,016, of which 85.0% were occupied. The tenure of occupied housing units in the State was 73.2% owner occupied and 26.8% renter occupied. The median purchase price of all primary homes sold in 2008 was \$250,000, a decrease of 7.4% from 2007, and an increase of 97% over 1998. The preliminary median price for primary homes sold between January and July of 2009 was \$227,200, a decline of 8.9% from 2008.

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

Housing Statistics Median Purchase Price and Median Gross Rent

	Owner-Occupied Non-Condominium Housing Unit Median <u>Purchase Price</u>	Percent <u>Change</u>	Renter-Occupied Housing Unit Median <u>Gross Rent</u> ⁽¹⁾	Percent <u>Change</u>
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	1.8	946	1.9
2008	250,000	(7.4)	969	2.4
2009 ⁽²⁾	227,700	(8.9)	969	0.0

Source: New Hampshire Housing Finance Authority.

⁽¹⁾ Includes utilities.

⁽²⁾ Through July, 2009.

With respect to foreclosures in the State, according to a report issued by the New Hampshire Housing Finance Authority updated in December 2009:

"The number of recorded foreclosure deeds in October of 2009 (359) saw an increase of 25% over the prior month, and an 8% increase over the number in October of 2008. Cumulatively the first ten months of the year account for a very small (1.2%) decline in foreclosure deeds over the same period in 2008."

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 each subsequent year through 2008. In 2008, building permits totaled 3,234, with a value of \$593 million. This represents a decrease of 29.1% in the number of permits, and a decrease of 30.7% in dollar value, from 2007. 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)						
	<u>1998</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
New Hampshire						
Single Family	5,310	7,002	6,432	4,826	3,772	2,333
Multi-Family	<u>461</u>	<u>1,651</u>	<u>1,154</u>	<u>851</u>	<u>789</u>	<u>901</u>
Total.....	5,771	8,653	7,586	5,677	4,561	3,234
Value.....	\$658	\$1,385	\$1,352	\$1,037	\$856	\$593
New England						
Single Family	40,772	43,749	41,812	33,204	26,079	15,870
Multi-Family	<u>7,236</u>	<u>14,109</u>	<u>16,930</u>	<u>13,578</u>	<u>11,453</u>	<u>8,584</u>
Total.....	48,008	57,858	58,742	46,782	37,532	24,454
Value.....	\$5,731	\$9,312	\$9,791	\$8,091	\$7,119	\$4,705
United States						
Single Family	1,187,602	1,613,445	1,681,986	1,378,220	979,889	575,544
Multi-Family	<u>424,658</u>	<u>456,632</u>	<u>473,330</u>	<u>460,683</u>	<u>418,526</u>	<u>329,805</u>
Total.....	1,612,260	2,070,077	2,155,316	1,838,903	1,398,415	905,359
Value.....	\$165,265	\$292,414	\$329,254	\$291,314	\$225,237	\$141,623

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 passenger and air cargo airport, undertook a 158,000 square foot new terminal construction 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 dramatically from 427,657 enplanements in fiscal year 1994 to 1,719,097 enplanements in fiscal year 2009. Due to the softened global economy, fuel price uncertainty and a challenging aviation industry, the Airport experienced a 13% decrease in enplanements and passengers in fiscal year 2009 as compared with fiscal year 2008 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.

<u>Level of Education</u>	Level of Education			
	1990		2000	
	<u>New Hampshire</u>	<u>United States</u>	<u>New Hampshire</u>	<u>United States</u>
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 from fiscal years 1997 through 2011. The audited financial statements for fiscal year 2008, together with the unqualified report thereon of KPMG LLP, are included herein by reference, copies of which were provided to each Nationally Recognized Municipal Securities Information Repository (“NRMSIR”) then recognized under SEC Rule 15c2-12. See “FINANCIAL STATEMENTS.” The audited financial statements for fiscal year 2008 are also available as part of the State’s fiscal year 2008 CAFR (pages 12 through 70 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.asp>.

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, matters relating to management letters delivered to the State for fiscal years 2005 through 2008, and the status of the fiscal year 2009 audited financial statements, 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 is 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 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) targeted a three (3) step approach. The first step delivered 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. That component was deployed on August 1, 2008 and was used to develop the existing biennial budget. The third step was the deployment of the remaining financial, grants, procurement, revenue and receipts and treasury functions. The State went live with Phase I of its new enterprise resource planning system on July 6, 2009. This phase supports general ledger and budgetary accounting, accounts payable, accounts receivable, and treasury functions. Chapter 145 of the Laws of 2009, the capital budget for fiscal years 2010-2011, appropriates \$1.4 million for planning of Phase II of the project which includes human resources and payroll.

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

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

Revenue Stabilization Account

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

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

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

Pursuant to Chapter 177:53 of the Laws of 2005, the biennial transfer of surplus from the General Fund to the Rainy Day Fund, if any, was suspended for the biennium ending June 30, 2005. Chapter 35:1 of the 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.

Chapter 143 of the Laws of 2009, the operating budget for fiscal years 2010-2011, assumed \$69 million would be drawn from the Revenue Stabilization Account at June 30, 2009 leaving a balance of \$20 million at June 30, 2009. The operating budget currently adopted for fiscal years 2010 and 2011 assumed no further draw on the Revenue Stabilization Account. The unaudited financial statements for fiscal year 2009 originally indicated a draw on the Revenue Stabilization Account of only \$12.9 million, as compared to the assumed \$69 million, because actual experience with revenues and lapses was more favorable than anticipated. The balance of the Revenue Stabilization Account at June 30, 2009 as presented was \$76.1 million. Subsequent to the release of the unaudited financial statements in September, 2009, the audit process led to a reclassification of certain revenues which means that the draw on the Revenue Stabilization Account will be \$14.7 million rather than \$12.9 million. As a result of this reclassification, the ending balance of the Revenue Stabilization Account at June 30, 2009 is expected to be \$74.3 million (unaudited). See “STATE FINANCES – Results of Operations -Fiscal Year 2009 (Unaudited)”, “Litigation” and “Financial Statements” herein regarding a challenge to the transfer of \$65 million to the General Fund from the New Hampshire Medical Malpractice Association Joint Underwriting Association, the outcome of which could affect the amount on deposit in the Revenue Stabilization Account in the audited fiscal year 2009 financial statements.

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. Effective July 1, 2009, a tax is imposed equal to 9% of hotel, motel and other public accommodation charges and 9% of charges for meals served in restaurants, cafes and other eating establishments. Prior to July 1, 2009, the meals and rooms tax rate was at 8%. Effective July 1, 2009, this tax was extended to cover campsites. Chapter 144 of the Laws of 2009 designates the amount necessary to pay debt service on general obligation bonds issued to fund school building aid grants to come from the meals and rooms tax. The amount of the annual debt service on bonds issued for this purpose is budgeted at \$1.1 million in fiscal year 2010 and \$6.0 million in fiscal year 2011. In addition 3.15% of net meals and rooms tax collections is designated for travel and tourism development. 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 million. Pursuant to Chapter 144 of the Laws of 2009 the meals and rooms tax distributions to cities and towns in each of fiscal years 2010 and 2011 are to be no more than the fiscal year 2009 distribution of \$58.8 million. Because meals and rooms tax revenues did not increase in fiscal year 2009, the fiscal year 2010 distribution will be equal to the fiscal year 2009 distribution, regardless of the limit imposed by Chapter 144. The following table shows for each fiscal year, the amount of meals and rooms tax distributed and the percentage of previous year's tax collections for fiscal years 2007 through 2010:

Fiscal Year	Amount Distributed	% of Previous Years Total Meals and Room Tax Collection
2007	\$50,903,052	26.3%
2008	\$55,513,020	27.4%
2009	\$58,805,057	28.5%
2010	\$58,805,057	28.9%

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. Chapter 177 of the 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, and Chapter 144 of the Laws of 2009 suspended this allocation for the biennium ending June 30, 2011, 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 Fund of the State.

Chapter 296 of the Laws of 2008 reduced the discounts offered to certain wine licensees. Chapter 144:254 of the Laws of 2009, which proposed a repeal of the reductions as stated in Chapter 296 was itself repealed, thereby maintaining the discount reductions offered in Chapter 296:31 and 32 of the Laws of 2008. 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. Effective October 15, 2008, the rate increased to \$1.33 per package of 20 cigarettes. Effective July 1, 2009, the tax rate increased by 45 cents to \$1.78 per package of 20 cigarettes. The increase is estimated to generate an additional \$35.2 million in fiscal year 2010 and \$24 million in fiscal year 2011. Chapter 144:257 of the Laws of 2009 provides that the revenue produced in excess of \$1.00 per pack shall be deposited in the Education Trust Fund.

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.

Chapter 144 of the Laws of 2009 amends the interest and dividends tax to treat distributions from limited liability companies, partnerships and associations as dividends subject to the tax to the same extent that distributions to corporate shareholders are taxable as dividends. This change is effective for calendar tax years beginning on or after January 1, 2009. A distribution that is a return of capital is not subject to taxation. This change in the tax is estimated to generate an additional \$15 million in each of fiscal years 2010 and 2011.

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. Chapter 144 of the Laws of 2009 requires that 50% of the revenue received from the \$25 LCHIP stamp in fiscal year 2011 be credited to the General Fund.

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. Effective July 1, 2009, pursuant to Chapter 144 of the Laws of 2009, motor vehicle fines collected at the court are credited as unrestricted revenue to the Highway Fund, while fines collected through the plea by mail program are credited as restricted Highway Fund revenue.

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 and Charitable Gaming Revenue. The operation of greyhound, harness and thoroughbred racing in the State is conducted under the supervision of the New Hampshire Racing and Charitable Gaming Commission as are Bingo and Lucky 7, games of chance. 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.

Tax on Gambling Winnings. Effective July 1, 2009, a tax of 10% is imposed on gambling winnings of New Hampshire residents from anywhere derived and gambling winnings of nonresidents derived from New Hampshire entities. This new tax is estimated to generate \$5.9 million in fiscal year 2010 and \$7.9 million in fiscal year 2011.

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. See "Operating Budget Fiscal Years 2010 and 2011 – Highway and Turnpike Funds."

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. Effective July 1, 2009, the amount allocated to Highway and Bridge Betterment returned to 2.64 cents.

Motor Vehicle Surcharge. Chapter 144:244 of the Laws of 2009, established new motor vehicle surcharges on the registration fees of all classes of vehicles to be credited to the Highway Fund. These surcharges are estimated to generate \$40.9 million in fiscal year 2010 and \$44.7 million in fiscal year 2011.

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 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 of the Laws of 2005, the biennial transfer of surplus from the General Fund to the Rainy Day Funds was temporarily suspended. Furthermore, Chapter 35:1 of the 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. 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 mandated 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. The Authority paid \$10 million to the State on November 26, 2008.

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.

Fiscal Year 2009 (unaudited)

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

The unaudited General and Education Trust Funds revenues for fiscal year 2009 were \$2,202.4 million, which were \$315.3 million (12.5%) below plan and \$164.3 million (6.9%) below the prior year audited revenues. As experienced in fiscal year 2008, business taxes and the Real Estate Transfer Tax continued to drive the underperformance in revenues. Business taxes were \$182.9 million (27.1%) below plan for the year and \$127.0 million (20.5%) below the prior year audited figures. The Real Estate Transfer Tax was \$64.4 million (44.2%) below plan for the year and \$35.1 million (30.2%) below the prior year audited figures. Including \$15.1 million of additional revenues included in Executive Order's discussed below, total General and Education Trust Fund revenues were \$2,217.5 million for fiscal year 2009.

Throughout fiscal year 2009, the State's revenue outlook for the year continued to deteriorate. To close the fiscal year 2009 gap, the following actions were taken:

- Chapter 144 of the Laws of 2009, directs that \$65 million be liquidated from the \$110 million surplus in the medical malpractice insurance fund. This fund was originally established in the 1970s to provide coverage as the insurer of last resort. The fund is administered the Joint Underwriters Association and has accumulated a surplus in excess of required reserves. However, a group of medical providers in the State have challenged the State's right to use this surplus and it is currently uncertain whether these funds will be available. See "Litigation" and "Financial Statements."
- Bonding of \$40 million in fiscal year 2009 school building aid payments.
- Applying increased federal Medicaid reimbursement rates from the American Recovery and Reinvestment Act (ARRA) of \$22.4 million to Medicaid costs incurred during fiscal year 2009.
- Applying \$34.0 million in unallocated State Fiscal Stabilization Funds from ARRA monies.
- Executive Order 2008-1, initially issued on February 22, 2008 and expanded with Executive Order 2008-8 to include all of fiscal year 2009 on June 17, 2008, reduced fiscal year 2009 expenditures by \$9.2 million.
- Executive Order 2008-9, issued on June 17, 2008, reduced fiscal year 2009 appropriations and increased miscellaneous revenues across all State agencies, and totaled \$30.1 million.
- Executive Order 2008-10 issued on November 21, 2008 further reduced fiscal year 2009 appropriations and increased miscellaneous revenues across all State agencies in addition to those in Order 2008-9 and totaled \$53.5 million.
- Executive Order 2008-11 significantly restricted, and in some instances eliminated, the use of overtime, consultants, tuition reimbursements, and other categories of spending for fiscal year 2009 estimated savings of \$5.0 million.
- Chapter 1 of the Laws of 2009 effective February 20, 2009 further reduced the shortfall by \$16.7 million primarily by transferring dedicated funds and reducing the General Fund contribution to the Highway Fund.

These actions and ongoing efforts by agencies and departments statewide to manage expenses, contributed to fiscal year 2009 lapses coming in approximately \$20 million above estimates. As a result of these measures taken, only \$14.7 million of the State's Rainy Day Fund was needed to cover the remaining undesignated, unreserved deficit in the state's General and Education Trust Funds, leaving the Rainy Day Fund with a balance of \$74.3 million at June 30, 2009.

General and Education Fund total net appropriations for fiscal year 2009, including budget reductions and lapses, were \$2,332.7 million, \$78.9 million (3%) below the prior year. Lapses for General and Education Funds were \$74.2 million as compared to \$61.3 million for the prior year.

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 2005 through 2009. The information for fiscal years 2005 through 2008 is derived from the State's audited financial statements. The fiscal year 2009 information is unaudited and subject to change.

**GENERAL FUND AND EDUCATION FUND UNRESTRICTED REVENUES
FISCAL YEARS 2005-2009
(GAAP Basis-In Millions)**

Revenue Category	FY 2005			FY 2006			FY 2007			FY 2008			(Unaudited) FY 2009		
	General	Education	Total	General	Education	Total	General	Education	Total	General	Education	Total	General	Education	Total
Business Profits Tax	\$196.6	\$ 50.7	\$247.3	\$264.0	\$56.6	\$320.6	\$287.4	\$57.8	\$345.2	\$ 317.4	\$68.0	\$385.4	\$ 251.9	\$53.9	\$305.8
Business Enterprise Tax	<u>114.1</u>	<u>130.6</u>	<u>244.7</u>	<u>75.2</u>	<u>150.4</u>	<u>225.6</u>	<u>79.3</u>	<u>174.2</u>	<u>253.5</u>	<u>77.7</u>	<u>155.0</u>	<u>232.7</u>	<u>61.9</u>	<u>123.4</u>	<u>185.3</u>
Subtotal	310.7	181.3	492.0	339.2	207.0	546.2	366.7	232.0	598.7	395.1	223.0	618.1	313.8	177.3	491.7
Meals & Rooms Tax	186.5	7.1	193.6	193.8	7.1	200.9	202.6	7.2	209.8	206.7	7.5	214.2	203.6	6.1	209.7
Tobacco Tax	73.3	28.2	101.5	69.9	80.9	150.8	65.3	78.3	143.6	57.1	109.3	166.4	59.3	128.8	188.1
Liquor Sales and Distribution	112.6	-	112.6	120.6	-	120.6	124.7	-	124.7	133.1	-	133.1	146.0	-	146.0
Interest & Dividends Tax	67.9	-	67.9	80.5	-	80.5	108.1	-	108.1	118.7	-	118.8	97.1	-	97.1
Insurance Tax	88.7	-	88.7	90.5	-	90.5	97.9	-	97.9	95.9	-	95.9	94.2	-	94.2
Communications Tax	70.0	-	70.0	70.5	-	70.5	73.0	-	73.0	80.9	-	80.9	80.3	-	80.3
Real Estate Transfer Tax	107.8	52.0	159.8	106.2	52.5	158.7	91.7	45.7	137.4	77.7	38.6	116.3	53.5	27.7	81.2
Lottery Transfers	-	70.3	70.3	-	80.4	80.4	-	79.0	79.0	-	75.5	75.5	-	68.1	68.1
Pari-Mutuel Transfers	-	-	-	-	1.6	1.6	-	1.5	1.5	-	1.5	1.5	-	1.5	1.5
Tobacco Settlement	2.4	40.0	42.4	-	39.0	39.0	-	40.8	40.8	8.4	40.0	48.4	12.8	40.0	52.8
Utility Property Tax	-	20.1	20.1	-	20.9	20.9	-	21.8	21.8	-	24.2	24.2	-	29.0	29.0
State Property Tax	-	371.3	371.3	-	363.4	363.4	-	363.3	363.3	-	363.1	363.1	-	363.7	363.7
Other	<u>162.4</u>	<u>-</u>	<u>162.4</u>	<u>160.2</u>	<u>-</u>	<u>160.2</u>	<u>192.4</u>	<u>-</u>	<u>192.4</u>	<u>197.1</u>	<u>-</u>	<u>197.1</u>	<u>193.3</u>	<u>-</u>	<u>193.3</u>
Subtotal	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	1,253.9	842.2	2,096.1
Net Medicaid Enhancement Revenues	147.2	-	147.2	73.6	-	73.6	83.3	-	83.3	93.1	-	93.1	99.6	-	99.6
Recoveries	<u>23.0</u>	<u>-</u>	<u>23.0</u>	<u>24.5</u>	<u>-</u>	<u>24.5</u>	<u>15.9</u>	<u>-</u>	<u>15.9</u>	<u>20.1</u>	<u>-</u>	<u>20.1</u>	<u>21.8</u>	<u>-</u>	<u>21.8</u>
Subtotal	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	1,375.3	842.2	2,217.5
Other Medicaid Enhancement Revenues to Fund Net Appropriations	<u>39.1</u>	<u>-</u>	<u>39.1</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>\$1,391.6</u>	<u>\$770.3</u>	<u>\$2,161.9</u>	<u>\$1,329.5</u>	<u>\$852.8</u>	<u>\$2,182.3</u>	<u>\$1,421.6</u>	<u>\$869.6</u>	<u>\$2,291.2</u>	<u>\$1,483.9</u>	<u>\$882.8</u>	<u>\$2,366.7</u>	<u>\$1,375.3</u>	<u>\$842.2</u>	<u>\$2,217.5</u>

GENERAL FUND AND EDUCATION FUND NET APPROPRIATIONS
FISCAL YEARS 2005-2009
(GAAP Basis)
(In Millions)

Category of Government	<u>FY 2005</u>			<u>FY 2006</u>			<u>FY 2007</u>			<u>FY 2008</u>			<u>(Unaudited)</u> <u>FY 2009</u>		
	<u>General</u>	<u>Education</u>	<u>Total</u>	<u>General</u>	<u>Education</u>	<u>Total</u>	<u>General</u>	<u>Education</u>	<u>Total</u>	<u>General</u>	<u>Education</u>	<u>Total</u>	<u>General</u>	<u>Education</u>	<u>Total</u>
General Government	\$238.0	\$0.0	\$238.0	\$263.3	\$0.0	\$263.3	\$276.1	\$0.0	\$276.1	\$311.2	\$0.0	\$311.2	\$311.4	\$0.0	\$311.4
Justice and Public Protection	192.9	-	192.9	219.7	-	219.7	221.7	-	221.7	246.6	-	246.6	233.7	-	233.7
Resource Protection and Development	35.9	-	35.9	41.3	-	41.3	42.2	-	42.2	43.9	-	43.9	39.3	-	39.3
Transportation	2.4	-	2.4	6.0	-	6.0	2.6	-	2.6	1.1	-	1.1	1.1	-	1.1
Health and Social Services	626.0	-	626.0	604.8	-	604.8	626.5	-	626.5	675.6	-	675.6	655.0	-	655.0
Education	<u>256.0</u>	<u>812.0</u>	<u>1,068.0</u>	<u>211.1</u>	<u>846.5</u>	<u>1,057.6</u>	<u>221.9</u>	<u>838.6</u>	<u>1,060.5</u>	<u>235.8</u>	<u>897.4</u>	<u>1,133.2</u>	<u>197.5</u>	<u>894.7</u>	<u>1,092.2</u>
Net Appropriations	<u>\$1,351.2</u>	<u>\$812.0</u>	<u>\$2,163.2</u>	<u>\$1,346.2</u>	<u>\$846.5</u>	<u>\$2,192.7</u>	<u>\$1,391.0</u>	<u>\$838.6</u>	<u>\$2,229.6</u>	<u>\$1,514.2</u>	<u>\$897.4</u>	<u>\$2,411.6</u>	<u>\$1,438.0</u>	<u>\$894.7</u>	<u>\$2,332.7</u>

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 2005 through 2009. The information for fiscal years 2005 through 2008 is derived from the State's audited financial statements. The information for fiscal year 2009 is unaudited and subject to change.

**GENERAL FUND AND EDUCATION FUND BALANCES
FISCAL YEARS 2005–2009
(GAAP Basis - In Millions)**

	FY 2005			FY 2006			FY 2007			FY 2008			(Unaudited) FY 2009		
	General	Education	Total	General	Education	Total	General	Education	Total	General	Education	Total	General	Education	Total
Undesignated Fund Balance, July 1	\$15.3	\$0.0	\$15.3	\$82.2	\$0.0	\$82.2	\$26.0	\$8.4	\$34.4	\$61.7	\$0.0	\$61.7	\$17.2	\$0.0	\$17.2
Additions:															
Unrestricted Revenue	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	1,375.3	842.2	2,217.5
Transfers from General Fund	-	61.4	61.4	-	-	-	-	-	-	-	-	-	-	-	-
Total Additions	<u>1,391.6</u>	<u>831.7</u>	<u>2,223.3</u>	<u>1,329.5</u>	<u>852.8</u>	<u>2,182.3</u>	<u>1,421.6</u>	<u>869.6</u>	<u>2,291.2</u>	<u>1,483.9</u>	<u>882.8</u>	<u>2,366.7</u>	<u>1,375.3</u>	<u>842.2</u>	<u>2,217.5</u>
Deductions:															
Appropriations Net of Estimated Revenues	(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)	(1,509.2)	(897.7)	(2,406.9)
Less: Lapses	<u>58.0</u>	<u>(19.0)</u>	<u>39.0</u>	<u>34.0</u>	<u>(4.6)</u>	<u>29.4</u>	<u>41.6</u>	<u>4.5</u>	<u>46.1</u>	<u>61.6</u>	<u>(0.3)</u>	<u>61.3</u>	<u>71.2</u>	<u>3.0</u>	<u>74.2</u>
Total Net Appropriations	<u>(1,351.2)</u>	<u>(812.0)</u>	<u>(2,163.2)</u>	<u>(1,346.2)</u>	<u>(846.5)</u>	<u>(2,192.7)</u>	<u>(1,391.0)</u>	<u>(838.6)</u>	<u>(2,229.6)</u>	<u>(1,514.2)</u>	<u>(897.4)</u>	<u>(2,411.6)</u>	<u>(1,438.0)</u>	<u>(894.7)</u>	<u>(2,332.7)</u>
GAAP and Other Adjustments	4.0	2.8	6.8	12.2	2.1	14.3	(15.5)	1.2	(14.3)	7.9	(0.7)	7.2	20.5	(0.4)	20.1
Current Year Balance	<u>44.4</u>	<u>22.5</u>	<u>66.9</u>	<u>(4.5)</u>	<u>8.4</u>	<u>3.9</u>	<u>15.1</u>	<u>32.2</u>	<u>47.3</u>	<u>(22.4)</u>	<u>(15.3)</u>	<u>(37.7)</u>	<u>(42.2)</u>	<u>(52.9)</u>	<u>(95.1)</u>
Transfers (to)/from:															
Revenue Stabilization Account	-	-	-	(51.7)	-	(51.7)	(20.0)	-	(20.0)	-	-	-	14.7	-	14.7
Joint Underwriting Association ¹	-	-	-	-	-	-	-	-	-	-	-	-	65.0	-	65.0
Highway Fund	-	-	-	-	-	-	-	-	-	(6.8)	-	(6.8)	(1.8)	-	(1.8)
Education Fund	<u>22.5</u>	<u>(22.5)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>40.6</u>	<u>(40.6)</u>	<u>-</u>	<u>(15.3)</u>	<u>15.3</u>	<u>-</u>	<u>(52.9)</u>	<u>52.9</u>	<u>-</u>
Undesignated Fund Balance, June 30	<u>\$82.2</u>	<u>\$0.0</u>	<u>\$82.2</u>	<u>\$26.0</u>	<u>\$8.4</u>	<u>\$34.4</u>	<u>\$61.7</u>	<u>\$0.0</u>	<u>\$61.7</u>	<u>\$17.2</u>	<u>\$0.0</u>	<u>\$17.2</u>	<u>\$0.0</u>	<u>\$0.0</u>	<u>\$0.0</u>
Reserved for Revenue Stabilization Account	<u>\$17.3</u>	<u>-</u>	<u>\$17.3</u>	<u>\$69.0</u>	<u>-</u>	<u>\$69.0</u>	<u>\$89.0</u>	<u>-</u>	<u>\$89.0</u>	<u>\$89.0</u>	<u>-</u>	<u>\$89.0</u>	<u>\$74.3</u>	<u>-</u>	<u>\$74.3</u>
Total Equity	<u>\$99.5</u>	<u>\$0.0</u>	<u>\$99.5</u>	<u>\$95.0</u>	<u>\$8.4</u>	<u>\$103.4</u>	<u>\$150.7</u>	<u>\$0.0</u>	<u>\$150.7</u>	<u>\$106.2</u>	<u>(0.0)</u>	<u>\$106.2</u>	<u>\$74.3</u>	<u>-</u>	<u>\$74.3</u>

¹ See "Litigation."

Operating Budget Fiscal Years 2010 and 2011

General and Education Trust Funds. The operating budget laws for fiscal years 2010 and 2011, Chapters 143 and 144 of the Laws of 2009, were signed by the Governor on June 30, 2009. Total net appropriations for the General and Education Trust Funds for fiscal years 2010 and 2011 are \$2,461.8 million and \$2,496.9 million, respectively. Major noteworthy reductions in the 2010-2011 budgeted appropriations when compared with the 2008-2009 biennium include:

1. School building aid totaling \$45 million in each year of the biennium will be bonded and is not budgeted as General Fund appropriations.
2. Revenue sharing to cities and towns of \$25 million in each year of the biennium has been suspended for the biennium. (This suspension of revenue sharing is separate from the limitation imposed on meals and rooms tax distributions to cities and towns described above under "State Revenues.")
3. A reduction of \$12.5 million in each year of the biennium in General Fund personnel and/or personnel related costs was achieved in the fall of calendar year 2009 by laying off, demoting, and reassigning approximately 300 employees.
4. The State share of municipal employer retirement contributions for police, fire and teacher groups is temporarily reduced from 35% to 30% in fiscal year 2010 and to 25% in fiscal year 2011. The General Fund savings from this statutory change are estimated to be approximately \$27.7 million over the biennium.
5. Requiring employees under age 65 to pay monthly premiums for their State retiree health benefits. This change is estimated to save \$5 million over the biennium.
6. The Liquor Commission is no longer budgeted under the General Fund. It has been established as separate enterprise fund. This reduces General Fund appropriations by approximately \$45 million in each year of the biennium.
7. There are numerous other funding changes in the operating budget including, but not limited to, the closure of the Lakes Region prison, the Tobey School, and three district courts.
8. Department of Safety fee revenue of \$9 million in each year of the biennium previously budgeted as unrestricted General Fund revenue is now budgeted as restricted revenue to fund specific Department of Safety programs previously funded from net General Fund appropriations.

Education Trust Fund appropriations increased from \$897 million in fiscal year 2009 to \$957 million in each year of the 2010-2011 biennium to fully fund the new formula for determining the cost of an adequate education enacted during the 2008 legislative session.

A number of revenue enhancements were enacted pursuant to Chapter 144 of the Laws of 2009, to fund the biennial operating budget. They include, but are not limited to:

1. The tobacco tax was increased by \$.45 from \$1.33 to \$1.78 per package of 20 cigarettes effective July 1, 2009.
2. The meals and rooms tax was increased from 8% to 9% effective July 1, 2009 and makes campsites subject to the tax.
3. A new 10% tax on gambling winnings was enacted effective July 1, 2009.
4. The interest and dividends tax will now be imposed on distributions from limited liability companies, partnerships and associations to the same extent that distributions to corporate shareholders are taxed as dividends.

One-time General Fund and Education Trust Fund revenues in the 2010-2011 biennial operating budget include:

1. \$22.5 million in each year of the biennium remaining from the surplus in the medical malpractice fund. The fund is administered the Joint Underwriters Association and has accumulated a surplus in excess of required reserves. However, see "Litigation" below.

2. \$30 million in fiscal year 2011 from the sale of the Liquor Commission warehouse and leasing of service areas on highways around liquor stores.
3. Federal dollars from the American Recovery and Reinvestment Act:
 - a. Education Trust Fund will receive \$80 million in each year of the biennium to fund educational adequacy payments.
 - b. Enhanced Federal Medical Assistance Payments to offset Medicaid costs will total \$145.2 million over the biennium with \$91.2 million being credited to fiscal year 2010 and \$54 million credited to fiscal year 2011.
 - c. State Fiscal Stabilization Fund moneys were anticipated to total \$10.4 million in each year of the biennium for a total of \$20.8 million. Based on guidance received from the federal government in July, 2009, the State applied \$18 million of these Stabilization Fund dollars to fiscal year 2009 leaving \$2.8 million to be applied to the current biennium.

Highway and Turnpike Funds. The operating budget for fiscal years 2010 and 2011 assumed a deficit of \$8.7 million in the Highway Fund at June 30, 2009. To address this deficit and ensure adequate funding for the 2010/2011 biennium, motor vehicle surcharges were added and a section of Interstate 95 will be sold to the Turnpike System. Chapter 144 of the Laws of 2009, authorizes the sale of a portion of Interstate 95 in Portsmouth to the Turnpike System for \$120 million. The law also specifies that the Turnpike System will pay for the purchase from its general reserve account over a period not to exceed twenty years with \$30 million being paid in fiscal year 2010 and \$20 million being paid in fiscal year 2011. The Governor and Council approved a \$.50 toll increase on the Hampton mainline interchange effective July 1, 2009 that will fund open road tolling in Hampton and will provide the Turnpike System with adequate revenues to meet its obligations and to make the required payments to the Highway Fund.

Surcharges on motor vehicle registration fees were enacted effective July 1, 2009 pursuant to Chapter 144 of the Laws of 2009. The law repeals these surcharges effective July 1, 2011. The surcharges are estimated to generate an additional \$40.9 million and \$44.7 million in Highway Fund revenue in fiscal year 2010 and 2011, respectively. Of this additional revenue, \$4.9 million has been dedicated to block grants for cities and towns in fiscal year 2011, and \$2 million and \$15 million in fiscal years 2010 and 2011, respectively, has been dedicated to the highway and bridge betterment account established in RSA 235:23-a.

American Recovery and Reinvestment Act of 2009

On January 27, 2009, the Governor issued Executive Order 2009-1 creating the Office of Economic Stimulus (“OES”). The OES is responsible for coordinating with State agencies to ensure all conditions of the American Recovery and Reinvestment Act of 2009 (“ARRA”) are met.

In fiscal year 2009, the State received \$32.2 million in ARRA funding related to an increased federal Medicaid reimbursement rate of 6.25% on Medicaid claims paid from October 1, 2008 through June 30, 2009. It is estimated that the State will receive \$91.2 million and \$54 million from this ARRA funding in fiscal year 2010 and 2011, respectively.

The ARRA provides significant State funding through a provision known as the State Fiscal Stabilization Fund. The State’s allocation totals \$200.8 million. As required by federal law, the State budgeted 81.8 percent (\$164 million) of its allocation for education. In each of fiscal years 2010 and 2011, \$80 million is budgeted in the Education Trust Fund for educational adequacy payments to local school districts. The \$80 million related to fiscal year 2010 has been received by the State. Additionally, the Community College System and the University System will receive \$1.1 million and \$3 million, respectively, in fiscal year 2010. The State will request reimbursement from the federal government for all amounts based on the timing of expenditures made at the local school district, college, and university system levels. The ARRA provides that a portion of the State Fiscal Stabilization Fund can be used by states for public safety and other government services. The State has allocated this flexible portion to fund other State government services, \$34 million in fiscal year 2009 and \$2.5 million over fiscal years 2010 and 2011. The State will request reimbursement from the federal government as expenditures are incurred. The \$34 million related to fiscal year 2009 has been received by the State.

The State has received additional direct program allocations through ARRA for specific program purposes that are being administered through various State agencies. These amounts cannot be used to offset amounts previously funded with State dollars. These amounts include:

Department of Education	\$97.2 million
Department of Transportation	\$235.8 million
Department of Environmental Services	\$73.3 million
Department of Health and Human Services	\$56.5 million
Office of Energy and Planning	\$58.6 million
Department of Labor	\$39.5 million
Department of Justice	\$11.9 million
Department of Employment Security	\$11.1 million

The State is also applying for competitive grant funds in the areas of Broadband, Health Information Technology, and Education which may yield additional ARRA funds for the State.

The following table presents a comparison of General Fund and Education Fund unrestricted revenues for fiscal years 2009 through 2011. The fiscal year 2009 information is actual (unaudited) and subject to change. The fiscal years 2010 and 2011 information is based on the projections included in Chapters 143 and 144 of the Laws of 2009, the State's operating budget for fiscal years 2010 and 2011.

**GENERAL FUND AND EDUCATION FUND UNRESTRICTED REVENUES
ACTUAL AND BUDGET
FISCAL YEARS 2009-2011
(GAAP Basis-In Millions)**

Revenue Category	(Unaudited) Actual			Budget			Budget		
	Fiscal Year 2009			Fiscal Year 2010			Fiscal Year 2011		
	General	Education	Total	General	Education	Total	General	Education	Total
Business Profits Tax	\$251.9	\$ 53.9	\$305.8	\$257.8	\$55.3	\$313.1	\$261.0	\$ 56.0	\$317.0
Business Enterprise Tax	<u>61.9</u>	<u>123.4</u>	<u>185.3</u>	<u>63.2</u>	<u>126.5</u>	<u>189.7</u>	<u>64.0</u>	<u>128.0</u>	<u>192.0</u>
Subtotal	313.8	177.3	491.1	321.0	181.8	502.8	325.0	184.0	509.0
Meals & Rooms Tax	203.6	6.1	209.7	243.3	7.8	251.1	245.1	8.1	253.2
Tobacco Tax	59.3	128.8	188.1	121.6	95.6	217.2	115.4	90.6	206.0
Liquor Sales and Distribution ¹	146.0	-	146.0	-	-	-	-	-	-
Interest & Dividends Tax	97.1	-	97.1	117.0	-	117.0	125.0	-	125.0
Insurance Tax	94.2	-	94.2	85.8	-	85.8	86.3	-	86.3
Communications Tax	80.3	-	80.3	82.0	-	82.0	85.0	-	85.0
Real Estate Transfer Tax	53.5	27.7	81.2	56.5	28.2	84.7	60.5	30.2	90.7
Transfers from Liquor	-	-	-	117.3	-	117.3	127.9	-	127.9
Transfers from Lottery	-	68.1	68.1	-	74.7	74.7	-	77.7	77.7
Tobacco Settlement	12.8	40.0	52.8	9.4	40.0	49.4	10.0	40.0	50.0
Utility Property Tax	-	29.0	29.0	-	28.0	28.0	-	28.0	28.0
Securities Revenue	-	-	-	34.0	-	34.0	34.0	-	34.0
State Property Tax	-	363.7	363.7	-	363.0	363.0	-	363.0	363.0
Other	<u>193.3</u>	<u>1.5</u>	<u>194.8</u>	<u>129.2</u>	<u>1.3</u>	<u>130.5</u>	<u>134.0</u>	<u>1.3</u>	<u>135.3</u>
Subtotal	1,253.9	842.2	2,096.1	1,317.1	820.4	2,137.5	1,348.2	822.9	2,171.1
Net Medicaid Enhancement Revenues	99.6	-	99.6	99.3	-	99.3	114.6	-	114.6
Recoveries	<u>21.8</u>	<u>-</u>	<u>21.8</u>	<u>22.3</u>	<u>-</u>	<u>22.3</u>	<u>23.1</u>	<u>-</u>	<u>23.1</u>
Total	<u>\$1,375.3</u>	<u>\$842.2</u>	<u>\$2,217.5</u>	<u>\$1,438.7</u>	<u>\$820.4</u>	<u>\$2,259.1</u>	<u>\$1,485.9</u>	<u>\$822.9</u>	<u>\$2,308.8</u>

¹ Effective as of the beginning of fiscal year 2010, Liquor Sales and Distribution revenue is no longer budgeted and accounted for in the General Fund. Liquor Sales and Distribution revenues are now accounted for in a separate enterprise fund.

The following table compares on a cash basis, for the five months ended November 30, 2009, General Fund and Education Fund unrestricted revenues for the fiscal years 2009 and 2010 and a comparison to the original revenue estimates for fiscal year 2010. The revenue estimates reflected in the table are based on those revenues defined in Chapters 143 and 144 of the Laws of 2009, the State budget law for fiscal year 2010. Due to the combined filing of the business profits tax and business enterprise tax, it is not possible to measure accurately the individual effects of each of these taxes. They should be evaluated in their entirety. All information in this table is preliminary and unaudited.

**GENERAL FUND AND EDUCATION FUND UNRESTRICTED REVENUES
FOR THE FIVE MONTHS ENDED NOVEMBER 30, 2009
(Cash Basis-In Millions)**

Revenue Category	FY09 Actual	FY10 Actual	FY10 Plan	FY10 vs Plan		FY10 vs FY09	
				Variance	%Change	Variance	%Change
Business Profits Tax	\$ 73.7	\$ 84.4	\$77.7	\$6.7	8.6%	\$10.7	14.5%
Business Enterprise Tax	<u>62.9</u>	<u>51.3</u>	<u>54.4</u>	<u>(3.1)</u>	<u>-5.7</u>	<u>(11.6)</u>	<u>-18.4</u>
Subtotal	136.6	135.7	132.1	3.6	2.7	(0.9)	-0.7
Meals & Rooms Tax	104.6	111.5	122.4	(10.9)	-8.9	6.9	6.6
Tobacco Tax	78.6	105.2	105.8	(0.6)	-0.6	26.6	33.8
Transfers from							
Liquor Sales and							
Distribution	45.4	53.8	51.4	2.4	4.7	8.4	18.5
Interest & Dividends Tax	27.3	19.7	27.7	(8.0)	-28.9	(7.6)	-27.8
Insurance Tax	5.0	5.0	4.7	0.3	6.4	-	-
Communications Tax	34.7	30.8	35.1	(4.3)	-12.3	(3.9)	-11.2
Real Estate Transfer Tax	47.7	40.1	44.3	(4.2)	-9.5	(7.6)	-15.9
Transfers from Lottery	22.9	23.6	24.8	(1.2)	-4.8	0.7	3.1
Transfers from Pari-Mutuel	0.3	0.4	0.4	-	-	0.1	33.3
Tobacco Settlement	-	-	-	-	-	-	-
Utility Property Tax	7.5	6.7	6.7	-	-	(0.8)	-10.7
State Property Tax	-	-	-	-	-	-	-
Other	<u>49.9</u>	<u>37.8</u>	<u>44.9</u>	<u>(7.1)</u>	<u>-15.8</u>	<u>(12.1)</u>	<u>-24.2</u>
Subtotal	<u>560.5</u>	<u>570.3</u>	<u>600.3</u>	<u>(30.0)</u>	<u>-5.0</u>	<u>(9.8)</u>	<u>1.7</u>
Net Medicaid Enhancement							
Revenues	89.9	97.8	98.6	(0.8)	0.8	7.9	8.8
Recoveries	<u>7.8</u>	<u>7.5</u>	<u>7.8</u>	<u>(0.3)</u>	<u>3.8</u>	<u>(0.3)</u>	<u>-3.8</u>
Total	<u>\$658.2</u>	<u>\$675.6</u>	<u>\$706.7</u>	<u>(\$31.1)</u>	<u>-4.4%</u>	<u>\$17.4</u>	<u>2.6%</u>

Fiscal Year 2010 (unaudited through November 30, 2009)

General and Education Fund revenues for the first five months of fiscal year 2010 were \$675.6 million, which were \$31.1 million (4.4%) below plan and \$17.4 million (2.6%) above the prior year largely due to Tobacco Tax increases. Consistent with the on-going economic downturn, revenue sources from investment and consumer sectors are driving the underperformance in revenue from plan. The Interest and Dividends Tax was \$8.0 million (28.9%) below plan. Meals and Rooms Tax and Real Estate Transfer Tax collections were \$10.9 million (8.9%) and \$4.2 million (9.5%) below plan, respectively. The Communications Tax is \$4.3 million (12.3%) below plan.

The results are preliminary and subject to change.

The following table presents a comparison of General Fund and Education Fund net appropriations for fiscal years 2009, 2010 and 2011. The fiscal year 2009 information is actual (unaudited) and subject to change. The fiscal years 2010 and 2011 information is based on the operating budget for fiscal year 2010-2011 contained in Chapters 143 and 144 of the Laws of 2009.

**GENERAL FUND AND EDUCATION FUND NET APPROPRIATIONS
ACTUAL AND BUDGET
FISCAL YEARS 2009-2011
(In Millions)**

Category of Government	(Unaudited) Actual FY 2009			Operating Budget FY 2010			Operating Budget FY 2011		
	General	Education	Total	General	Education	Total	General	Education	Total
General Government	\$311.4	-	\$311.4	\$323.7	-	\$323.7	\$325.8	-	\$325.8
Justice and Public Protection	233.7	-	233.7	226.7	-	226.7	228.2	-	228.2
Resource Protection and Development	39.3	-	39.3	40.8	-	40.8	39.0	-	39.0
Transportation	1.1	-	1.1	1.1	-	1.1	1.1	-	1.1
Health and Social Services	655.0	-	655.0	756.4	-	765.4	797.0	-	797.0
Education	<u>197.5</u>	<u>894.7</u>	<u>1,092.2</u>	<u>201.9</u>	<u>876.9</u>	<u>1,078.8</u>	<u>204.4</u>	<u>877.3</u>	<u>1,081.7</u>
Net Appropriations	<u>\$1,438.0</u>	<u>\$894.7</u>	<u>\$2,332.7</u>	<u>\$1,559.6</u>	<u>\$876.9</u>	<u>\$2,436.5</u>	<u>\$1,595.5</u>	<u>\$877.3</u>	<u>\$2,472.8</u>

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 2009, 2010 and 2011. The fiscal year 2009 information is actual (unaudited) and subject to change. The fiscal years 2010 and 2011 are current estimates based on Chapters 143 and 144 of the Laws of 2009, the operating budget for fiscal years 2010 and 2011, adjusted for \$18 million of ARRA State Fiscal Stabilization Funds recognized in fiscal year 2009, although originally budgeted as revenue in fiscal years 2010 and 2011.

**GENERAL FUND AND EDUCATION FUND BALANCES
FISCAL YEARS 2009 – 2011
(GAAP Basis - In Millions)**

	<u>FY 2009</u>			<u>FY 2010</u>			<u>FY 2011</u>		
	Actual (Unaudited)			Current Estimate			Current Estimate		
	<u>General</u>	<u>Education</u>	<u>Total</u>	<u>General</u>	<u>Education</u>	<u>Total</u>	<u>General</u>	<u>Education</u>	<u>Total</u>
Undesignated Fund Balance, July 1	<u>\$17.2</u>	<u>\$0.0</u>	<u>\$17.2</u>	<u>\$0.0</u>	<u>\$0.0</u>	<u>\$0.0</u>	<u>\$(7.7)</u>	<u>\$0.0</u>	<u>\$(7.7)</u>
Additions:									
Unrestricted Revenue	1,375.3	842.2	2,217.5	1,438.7	820.4	2,259.1	1,485.9	822.9	2,308.8
Other Revenue Initiatives	<u>-</u>	<u>-</u>	<u>-</u>	<u>92.4</u>	<u>80.1</u>	<u>172.5</u>	<u>85.2</u>	<u>80.0</u>	<u>165.2</u>
Total Additions	<u>1,375.3</u>	<u>842.2</u>	<u>2,217.5</u>	<u>1,531.1</u>	<u>900.5</u>	<u>2,431.6</u>	<u>1,571.1</u>	<u>902.9</u>	<u>2,474.0</u>
Deductions:									
Appropriations Net of Estimated Revenues	(1,509.2)	(897.7)	(2,406.9)	(1,527.8)	(957.0)	(2,484.8)	(1,563.1)	(957.3)	(2,520.4)
Less: Lapses	<u>71.2</u>	<u>3.0</u>	<u>74.2</u>	<u>23.0</u>	<u>-</u>	<u>23.0</u>	<u>23.5</u>	<u>-</u>	<u>23.5</u>
Total Net Appropriations	<u>(1,438.0)</u>	<u>(894.7)</u>	<u>(2,332.7)</u>	<u>(1,504.8)</u>	<u>(957.0)</u>	<u>(2,461.8)</u>	<u>(1,539.6)</u>	<u>(957.3)</u>	<u>(2,496.9)</u>
GAAP and Other Adjustments	<u>20.5</u>	<u>(0.4)</u>	<u>20.1</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Current Year Balance	<u>(42.2)</u>	<u>(52.9)</u>	<u>(95.1)</u>	<u>\$26.3</u>	<u>\$(56.5)</u>	<u>\$(30.2)</u>	<u>\$(31.5)</u>	<u>\$(54.4)</u>	<u>\$22.9</u>
Transfers (to)/from:									
Rainy Day Fund	14.7	-	14.7	-	-	-	8.1	-	8.1
Joint Underwriting Association ¹	65.0	-	65.0	22.5	-	22.5	22.5	-	22.5
Highway Fund	(1.8)	-	(1.8)	-	-	-	-	-	-
Education Fund	<u>(52.9)</u>	<u>52.9</u>	<u>-</u>	<u>(56.5)</u>	<u>56.5</u>	<u>-</u>	<u>(54.4)</u>	<u>54.4</u>	<u>-</u>
Undesignated Fund Balance, June 30	<u>\$0.0</u>	<u>\$0.0</u>	<u>\$0.0</u>	<u>\$(7.7)</u>	<u>\$0.0</u>	<u>\$(7.7)</u>	<u>\$0.0</u>	<u>\$0.0</u>	<u>\$0.0</u>
Reserved for Revenue Stabilization Account	<u>\$74.3</u>	<u>-</u>	<u>\$74.3</u>	<u>\$74.3</u>	<u>-</u>	<u>\$74.3</u>	<u>\$66.2</u>	<u>-</u>	<u>\$66.2</u>
Total Equity	<u>\$74.3</u>	<u>\$0.0</u>	<u>\$74.3</u>	<u>\$66.6</u>	<u>\$0.0</u>	<u>\$66.6</u>	<u>\$66.2</u>	<u>\$0.0</u>	<u>\$66.2</u>

¹ See "Litigation."

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.

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.

In October 2009, the State received notice from CMS that they concurred with the auditors’ findings. The notice indicates that CMS is disallowing \$35,325,468 in federal funds for FFY 2004. The letter also confirms that the State has the opportunity to appeal to the Department of Health and Human Services appeals board and to elect to retain the funds pending appeal. The State will be filing an appeal within the 60 day period following the October 27, 2009 notice of disallowance.

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 October 2009 notice from CMS does not address any years other than FFY 2004. The State General Fund currently receives approximately \$90 million dollars per year through the DSH program. It is unclear whether any portion of this unrestricted revenue would be in jeopardy or whether or if any additional 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 administratively closed the *Claremont* case in September, 2006.

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.

A series of lawsuits have been filed against the State challenging various aspects of the school funding plans, as adopted and modified by the Legislature from time to time. The State has eventually prevailed in these matters, although in one matter the State paid \$1.2 million to certain municipalities that had been underpaid their adequate education aid distribution in fiscal year 2004.

In 2005, the Legislature passed House Bill 616, now known as 2005 New Hampshire Laws Chapter 257 ("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.

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. 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 cross-appealed. On September 8, 2006, the Supreme Court held 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.

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 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, but petitioners’ request for attorneys’ fees remained. In January, 2009, the State settled the *Londonderry* attorneys’ fees request with a payment of \$83,457.

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.

The legislative committee reviewing the education accountability system, established under Senate Bill 539, met on a weekly basis to perform its charge of reviewing all of the State’s statutes and regulations relating to accountability. The committee issued a report on November 17, 2008. The committee recommended an accountability system that demonstrates the availability of the opportunity for an adequate education through either compliance with the relevant school approval standards or a demonstration of school success on student performance measures. Generally the recommendations of the legislative committee were submitted to the Legislature for consideration during the 2009 Session in SB 180. SB 180, enacted into law as 2009 New Hampshire Laws Chapter 198, provides for an input-based school accountability system, beginning in the 2009-2010 school year, that ensures that the State’s schools are providing a constitutionally adequate education. SB 180 establishes a task group to work on developing a performance-based school accountability system that will begin in the 2011-2012 school year as an alternative to the input-based accountability system. Schools will be allowed to choose which accountability system they use. The Legislature also enacted additional responsibilities for the legislative oversight committee established under RSA 198:3 to evaluate the progress and results from the two accountability systems. A constitutionally sound accountability process is the fourth mandate of the *Claremont II* decision for an adequate education system.

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. The court dismissed the RSA 21-J:28-a appeals, but allowed the declaratory judgment claim to proceed. The State filed a motion to dismiss in July, 2009, arguing that Petitioners have failed to disclose or produce any experts or expert reports supporting their claim. On September 8, 2009, the Court granted the State’s motion to dismiss. The petitioners appealed to the New Hampshire Supreme Court. No briefing schedule has been issued yet. At this time, it is not possible to predict the outcome of this matter.

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. 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 Hudson School District commenced this action by filing a petition for original jurisdiction in the New Hampshire Supreme Court. The Supreme Court dismissed the petition, and the Hudson School District refiled in the Superior Court. The State filed a motion to dismiss the petition which was granted in April, 2009. Petitioner and the State entered into a Stipulation requiring the Town of Hudson to institute public kindergarten beginning in the 2009-2010 school year. This matter is now concluded.

STATE INDEBTEDNESS

Debt Management Program

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

Authorization and Classification of State Debt

The State has no constitutional limit on its power to issue obligations or incur indebtedness and there is no constitutional requirement that a referendum be held prior to the incurrence of any such debt. The authorization and issuance of State debt, including the purpose, amount and nature thereof, the method and manner of the incurrence of such debt, the maturity and manner of repayment thereof, and security 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, 2009.

Debt Statement as of June 30, 2009 (In Thousands) (Unaudited)

General Obligation Bonds:			
General Improvement.....		\$524,174	
Turnpike ⁽¹⁾		1,208	
Highway.....		100,122	
University System of New Hampshire.....		<u>142,656</u>	
Total Direct General Obligation Debt.....			\$768,160
Revenue Bonds:			
Turnpike System ⁽²⁾			246,765
Contingent (Guaranteed) Debt:			
Business Finance Authority.....		55,400	
School Building Authority Bonds.....		6,988	
Water Pollution and Waste Disposal Bonds issued by Political Subdivisions.....		11,425	
Solid Waste Management Bonds.....		<u>235</u>	
Total Contingent Debt.....			<u>74,048</u>
Total Debt.....			1,088,973
Less: Self-Supporting and Contingent Debt:			
General Fund Self-Supporting Debt ⁽³⁾		47,175	
Turnpike System Revenue Bonds.....		246,765	
Turnpike System General Obligation Bonds.....		1,208	
Highway.....		100,122	
University System of New Hampshire ⁽⁴⁾		279	
Pease Development Authority General Obligation Bonds.....		11,400	
Fish & Game.....		3,694	
Business Finance Authority.....		55,400	
School Building Authority Bonds.....		6,988	
Water Pollution and Waste Disposal Bonds issued by Political Subdivisions.....		11,425	
Solid Waste Management Bonds.....		235	
Total Self-Supporting and Contingent Debt.....			<u>484,691</u>
Total Net General Fund Debt ⁽⁵⁾			<u>\$604,282</u>

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

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

- (2) Turnpike System revenue bonds are limited obligations of the State payable solely out of net revenues of the Turnpike System. Neither the full faith and credit nor the taxing power of the State is pledged for the payment of the Turnpike System revenue bonds.
- (3) Includes bonds paid from General Fund restricted revenues (primarily user fees, criminal penalty assessments and lease revenues).
- (4) In accordance with State statutes, the Board of Trustees of the University System maintains special funds and accounts for the deposit of dormitory rentals and income from housing facilities, dining halls, student unions, bookstores and other capital improvements constructed with the proceeds of such bonds. Revenues so deposited are used for the payment to the State Treasurer of amounts equal to the annual principal and interest requirements of the bonds issued by the State to construct such facilities. The Legislature has anticipated that such income will be sufficient to pay all debt service requirements on such bonds.
- (5) 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 \$3.3 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, 2009, the State had short and long-term capital leases outstanding of \$835,000 and \$3,203,000, respectively, 88% 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,				
	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
Direct General Obligation Debt.....	\$633,743	\$644,715	\$654,170	\$688,598	\$768,160
Contingent (Guaranteed) Debt.....	101,526	97,401	87,455	80,855	74,048
Less: Self-Supporting Debt.....	<u>(202,737)</u>	<u>(196,146)</u>	<u>(186,076)</u>	<u>(216,221)</u>	<u>(237,926)</u>
Total Net General Fund Debt	<u>\$532,532</u>	<u>\$545,970</u>	<u>\$555,549</u>	<u>\$553,232</u>	<u>\$604,282</u>
Per Capita Debt ⁽¹⁾ :					
Direct General Obligation Bonds	\$487	\$493	\$499	\$523	\$584
Net General Fund Debt.....	409	417	423	420	459
Ratio of Debt to Personal Income ⁽¹⁾ :					
Direct General Obligation Bonds	1.3%	1.2%	1.2%	1.2%	1.4%
Net General Fund Debt.....	1.1	1.1	1.0	1.0	1.1
Ratio of Debt to Estimated Full Value:					
Direct General Obligation Bonds	0.4%	0.4%	0.4%	0.4%	0.5%
Net General Fund Debt.....	0.3	0.3	0.3	0.3	0.4
General Fund Unrestricted Revenues ⁽²⁾	\$1,391,586	\$1,329,489	\$1,421,700	\$1,483,934	\$1,375,300
Debt Service Expenditures ⁽³⁾	78,192	81,521	82,906	85,020	90,314
Debt Service as a Percent of General Fund Unrestricted Revenues	5.6%	6.1%	5.8%	5.7%	6.6%
Population (in thousands)	1,301	1,309	1,312	1,316	1,316
Total Personal Income (in millions)	\$48,682	\$51,964	\$54,640	\$56,356	\$56,356
Estimated Full Value (in thousands).....	\$165,222,644	\$173,176,615	\$173,624,015	\$170,079,381	\$170,079,381

(1) Based on U.S. Department of Commerce and U.S. Bureau of the Census estimates for population and personal income.

(2) For fiscal year 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.

**Rate of Debt Retirement⁽¹⁾
as of June 30, 2009**

	<u>General Obligation Debt</u>	<u>Net General Fund Debt</u>
5 years	43%	43%
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. See also "Temporary Loans" below.

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

	<u>Fiscal Year Ended June 30,</u>				
	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
Beginning Debt.....	\$626,099	\$633,743	\$ 644,715	\$ 654,170	\$688,598
Bonds Issued	117,800	75,000	196,885	161,320	179,380
Bond Anticipation Notes Issued	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total Net Debt.....	<u>743,899</u>	<u>708,743</u>	<u>841,600</u>	<u>815,490</u>	<u>867,978</u>
Less: Bonds Paid	60,156	64,028	64,866	66,892	70,648
Defeasance	0	0	122,564	60,000	29,170
Bond Anticipation Notes Paid	<u>50,000</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Ending Debt.....	<u>\$633,743</u>	<u>\$644,715</u>	<u>\$654,170</u>	<u>\$ 688,598</u>	<u>\$768,160</u>

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, 2009.

Direct General Obligation Debt as of June 30, 2009⁽¹⁾ (In Thousands)

Fiscal Year Ending June 30,	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010.....	\$75,471	\$42,826	\$118,296
2011.....	72,721	39,740	112,462
2012.....	64,726	33,108	97,833
2013.....	60,169	27,189	87,358
2014.....	53,804	23,934	77,738
2015.....	49,606	26,656	76,262
2016.....	47,756	21,716	69,471
2017.....	46,649	17,647	64,296
2018.....	44,915	13,138	58,053
2019.....	42,765	11,223	53,988
2020.....	38,275	9,323	47,598
2021.....	36,705	7,588	44,293
2022.....	30,010	6,088	36,098
2023.....	26,015	4,820	30,835
2024.....	25,615	3,643	29,258
2025.....	22,415	2,468	24,883
2026.....	13,185	1,433	14,618
2027.....	10,180	832	11,012
2028.....	7,180	356	7,536
Total	<u>\$768,160</u>	<u>\$293,728</u>	<u>\$1,061,888</u>

⁽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. On February 4, 2009, the Governor and Council authorized the State Treasurer to borrow up to an aggregate amount of \$100 million with a final maturity date no later than June 30, 2014. The State issued a \$75 million general obligation interfund note to its Clean and Drinking Water State Revolving Fund on February 4, 2009 which matured and was paid on June 30, 2009. The State issued \$75 million of revenue anticipation notes in March 2003 which matured and were paid in May 2003, and \$75 million of revenue anticipation notes in December 2004 which matured and were paid June 1, 2005. Prior to these issues, the State had not issued revenue anticipation notes since fiscal year 1991.

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

The State Treasurer established a commercial paper program during fiscal year 1998 for the purpose of issuing bond anticipation notes. The maximum amount of commercial paper to be outstanding at any time is currently \$50 million. The State issued \$50 million of commercial paper bond anticipation notes in August 2009. Such amount

is currently outstanding and expected to be paid with a portion of the proceeds of the general obligation bonds of the State to be issued in December 2009.

Authorized But Unissued Debt

As of December 1, 2009 the State had statutorily authorized but unissued direct general obligation debt in the total principal amount of \$404.5 million, under various laws. This amount includes \$131.2 million in bond authorizations related to the school building aid program for fiscal year 2009, 2010, and 2011 as discussed below under “Capital Budget.” This amount does not include the State’s Turnpike System authorizations or statutorily authorized guarantees, nor its authority to issue bonds in lieu of all or a portion of the State’s guarantee of bonds of the Pease Development Authority.

Chapter 58 of the Laws of 2005, the “Federal Highway Anticipation Bond Act,” authorized the State to issue federal highway grant anticipation bonds (“Garvee Bonds”) in an amount not to exceed \$195 million with the approval of the governor and council. The Garvee Bonds are to be special obligations of the State secured by revenues consisting of federal aid for highways and other grants, loans and contributions from any governmental unit relating to projects to be financed under the statute. The Garvee Bonds may be issued for the purpose of financing project costs related to the widening of Interstate 93 from Manchester to the Massachusetts border and any other federally aided highway project which the legislature may subsequently authorize to be funded under the statute. As of the date hereof, the State has not issued any Garvee Bonds.

The State has various guarantee programs, which are described under the caption “Agencies, Authorities and Bonded or Guaranteed Indebtedness” below. The statutes authorizing the guarantee programs require approval by the Governor and Council of any award of a State guarantee. In addition, statutory limitations apply to all of the guarantee programs, but they vary in two major respects. First, the limit may be either on the total amount guaranteed or on the total amount guaranteed that remains outstanding at any time; the latter is a revolving limit, allowing additional guarantees to be awarded as guaranteed debt is retired. Second, the statutory dollar limit may represent either the total amount of principal and interest or only the total amount of principal that may be guaranteed; in the latter case interest on that principal amount may also be guaranteed but is not otherwise specifically limited. See also material related to the Pease Development Authority under the headings “Capital Budget” and “Agencies, Authorities and Bonded or Guaranteed Indebtedness” below.

<u>Purpose</u>	<u>Guarantee Limit as of June 30, 2009</u>	<u>Remaining Guarantee Capacity as of June 30, 2009</u>
Local Water Pollution Control Bonds	\$50.0 million ⁽¹⁾⁽²⁾	\$37.0 million
Local School Bonds	30.0 million ⁽¹⁾⁽²⁾⁽⁵⁾	18.5 million
Local Superfund Site Bonds	20.0 million ⁽¹⁾⁽²⁾	20.0 million ⁽³⁾
Local Landfill and Waste Site Bonds	10.1 million ⁽¹⁾⁽²⁾⁽³⁾	9.7 million
Business Finance Authority Bonds, Loans	95.0 million ⁽¹⁾	39.6 million
Pease Development Authority	105.0 million ⁽³⁾	48.9 million
Division of Water Resources Bonds	5.0 million ⁽³⁾	5.0 million ⁽³⁾
Housing Finance Authority Child Care Loans	0.3 million ⁽⁴⁾	0.3 million

⁽¹⁾ Revolving limit.

⁽²⁾ Limit applies to total principal and interest.

⁽³⁾ Plus interest.

⁽⁴⁾ Limit applies to principal only.

⁽⁵⁾ This limit was raised to \$95 million effective July 1, 2009. See “State Guaranteed Local School Bonds.”

Capital Budget

The following table sets out the State's capital appropriations for the 2010-2011 biennium.

Biennium Capital Budget	Biennium Ending <u>June 30, 2011</u>
Adjutant General	\$2,357,000
Administrative Services.....	31,185,202
Community-Technical College System.....	19,250,000
Corrections	7,469,000
Education.....	16,186,552
Environmental Services.....	11,074,720
Fish & Game.....	705,000
Health & Human Services	4,175,000
Liquor Commission	5,020,000
Police Standards & Training.....	1,440,000
Resources & Economic Development	19,832,000
Revenue Administration	7,000,000
Safety.....	8,770,000
Transportation.....	61,258,000
Veteran's Home.....	8,300,000
University System of New Hampshire ⁽¹⁾	<u>35,000,000</u>
Gross Appropriations	239,022,474
Less-Federal, Local & Other Funds	<u>59,395,600</u>
Net Bonds Authorized.....	<u>\$179,626,874</u>
Funding of Bonds	
Highway Funded	14,105,000
Other Funded.....	17,447,500
General Funded	<u>148,074,374</u>
Net Bonds Authorized	<u>\$179,626,874</u>

⁽¹⁾ This appropriation was made in the capital budget adopted in 2005 for the 2010-2011 biennium.

In addition to the capital budget for fiscal years 2010 and 2100 (Chapter 145 of the Laws of 2009), legal authority to bond for the school building aid program is set forth in Chapter 144 of the Laws of 2009. School building aid for fiscal years 2009, 2010, 2011 will be bonded in the amounts of \$40 million, \$44.9 million, and \$46.3 million, respectively. This authority is not included in the capital budget schedule above. The law specifies that the debt service payments for school building aid bonding will be paid from meals and rooms tax revenues, although the bonds will be general obligations of the State. The General Fund unrestricted revenue estimate for meals and rooms tax is net of the amounts expected to be required for school building aid debt service payments in fiscal year 2010 and 2011. The Treasury operating budget includes a designation of a portion of meals and rooms tax revenues as restricted revenues sufficient to cover school building aid debt service for fiscal years 2010 and 2011.

In addition to the 2010-2011 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, 2011 (which is included in the table above), and \$35 million for the biennium ending June 30, 2013.

Chapter 1 of the Laws of 2008 Special Legislative Session appropriated \$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 Stratham campus for \$5.5 million by June 30, 2011. 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. Through June 30, 2009, there has been \$8.7 million expended toward this renovation project.

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 July 1, 2009. Chapter 49 of the Laws of 2008, which took effect July 1, 2008, reduced many of the guarantee limits to those stated below.

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

Chapter 237-A of the New Hampshire Revised Statutes Annotated, as amended, provides for the issuance by the State Treasurer of revenue bonds of the State for the Turnpike System in such amounts as the Governor and the Council shall determine, from time to time, subject to the current statutory limit of \$766.05 million (excluding bonds issued for refunding purposes). RSA 237-A expressly provides that the bond resolution authorizing Turnpike System revenue bonds may include provisions setting forth the duties of the State in relation to the fixing, revision and collection of tolls and further provides that the State has pledged to perform all such duties as set forth in such bond resolution. Turnpike System revenue bonds constitute limited obligations of the State, and the State has not pledged its full faith and credit for the payment of such bonds. Approximately \$246.8 million of such bonds were outstanding as of June 30, 2009. On December 1, 2009, an additional \$150.0 million of Turnpike revenue bonds were issued to fund capital expenditures of the Turnpike System, and \$67.2 million of Turnpike revenue bonds were issued for refunding purposes.

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 \$142.4 million of such bonds were outstanding June 30, 2009, of which \$3.0 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 \$50 million. As of June 30, 2009, \$13.0 million of principal and interest was guaranteed under this program.

In addition, the Legislature has provided in RSA 486 that the State shall pay annually an amount equal to 20% of the yearly principal and interest expense on the original costs resulting from the acquisition and construction of

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

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

The Governor and Council are authorized to guarantee the payment of the principal and interest of not more than \$5 million principal amount of bonds issued by the division. The full faith and credit of the State are pledged for such guarantee. As of June 30, 2009, 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 \$30 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, 2009, \$11.5 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. However, Chapter 144 of the Laws of 2009 returned the State's total statutory guaranteed debt limit for this purpose to \$95 million effective July 1, 2009. On September 23, 2009, the Governor and Council approved State guarantees for two school districts totaling \$17.7 million. Neither school district has issued debt using the State guarantee.

State Guaranteed Local Superfund Site Bonds and Landfill and Waste Site Bonds. The Governor with the advice and consent of the Council may award an unconditional State guarantee for the payment of not more than \$20 million in aggregate principal amount (plus the interest thereon) of bonds issued by municipalities in the State for costs of cleanup of "superfund" hazardous waste sites for which the municipalities are named potentially responsible parties (including bonds issued by a municipality on behalf of other potentially responsible parties at the same site). No bonds have been guaranteed under this program.

In addition, the Governor and Council may award an unconditional State guarantee for the payment of principal and interest on bonds issued by municipalities in the State for closing or cleanup of landfills, other solid waste facilities or hazardous waste sites. The outstanding State guaranteed amount of principal and interest on such bonds may not exceed \$10 million at any one time. As of June 30, 2009, \$0.3 million of principal and interest was guaranteed under this program.

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

In order to carry out its programs, the Authority was authorized to issue up to \$25 million in principal amount of bonds as general obligations of the Authority, the principal of and interest on which is guaranteed by the State. The Authority issued \$25 million State-guaranteed bonds in November, 1992. In April, 2002, the Authority issued an additional \$10 million of State guaranteed bonds, half of which were used to refund then outstanding 1992 bonds. The

Authority issued an additional \$10 million of State guaranteed bonds in December 2002 to refund an equal amount of then outstanding 1992 bonds. The last \$1.3 million of then outstanding 1992 bonds was redeemed on November 1, 2003, leaving the Authority with a total balance of \$20 million of outstanding bonds as of June 30, 2009.

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; \$6.5 million of such guaranteed revenue bonds are currently outstanding. Payment of \$2.25 million will be made on December 1, 2009 and on January 1, 2010. The amount outstanding will then be \$2.0 million.

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, 2009, \$30.9 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 in October 1991. Under State legislation, the Pease Development Authority ("PDA") was established in 1990 to prepare a comprehensive plan and to implement all aspects of the plan including taking title to the property, marketing, and developing the property. As of October, 2009, the Pease International Tradeport had 4.4 million square feet of new or renovated office/R&D/manufacturing space with over 245 companies employing more than 7,000 people. As of June 30, 2009, PDA 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 \$105 million in principal amount plus interest on those bonds. The remaining guarantee capacity at June 30, 2009 was \$48.9 million. The \$105 million unconditional State guarantee is made up of two separate statutory provisions, one of which is \$35 million that may be awarded by the Governor and Council after the approval of a comprehensive development plan submitted by the PDA. Bonds have never been issued under these statutory provisions.

The second guarantee provision authorizes the State to issue up to \$70 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 PDA with respect to its operations. Pursuant to Chapter 1 of the Special Session Laws of 2008, the PDA was required to repay \$10 million to the State by December 1, 2008. On November 25, 2008 the PDA issued \$5.0 million State guaranteed bond anticipation notes and established a \$2.5 million State guaranteed line of credit. The PDA made the required \$10 million payment to the State on November 26, 2008.

With the passage of Chapter 112 of the Laws of 2009, enacted on June 22, 2009, the New Hampshire Department of Transportation was directed to convey ownership of the SkyHaven Airport to the Authority. The Authority accepted this transfer of ownership, from and after July 1, 2009 with no liability relative to any regulatory matters or causes of action arising prior to November 1, 2008. As a component of this transfer, the Authority assumed approximately \$0.3 million in debt outstanding.

In addition to the \$105 million State guarantee discussed above, 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 PDA. No debt has ever been issued under this provision. Lastly, the State was authorized and did borrow \$5 million on behalf of the PDA to make economic development loans. The principal and interest on that debt was repaid by the PDA as part of the \$10 million payment to the State on November 26, 2008.

New Hampshire Housing Finance Authority. The New Hampshire Housing Finance Authority is a body politic and corporate having a distinct existence separate from the State and not constituting a department of State government. The Authority is generally authorized to provide direct construction and mortgage loans for residential housing and to make loans to and to purchase loans from lending institutions in order to expand available mortgage funds in the State. In order to carry out its corporate purposes, the Authority is authorized to issue its bonds or notes in an amount outstanding at any one time not to exceed \$2 billion. Such bonds or notes are special obligations of the Authority, and do not constitute a debt or obligation of the State. By law, the Authority is authorized to issue up to \$600 million in bonds supported by one or more reserve funds and to maintain in each fund for a 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, 2009, 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 separate divisions of the Bank and are not a debt or obligation of the State and no State funds may be used for their payment.

New Hampshire Health and Education Facilities Authority. 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 intercity rail or other similar forms of passenger rail service. The NHRTA is authorized to issue bonds to carry out its purposes. RSA 238-A provides that all obligations of the NHRTA shall be paid solely from funds provided to or obtained by it 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 continues to meet on a monthly basis. The NHRTA is currently developing plans and operating agreements for proposed passenger rail service from Concord, New Hampshire to Boston, Massachusetts through the cities of Manchester and Nashua in New Hampshire. 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, 2009, there were approximately 56,385 active and inactive members and 24,501 retired members of the System. In addition, there were 1,391 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 for fiscal year 2009, and for prior fiscal years, the State funded 35% of the employer cost for teachers, firefighters and police officers employed by political subdivisions. Due to changes made in the 2009 legislative session, the State will fund 30% of the employer cost for teachers, firefighters and police officers employed by political subdivisions in fiscal year 2010 with that State funding share decreasing to 25% for fiscal year 2011. Under current law, in fiscal year 2012, and future fiscal years, the State’s funding share of teachers, firefighters and police officers employed by political subdivisions will return to 35%.

The State’s annual required contribution (“ARC”) shown below represents both pension and postemployment health plan contributions currently required by statute.

<u>Fiscal Year</u>	<u>Total State Contribution</u>	<u>Percent of ARC</u>
2008	\$106.8 million	75%
2009	\$111.5 million	75%
2010	\$128.1 million (estimated)	100%
2011	\$124.5 million (estimated)	100%

As discussed below under “Implementation of GASB 43 – Changes to Postemployment Health Benefit 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 and as reported in the June 30, 2008 interim actuarial valuation discussed below, only 75% of the ARC was contributed in fiscal years 2008 and 2009. While the State and all other employers had consistently paid 100% of the rates certified by the NHRS Board of Trustees, the rates certified by

the NHRS Board of Trustees in 2005 with respect to fiscal years 2008 and 2009 did not include a separate component for the funding of the 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.

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 as a net pension obligation and will be funded through future employer contributions.

Results of Actuarial Valuations

The NHRS has actuarial valuations performed biennially in each odd-numbered year. Based on the results of the June 30, 2009 actuarial valuation, the net assets available to pay pension benefits, at actuarial value, were reported to be \$4,937.3 million. The total pension liability at June 30, 2009 was \$8,475.0 million, resulting in an unfunded pension liability at June 30, 2009 of \$3,537.7 million and a funding ratio of 58.3%. Effective July 1, 2006 the System’s actuarial cost method changed from the open group aggregate cost method to the more widely used entry age normal cost method. The total liabilities since that date have been determined using the entry age normal actuarial cost method.

As of June 30, 2009, the net assets available to pay postemployment health benefits, at actuarial value, were reported to be \$176.8 million, with a corresponding liability of \$673.4 million, resulting in an unfunded postemployment health benefit liability at June 30, 2009 of \$496.6 million and an overall funding ratio of 26.3%. This liability is separate and in addition to 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 and the June 30, 2009 valuation will determine the required contributions for fiscal years 2012 and 2013. The June 30, 2007 and the June 30, 2009 System actuarial valuations can be viewed in their entirety at www.nhrs.org.

Employer contribution rates depend on many factors, including not only the market value of assets, but also the resulting actuarial asset values, experience of the members and beneficiaries and the actual employer contributions made by the State. Based on the results on the June 30, 2009 actuarial valuation, the employer contribution rates to be paid by the State for fiscal years 2012 and 2013 are currently expected to increase by approximately 11.0%-11.5% over fiscal year 2010-2011 rates.

Combined Employer Contribution Rates for Pension and Postemployment Health
For Fiscal Years 2010-2013

	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
State employees	11.05%	11.05%	12.31%	12.26%
Political sub employees	9.16	9.16	11.09	11.04
Teachers	10.70	10.70	13.95	13.95
Police	19.51	19.51	25.57	25.57
Fire	24.69	24.69	30.90	30.90

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 plans. 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, (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, and (4) establishing the appropriate subtrusts in the 401(h) account and reconstructing the accounting for those subtrusts as determined by legal counsel to be the four OPEB plans administered by the System. In addition, correcting the current \$17.7 million shortfall in the State Employee Group OPEB plan that has been subsidized by contributions from the Political Subdivision OPEB Plan as more fully described in the next paragraph. 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 \$17.7 million, including interest, 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. Any settlement reached will also require that the IRS review and agree to the settlement as part of the overall voluntary compliance program.

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 issued timely financial statements for fiscal year 2008 with unqualified auditor's opinions. It is expected that the fiscal year 2009 financial statements of the System will be issued timely by December 31, 2009 with an unqualified auditor's opinion. The audited financial statements can be viewed at <http://nhrs.org/investments/reports.aspx>.

Legislative Activity

Legislation enacted in the 2009 legislative session made significant changes to plan provisions which are summarized below.

- Set the member contribution rate for all Group I State employees hired on or after July 1, 2009 at 7.0% of earnable compensation. The member contribution rate for State employees hired before July 1, 2009 remains at 5.0%.
- Reduced the State's share of the political subdivision employers' normal cost from 35% to 30% for fiscal year 2010, and to 25% for the state fiscal year 2011. The State's share of political subdivision employer's normal cost reverts back to 35% for the state fiscal year 2012 and each fiscal year thereafter.
- Re-defined "extra or special duty compensation" as a component of a member's earnable compensation to mean member work activities or details for which the employer bills or charges another entity for the work activities provided.
- Required that for fiscal years beginning on or after July 1, 2009, political subdivision employers must report monthly to NHRS all extra or special duty compensation paid to Group II firefighter and police officer members. Employers are also required to include in their billing to the entity for whom the extra or special duty is provided, the full amount of employer contributions required under RSA 100-A:16, II(b), which are applicable to the extra or special duty compensation paid to Group II members. If the contributions are not paid by the entity, employers are required to pay 100% of the employer contributions attributable to all extra or special duty compensation paid to Group II members.
- Required NHRS, effective July 1, 2009, to deduct from the monthly pension benefit of retired Group I and Group II State employees, the amount of \$65.00 for each retiree and each spouse who are under age 65 and receiving healthcare coverage through the State of New Hampshire. The total monthly deduction may not exceed \$130. This does not impact the 401(h) Postemployment Health Benefit Plan discussed in this section.
- Required NHRS to re-certify employer contribution rates for fiscal years 2010 and 2011, based upon a July 1, 2009, State Employee OPEB Plan balance of zero and to base all future employer contribution rates for the State Employee OPEB Plan using the same zero balance.

- Delayed from August 29, 2008, until July 1, 2010 the implementation of RSA 100-A:16, III-a, which addresses the funding of dramatic increases in the pensions of NHRS members resulting from excessively high end-of-career earnable compensation payments made to a retiring employee by an employer. Known as the “spiking provision” or the “125% calculation provision”, RSA 100-A:16, III-a provides that employers assume financial responsibility for the funding costs associated with those increased pension amounts.
- Removed the application of the gainful occupation reductions to accidental disability retirement pensions paid to retired Group II members who have attained age 45, and whose total years of service as a Group II member plus their years of accidental disability retirement total at least 20 years.
- Repealed RSA 457-A regarding civil unions and amends RSA 457 to allow same gender couples to marry in New Hampshire. Because NHRS must follow the federal definition of marriage when administering pension plan benefits, certain retirement benefits for same gender married couples will be limited, as is currently the case with civil union partners.
- Provided a medical subsidy benefits for certain Group I teacher and political subdivision employee members who retired on or before July 1, 2009, if: (1) they were eligible to retire as of July 1, 2008, either prior to age 60 with at least 20 years of service, or prior to age 55 with at least 30 years of service, and (2) subsequent to July 1, 2008, they attain the applicable age, 60 or 55, respectively.
- Required NHRS to develop by December 1, 2009 a specific methodology to determine the amount of the employer assessment for excess pension benefits paid to members who retire after July 1, 2010. Such methodology must account for the portion of the present value of the member’s retirement benefit attributable to the compensation in excess of the member’s base pay that has been funded through the normal employer contributions, including the state share of the employer contributions and the member contributions. In addition, every participating employer must report annually to NHRS the annual base pay paid to each member.
- Provided a medical subsidy benefit for certain Group I teacher and political subdivision employee members who retired with a vested deferred retirement pension on or before July 1, 2009, if they were eligible to retire as of July 1, 2008, either: (1) with at least 20 years of Group I creditable service and had attained age 60, or subsequently attained age 60; or (2) with at least 30 years of Group I creditable service and had attained age 55, or subsequently attained age 55.
- Established a committee, composed of two State Senators and four State Representatives, to study the imposition of employer assessments for excess benefits paid to NHRS retirees. In addition, as required, the NHRS reported by November 1, 2009 to the chairpersons of the House and Senate Executive Departments and Administration Committees relative to death benefits provided under RSA 100-A.
- In accordance with federal Heroes Earnings Assistance and Relief Tax (HEART) Act of 2008, provided that ordinary death benefits paid to a surviving spouse in the form of an annuity will not terminate upon the remarriage of such surviving spouse. Further, the law defines “qualified military service and provides ordinary death benefits for beneficiaries of NHRS members who die on or after January 1, 2007 while performing qualified military service.
- Effective July 1, 2009, granted a 1.5% COLA to be added to the base pension, on the first \$30,000 of pension benefits to all retirees and beneficiaries who had been retired for at least 12 months by July 1, 2009. In addition, two additional lump sum temporary allowances were provided as follows:
 - Only for the fiscal year beginning July 1, 2009, a supplemental allowance of \$1,000 for any retired member or beneficiary who had been retired at least 12 months whose annual retirement is based on at least 15 years of service and is \$20,000 or less annually;
 - Only for the fiscal year beginning July 1, 2009, a supplemental allowance of \$500 for any retired member or beneficiary who retired prior to January 1, 1993.
- In addition, legislation passed in the fiscal year 2008 legislative session granted a third temporary supplemental allowance beginning July 1, 2008 and continuing on each July 1st through July 1, 2011. Retirees and beneficiaries receiving a one-person medical subsidy are to receive a lump sum temporary supplemental allowance of \$500 and retirees receiving a two-person medical subsidy are to receive a lump sum temporary supplemental allowance of \$1,000. Once a recipient becomes eligible for Medicare, the additional temporary supplemental allowances shall be reduced to 60 percent of the non-Medicare eligible retiree amounts.

The effects of fiscal year 2009 legislation are reflected in the June 30, 2009 actuarial valuation of the System.

Current Market Conditions

Since June 30, 2008, the liquidity crisis in the credit, housing and mortgage markets blossomed into a global economic crisis of significant proportions. Both U.S. and global investment markets have experienced significant declines since June 30, 2008. For the fiscal year ended June 30, 2009, the System's total fund investment return declined 18.1% and net assets available for benefits declined \$1,135.8 million to \$4,461.2 million. Investment results since June 30, 2009 have improved, and as a result of that improvement, net assets available for benefits has recovered to an approximate \$5.0 billion level as of November 20, 2009. 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 2000-2009

(All Dollar Amounts in Thousands, FY 2009 Data is estimated and subject to change)

	Fiscal Year Ended 6/30/2009	Fiscal Year Ended 6/30/2008	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
Long Range Pension Cost:										
Actuarial Accrued Liability	\$8,475,052	\$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
Actuarial Valuation Assets	4,937,320	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
Unfunded (Excess) Actuarial Accrued Liability	3,537,732	2,519,282	2,397,459	2,474,605	2,380,226	1,454,236	1,169,155	752,919	577,701	350,525
Pension Plan Funded Status	58.3%	67.8%	67.0%	61.4%	60.3%	71.1%	75.0%	82.1%	85.0%	89.9%
Long Range Post Employment Health Cost:										
Actuarial Accrued Liability	\$673,390	\$669,874	\$638,410	\$986,502	\$930,675	\$731,021	\$701,408	\$576,770	\$429,773	\$273,087
Actuarial Valuation Assets	176,800	175,187	156,976	445,860	445,918	441,936	415,046	437,478	336,078	311,538
Unfunded (Excess) Actuarial Accrued Liability	496,590	494,687	481,434	540,642	484,757	289,085	286,362	139,292	93,695	(38,451)
Post Employment Health Plan Funded Status	26.3%	26.2%	24.6%	45.2%	47.9%	60.5%	59.2%	75.8%	78.2%	114.1%

NOTE: Liabilities for fiscal year 2007-2009 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 2007-2009 and prior years are not 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 the System 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 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. In the past, eligible retirees did not contribute toward the cost of health care, however effective July 1, 2009, retirees under the age of sixty-five contribute \$65 per month and additional \$65 per month for spousal coverage. Substantially all of the State’s employees who were hired on or before June 30, 2003 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 \$35.2 million to fund health care benefits on a pay-as-you-go basis for approximately 10,617 State retirees and covered dependents receiving a periodic pension benefit for the fiscal year ended June 30, 2009. A working rate holiday totaling \$2.5 million in retiree “premium” lowered the State’s fiscal year 2009 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 \$14.8 million for the fiscal year ended June 30, 2009. The budget for the 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 2008, following a procurement process, the Department of Administrative Services retained 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 and dental plans. An OPEB liability actuarial valuation as of December 31, 2006 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”), at 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, the amount contributed and the change in the net OPEB obligation recorded in the State's financial statements for fiscal year 2009 (dollar amounts in thousands):

Annual Required Contribution/OPEB Cost	\$193,729
Interest on net OPEB obligation	7,056
Adjustment to annual required contribution	<u>(5,343)</u>
Annual OPEB cost	195,442
Contributions made (pay-as-you-go)	<u>(59,090)</u>
Increase in Net OPEB Obligation	<u>136,352</u>
Net OPEB Obligation - Beginning of Year	156,810
Net OPEB Obligation - End of Year	<u>\$293,162</u>

The \$136.4 million increase in net OPEB obligation is reflected in the State's fiscal year 2009 government-wide financial statements as claims and compensated absences payable.

The ARC for fiscal year 2009 is \$195.4 million and the pay-as-you-go contributions made in fiscal year 2009 were \$59.1 million.

As of June 30, 2008, the most recent actuarial valuation date, the actuarial accrued liability ("AAL") for benefits was \$2,470.5 million, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability ("UAAL") of \$2,470.5 million. A draft of the valuation was presented to, but has not been approved by the State Retiree Health Plan Commission and therefore results are preliminary.

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. 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 periodically and issued an interim report on December 1, 2008 and is expected to issue a final report by the end of 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. Legislation introduced in the 2009 session to: 1) authorize the State and/or local governments to establish irrevocable trusts for the purpose of funding OPEB, and 2) expand the membership and the role of the Commission to include studying the future costs of OPEB and making necessary recommendations for change in policy or practice was referred back to Committee in the Senate. Members of the State Retiree Health Plan Commission are working with the Senate Committee to address questions for the upcoming 2010 legislative session.

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 are expected to increase from the current 19.68% to 27.42% for the biennium beginning July 1, 2009. This will result in an increase of approximately \$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 employees of the University System, the Community College System of New Hampshire and the NH Retirement System are not included in any of these bargaining units. 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. In January 2009, the New Hampshire Supreme Court overruled the decision of the Public Employee Labor Relations Board ("PELRB") to grant the petitions of approximately 600 employees of the Department of Corrections to be allowed to vote to determine whether they should be represented by a new union, the New England Police Benevolent Association (the "NEPBA") or whether they would continue to be represented by their current union, the State Employees' Association of New Hampshire Inc.-SEIU Local 1984 (the "SEA"). The Supreme Court based the decision upon the "contract bar" rule and remanded the case to the PELRB. The PELRB vacated the certifications of the Corrections units and both units are again represented by the SEA.

Negotiations with the State's three unions for the 2009 – 2011 collective bargaining agreements began in December 2008. The State has collective bargaining agreements with the SEA, the New Hampshire Troopers Association (the "NHTA"), and the NEPBA that were effective July 1, 2007 and expired on June 30, 2009. The State reached a Tentative Agreement with the SEA in September, 2009 which the union membership failed to ratify on October 12, 2009. As a result of the failure to ratify the contract, the State laid off an estimated 200 employees and demoted or reassigned another 100 prior to November 1, 2009. This action was necessary to achieve a mandated \$25 million budgetary reduction of personnel and related costs over the biennium ending June 30, 2011. The State will continue to negotiate with all three unions, the SEA, the NHTA and the NEPBA. Their expired contracts will continue in effect until new contracts are finalized. At this time, it is not possible to estimate what the provisions of their new contracts would include.

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.

Except as otherwise noted below, the following matters are currently pending and at this time, it is not possible to predict the outcome of these matters:

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 August 2007, the New Hampshire Supreme Court 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. The matter was remanded to the Merrimack County Superior Court, and on May 4, 2009, the Merrimack County Superior Court granted the State's motion for summary judgment finding the Counties incorrectly withheld \$2,109,886.56, which the Counties had agreed not to appeal. However, on June 17, 2009, the Court issued a Final Judgment awarding the State \$2,109,886.56 in damages plus \$460,966.86 in statutory interest. On August 14, 2009, the Superior Court issued an order withdrawing its award of \$460,966.86 based on the fact that it was a declaratory judgment matter, under which interest is not typically awarded. This case is now concluded.

In November 2007, seven residential childcare providers, which had previously sued the State and lost those claims for higher rates for their services, initiated a new suit in Merrimack County Superior Court against the Division of Children, Youth and Families ("DCYF"), *Chase Home et al v. DCYF*. The claims include (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 filed a motion for summary judgment on the grounds that DCYF does not have a contractual relationship with the providers, and that it has not engaged in any unconstitutional taking of property. On December 5, 2008, the petitioners filed a motion to amend their complaint to state a separate claim based on statutory violations created by DCYF's statutory obligation to pay for residential childcare services provided under certain provisions of State law. A hearing on the parties motions for summary judgment was heard on July 31, 2009. The court denied the State's motion for summary judgment and granted in part the petitioner's motion giving collateral estoppel effect to the 2006 hearing officer's finding that there was sufficient money in the State budget to pay the three petitioners that had appealed in that year. A trial scheduled for November 2009 has been continued until the court rules on the State's motion for interlocutory transfer related to the summary judgment ruling.

Holliday, 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 hold 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 in capital and operating expenses which costs were included in the budget for fiscal years 2008-2009.

Bel Air Associates v. Department of Health and Human Services was decided by the Supreme Court in September 2006 and involved 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 separate breach of contract claim in Merrimack County Superior Court in late November 2006 alleging approximately \$600,000 in damages. Following cross-motions for summary judgment, the New Hampshire Supreme Court reversed the decision of the trial court in November 2008 and remanded the case for further proceedings. The Supreme Court held that the Medicaid provider agreement constitutes a contract, but remanded the case for the Superior Court to consider whether Bel Air's claim is nevertheless barred by res judicata and the statute of limitations. The parties attempted to mediate the case in April 2009, but mediation was unsuccessful. The State filed a motion to dismiss on the grounds that Bel Air's claim is barred by res judicata. On September 10, 2009, the Court denied the State's motion to dismiss on the grounds that Bel Air's claim is barred by res judicata. Trial is scheduled for September, 2010.

The *State of New Hampshire v. Phillip Morris USA, RJ Reynolds, Inc. and Lorillard Tobacco Company* 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 annual payments received since 2006 have been approximately \$5.0 million 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. The arbitration for all states is expected to begin in the Spring of 2010, and is expected to last at least six months.

Carter, Celluci, and Durgin v. Department of Health and Human Services ("DHHS") is a class action lawsuit under 42 U.S.C. § 1983 seeking injunctive relief against the Department of Health and Human Services ("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 failed 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 Federal Court approved the Final Order on March 21, 2008. Plaintiffs also requested approximately \$150,000 in attorneys' and monitoring fees and the State has objected. The request for fees is still pending with the Court.

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.

Since then the plaintiffs have sought to enforce the consent decree in various ways, 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 continues to work with the Plaintiffs to resolve the issues identified in the most recent motion for contempt. Because the Decree expired in January 2009, the plaintiffs requested that the State assent to an extension. The parties entered into a Consent Decree Extension to extend the Decree for an additional six months. The Court will also retain jurisdiction for six months following the expiration of the Consent Decree to address any motion for contempt filed by the plaintiffs regarding whether DHHS was in compliance with the Consent Decree during the years prior to its expiration, and if not, what remedy or remedies are appropriate. The Plaintiffs requested a meeting to discuss the perceived areas on non-compliance and mediation with a neutral party was held on December 3, 2009. Plaintiffs are likely to file another motion for contempt.

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 recommitment, and motion to apply the statutory cap of \$475,000 per claimant. The court denied these motions in October, 2008. The State has appealed the verdict to the Supreme Court. Both sides have filed briefs though oral argument is not yet scheduled.

In *New Hampshire Health Care Association, Genesis Pleasant View, Villa Crest, Greenbriar Terrace Healthcare v. Governor Lynch and Commissioner of DHHS*, in February 2009, a group of private nursing homes and an industry association petitioned the New Hampshire Supreme Court for a writ of mandamus and declaratory relief alleging that Chapter 129 of the Laws of 2007 provided that any funds remaining in the nursing home appropriation of the State budget at the end of fiscal year 2007 were to be paid to the nursing homes as supplemental Medicaid reimbursements. The Governor received the Legislative Fiscal Committee's approval to eliminate these payments as part of a budget reduction process. Approximately \$2.217 million in State general fund money remained in the account at the end of fiscal year 2007. In 2007 the source of funds for nursing home Medicaid payments was 50% Federal, 25% State and 25% County. Under certain conditions, the State is required to pay the counties' share of nursing home expenses if the counties have reached the established cap for their payments. If the counties had met their cap in fiscal year 2007, it is possible that the State may be responsible for the combined \$4.434 million payment. The nursing homes also challenge another \$2 million reduction of State funds in their fiscal year 2009 appropriation. The nursing homes allege that these actions by the Governor, with the Legislative Fiscal Committee's approval, violate the New Hampshire Constitution by infringing on the legislative power of the Legislature requiring a need for mandamus relief. Upon motion by the State, the New Hampshire Supreme Court dismissed the case without prejudice to the plaintiffs re-filing in Superior Court.

On or about May 19, 2009, the same plaintiffs re-filed their action in the New Hampshire Superior Court, again seeking mandamus and declaratory relief. The plaintiffs also requested a preliminary injunction temporarily enjoining the lapse of the disputed funds. On June 30, 2009, the Superior Court issued a preliminary order enjoining the lapse of the Chapter 129 funds pending the outcome of the litigation. The Court found that the plaintiffs had shown a likelihood of success on the merits of their claim to the Chapter 129 funds but not as to the remainder of their lawsuit, including their challenge to the authority of the Governor, with the approval of Fiscal Committee, to implement budget reductions. On July 9, 2009, the State moved to clarify the Court's preliminary injunction order to indicate that only \$2.217 million of the total \$8.8 million appropriation constituted State general funds subject to the non-lapse order. The Court ruled in response to the motion to clarify that the State is required to carry the Chapter 129 funds, which it identified as \$8.8 million, on its books as non-lapsing. In October 2009, the plaintiffs filed a motion for partial summary judgment on their claim to the Chapter 129 funds. The State objected, and filed a cross motion for partial summary judgment on the same claim. The plaintiffs have also moved to amend their petition to add a contract claim and to seek class certification. No trial date is scheduled.

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 a 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. OIG issued a final audit report on September 24, 2008. OIG reduced its recommendation by \$15,148 to reflect a portion of the amount previously refunded by DHHS. DHHS responded to the final audit report stating its disagreement with the findings and recommendation. By letter dated April 6, 2009, the CDC informed the State that the CDC has determined that the \$9,167,761 in salary costs charged to the grants is allowable and chargeable to the grants. Therefore, the CDC indicated that no further action by the State is necessary at this time with respect to the recommendation for reimbursement of these funds. With respect to the remaining \$98,987, the CDC found that the State had already removed the cost from the grant and therefore no further action on the part of the State is necessary at this time. Finally, the CDC concluded that the State's implementation of a certification process for applicable employees satisfied the recommendation of the auditors, subject to actual implementation. This matter is now concluded.

By letter dated July 22, 2008, the New Hampshire Department of Health and Human Services ("DHHS") received a confidential draft report from the Office of Inspector General ("OIG") regarding an audit of DHHS's Medicaid payments for skilled professional medical personnel at the enhanced rate for the period from October 1, 2004 through September 30, 2006. The draft report found that \$1,091,343 was unallowable on grounds that the State should have claimed these costs at the standard 50-percent rate rather than at the enhanced 75-percent rate. The draft report recommended that this amount be refunded to the Federal Government and that DHHS develop an approved methodology to allocate costs for personnel whose time and effort are split between different functions. DHHS responded to the confidential draft report on September 24, 2008 stating its disagreement with the draft findings and recommendation. OIG issued a final report reiterating its findings and recommendations from the draft report. OIG recommended that the State refund personnel costs claimed at the enhanced rate in the amount of \$1,091,343. At this time, it is not possible to predict whether or to what extent CMS will take action with regard to disallowance of any federal financial participation.

By letter dated March 25, 2009 the New Hampshire Department of Health and Human Services ("DHHS") received a confidential draft report from the Centers for Medicare and Medicaid Services (CMS) regarding an audit of the State's Nursing Facility Quality Assessment (NFQA) for the period from October 1, 2004 through September 30, 2006. Funds generated by the NFQA are a source to fund the Medicaid Quality Incentive Program (MQIP) supplemental payments to nursing facilities. CMS estimated that the NFQA collected for the period of the review was approximately \$93 million. In the draft report CMS found that two nursing facilities, Crotched Mountain Rehabilitation Center and Glencliff Home for the Elderly, were not participating in New Hampshire's NFQA in violation of the broad-based component of the tax regulations for permissible health care related taxes. CMS recommended that the State retroactively tax the excluded providers. DHHS responded to the confidential draft audit report on June 23, 2009 stating its disagreement with the draft findings and recommendations. DHHS indicated that status of Crotched Mountain has been addressed through legislation pursuant to which Crotched Mountain is paying the NFQA and that Glencliff, as a State-owned and operated facility, is not subject to the NFQA. CMS issued a final report on July 17, 2009, in which it accepted the State's response. CMS found that the actions taken by the State and the State's explanation negate any further need for corrective action by the State. This matter is now concluded.

By letter dated July 9, 2007, the Department of Health and Human Services ("DHHS") received a final report from the Office of Inspector General ("OIG") regarding an audit of DHHS' disproportionate share hospital ("DSH") payments during federal fiscal year 2004. See "Medicaid Program." The report found that the \$35,325,468 federal share for federal fiscal year 2004 was unallowable on the grounds that the State's cost to charge ratio was inflated. The report recommended that the federal share be refunded and that the State work with the Centers for Medicare and Medicaid Services ("CMS") to review DSH payments claimed after the audit period and refund any overpayments. DHHS responded to CMS regarding the report on August 8, 2007.

Based on DHHS's response to a previously transmitted draft report, the OIG reduced the amount it recommended for repayment in the July 9, 2007 final report by approximately \$9 million. The draft report had recommended repayment of \$44,418,237.00. In October 2009, DHHS received a Notice of Disallowance from CMS indicating that it concurred with the OIG findings. The notice indicated that CMS is disallowing \$35,325,468 in federal funds for FFY 2004. The letter also confirms that the State may appeal the disallowance to the Federal

Departmental Appeals Board and elect to retain the funds pending appeal. DHHS will file an appeal of the disallowance.

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.

The consolidated cases of *Georgia Tuttle, M.D., et al v. NH Medical Malpractice Joint Underwriting Association, et al*, and *Georgia Tuttle, M.D., et al v. State*, raise constitutional challenges to Chapter 144 of the Laws of 2009 (“HB 2”), approved on June 30, 2009, as part of the State’s budget for the 2010 -2011 biennium. Under Section 1 of HB 2 (“Chapter 144:1”), the Legislature appropriated \$110 million from the New Hampshire Medical Malpractice Joint Underwriting Association (the “JUA”) to be deposited in the General Fund and used for “the purpose of supporting programs that promote access to needed health care for underserved persons.” Of the \$110 million, \$65 million was scheduled to be transferred to the General Fund by July 31, 2009 and credited as a fiscal year 2009 revenue. The JUA is a medical malpractice insurer, created in accordance with RSA 404-C, to provide medical malpractice insurance to the State’s health care providers. The JUA fund has accumulated more than \$150 million, much of which has been determined to be surplus. The Legislature found that \$110 million, distributed over three years, would not impact the stability of the JUA fund or its responsibilities to its policyholders.

Petitioners in these cases are JUA policyholders who claim that they have rights to dividends from any surplus held in the JUA fund. Petitioners have brought a petition for declaratory judgment finding Chapter 144:1 unconstitutional; a petition for mandamus and restraining order to prevent the transfer of the JUA funds to the General Fund and a request that a dividend be ordered to the policyholders; and a petition to attach with notice the JUA fund. On July 29, 2009, the Superior Court found the transfer of \$110 million from the JUA to the General Fund under HB 2 unconstitutional. The Court found that the JUA is not a State entity and that the JUA policyholders have a vested property right in the funds held by the JUA. On August 4, 2009, the State filed a notice of appeal with the New Hampshire Supreme Court and a motion for expedited appeal requesting that the briefing schedule be abbreviated. The Supreme Court granted, in part, the motion for expedited appeal, and issued a somewhat expedited briefing schedule with oral argument scheduled for October 15, 2009. Oral argument was held on October 15, 2009, and a decision is pending.

In *Cloutier v. State and Judicial Retirement System*, Former Judge Cloutier is challenging RSA 100-C, Judicial Retirement Plan, enacted in 2003. The Judicial Retirement Plan created by RSA 100-C limits a judge’s retirement to 75% of the salary earned in the judge’s last year of service, instead of 75% of the current salary level that was in effect prior to July 1, 2003 when RSA 100-C took effect. The plaintiff is arguing that he was a permanent employee when the statutory change was made and therefore he has a vested right in the retirement benefits that existed prior to July 1, 2003. The parties have agreed to submit the case on pleadings with an agreed-to statement of facts. Six more retired judges have intervened as plaintiffs in the case.

In *SEA v. State and Judicial Retirement System*, the SEA, on behalf of its retired members, is challenging the section of Chapter 144 of the Laws of 2009 that requires retirees under the age of 65 years old to pay a portion of their health care benefits. Cross motions for summary judgment have been filed. A hearing is scheduled for December 17, 2009.

In *American Federation of Teachers - New Hampshire, et al v. State, Retirement System and Lisa Shapiro, Individually*, a group of 12 plaintiffs, seeking class certification for all of the other New Hampshire retirees, filed suit August 7, 2009 challenging the changes to the retirement system made pursuant to Chapter 300 of the Laws of 2008, that affect (1) earnable compensation; (2) COLA payments; and (3) medical subsidies. The plaintiffs have also sought class certification for all other New Hampshire retirees eligible for state retirement benefits. The State answered the complaint on November 4, 2009. The State expects to be able to proceed by submitting the case on pleadings.

Fidele Tremblay, Inc. and Francis Hammond v. NH Dept. of Transportation, is a subrogation case in which Plaintiffs bring a contribution claim after settling related negligence litigation with Kimberly Kyle and the Estate of Brendon Mahoney for a motor vehicle collision that occurred on February 15, 2007. In the subrogation claim, Plaintiffs assert that New Hampshire DOT employees responsible for the maintenance of I-93 in the Derry area were derelict in their duties and failed to apply abrasive products to treat ice and snow on the roadway. The State has certain immunities and defenses for the maintenance of state highways. In addition, any damages are capped by RSA 541-B:14 at \$475,000 per claimant. At this time, it is not possible to predict the outcome of this matter.

Woodland Management Associates, LLC and The Lyme Timber Co. v. State of New Hampshire is an appeal pursuant to RSA 21-J:28-b, IV. Petitioners allege that the Department of Revenue improperly assessed an additional \$4,559,772.64 in business profits taxes, interest, and penalties against Woodland and Lyme for the tax year ending December 31, 2003, and improperly denied a request for refund filed by Woodland. The total amount in controversy for the tax year ending 2003 is approximately \$5,323,187.42. This case is still at its early stages though trial is scheduled for November, 2010.

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 2008 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.

Fiscal Year 2008. The State received an unqualified auditor's opinion on its timely financial statements for the fiscal year ended June 30, 2008. The State's financial statements for the fiscal year ended June 30, 2008 and the report of the State's independent auditors with respect thereto were filed in March 2009 with each Nationally Recognized Municipal Securities Information Repository then recognized by the Securities and Exchange Commission. The audited financial statements are incorporated herein by reference as Exhibit A and can be viewed in their entirety at <http://admin.state.nh.us/accounting/reports.asp#PAFR>. On March 20, 2009 the State received a management letter from KPMG detailing concerns identified during the fiscal year 2008 audit. The management letter identified as material weaknesses insufficient systems to account for non-turnpike infrastructure assets and statewide succession planning. It also noted three significant deficiencies in the area of cash accounts, preparation of accounts receivable estimates, and SAS 70 audit reports for the Medicaid program. The State has taken a number of actions to correct these weaknesses including the implementation of review procedures for reported assets and the creation of Workforce Development Initiatives. In addition, steps to improve the communication and collaboration between departments were taken to address the reporting control deficiencies noted.

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 2009. The State is awaiting a decision by the Supreme Court concerning its rights to surplus of the JUA. See "Litigation" above. The outcome of this case will determine the recognition of a General Fund receivable from this entity and establish a basis for this entity's inclusion in, or exclusion from the financial statements of the State. Further, this reporting may determine the need for further audit procedures by the State's auditors, KPMG LLC. The decision, while not rendered at this time, is expected in the near future. The State expects to be able to issue financial statements within 30 days of the rendering of a decision by the Supreme Court. The State has no reason to believe that statements issued at that time would not be accompanied by an unqualified opinion of KPMG

MISCELLANEOUS

Any provisions of the constitution of the State, of laws and of other documents set forth or referred to in the Information Statement are only summarized, and such summaries do not purport to be complete statements of any of such provisions. Only the actual text of such provisions can be relied upon for completeness and accuracy.

The Information Statement contain certain forward-looking statements that are subject to a variety of risks and uncertainties that could cause actual results to differ from the projected results, including without limitation general economic and business conditions, conditions in the financial markets, the financial condition of the State and various state agencies and authorities, receipt of federal grants, litigation, arbitration, force majeure events and various other factors that are beyond the control of the State and its various agencies and authorities. Because of the inability to predict all factors that may affect future decisions, actions, events or financial circumstances, what actually happens may be different from what is set forth in such forward-looking statements. Forward-looking statements are indicated by use of such words as "may," "will," "should," "intends," "expects," "believes," "anticipates," "estimates" and other similar words.

All estimates and assumptions in the Information Statement have been made on the best information available and are believed to be reliable, but no representations whatsoever are made that such estimates and assumptions are correct. So far as any statements in the Information Statement involve any matters of opinion, whether or not expressly so stated, they are intended merely as such and not as representations of fact. The various tables may not add due to rounding of figures.

Neither the State's independent auditors, nor any other independent accountants, have compiled, examined, or performed any procedures with respect to the prospective financial information contained herein, nor have they expressed any opinion or any other form of assurance on such information or its achievability, and assume no responsibility for, and disclaim any association with, the prospective financial information.

The information, estimates and assumptions and expressions of opinion in the Information Statement are subject to change without notice. Neither the delivery of this Information Statement nor any sale made pursuant to any offering document of which the Information Statement are a part shall, under any circumstances, create any implication that there has been no change in the affairs of the State or its agencies, authorities or political subdivisions since the date of this Information Statement, except as expressly stated.

ADDITIONAL INFORMATION

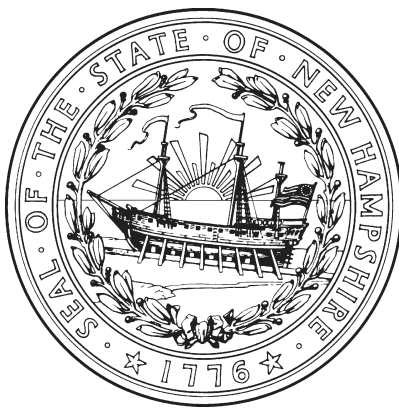
The references herein to the Constitution and Laws of the State of New Hampshire are brief summaries of certain provisions thereof. Such summaries do not purport to be complete and reference is made to the Constitution and such laws for full and complete statements of such provisions. Additional information 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.

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**STATE OF NEW HAMPSHIRE
AUDITED FINANCIAL STATEMENTS
FOR FISCAL YEAR 2008**

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

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