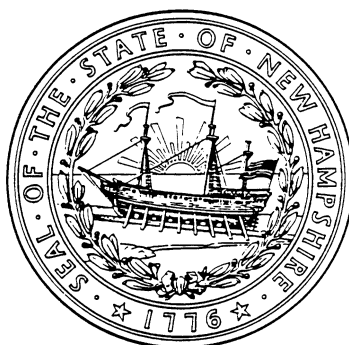


**NEW ISSUE – Book Entry Only**

**Ratings: Fitch: AA+  
Moody's: Aa1  
Standard & Poor's: AA  
See Ratings herein**

*In the opinion of Edwards Wildman Palmer 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, however such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. Bond Counsel is of the further opinion that interest on the Series C Bonds is included in gross income 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.*



**STATE OF NEW HAMPSHIRE  
GENERAL OBLIGATION CAPITAL IMPROVEMENT BONDS**

**\$59,050,000  
2013 SERIES B**

**\$18,965,000  
2013 SERIES C  
(Federally Taxable)**

Dated: Date of Delivery

Due: as shown on the inside cover hereof

The State of New Hampshire General Obligation Capital Improvement Bonds, 2013 Series B (the "Series B Bonds") and 2013 Series C (Federally Taxable) (the "Series C Bonds" and, collectively, with the Series B Bonds, 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 April 1 and October 1 of each year, commencing April 1, 2014 until maturity or redemption prior to maturity. The Bonds are subject to redemption prior to maturity as provided herein.

---

*The Bonds are offered subject to the final approving opinion of Edwards Wildman Palmer LLP, Boston, Massachusetts, Bond Counsel, and to certain other conditions referred to in the Notices of Sale. Public Resources Advisory Group, Inc. 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 17, 2013.*

**STATE OF NEW HAMPSHIRE  
GENERAL OBLIGATION CAPITAL IMPROVEMENT BONDS**

**\$59,050,000  
2013 SERIES B**

Due <u>April 1</u>	Principal <u>Amount</u>	Interest <u>Rate</u>	Yield	CUSIP* <u>644682</u>	Due <u>April 1</u>	Principal <u>Amount</u>	Interest <u>Rate</u>	Yield	CUSIP* <u>644682</u>
2015	\$3,940,000	5.00%	0.23%	U61	2025	\$2,365,000	5.00%	3.14% <sup>†</sup>	V86
2016	3,940,000	5.00	0.45	U79	2026	2,365,000	4.00	3.43 <sup>†</sup>	V94
2017	3,940,000	5.00	0.75	U87	2027	2,365,000	4.00	3.56 <sup>†</sup>	W28
2018	3,940,000	5.00	1.10	U95	2028	2,360,000	4.00	3.68 <sup>†</sup>	W36
2019	3,935,000	5.00	1.49	V29	2029	2,360,000	4.00	3.80 <sup>†</sup>	W44
2020	3,935,000	5.00	1.91	V37	2030	2,360,000	4.00	3.92 <sup>†</sup>	W51
2021	3,935,000	5.00	2.28	V45	2031	2,360,000	4.00	4.01	W69
2022	3,935,000	5.00	2.57	V52	2032	2,360,000	4.00	4.08	W77
2023	3,935,000	5.00	2.79	V60	2033	2,355,000	4.00	4.14	W85
2024	2,365,000	5.00	2.99 <sup>†</sup>	V78					

**\$18,965,000  
2013 SERIES C  
(Federally Taxable)**

Due <u>April 1</u>	Principal <u>Amount</u>	Interest <u>Rate</u>	Yield	CUSIP* <u>644682</u>	Due <u>April 1</u>	Principal <u>Amount</u>	Interest <u>Rate</u>	Yield	CUSIP* <u>644682</u>
2014	\$2,280,000	2.00%	0.25%	T48	2019	\$1,520,000	2.06%	2.06%	T97
2015	2,275,000	2.00	0.41	T55	2020	1,520,000	2.35	2.35	U20
2016	2,275,000	0.70	0.70	T63	2021	1,515,000	2.70	2.70	U38
2017	2,275,000	1.13	1.13	T71	2022	1,515,000	3.15	3.15	U46
2018	2,275,000	1.66	1.66	T89	2023	1,515,000	3.35	3.35	U53

\* CUSIP is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, managed by Standard & Poor's Financial Services LLC on behalf of The American Bankers Association. The CUSIP numbers are included solely for the convenience of Bondowners and the State is not responsible for the selection or the correctness of the CUSIP numbers printed herein. CUSIP numbers assigned to securities may be changed during the term of such securities based on a number of factors, including, but not limited to, the refunding or defeasance of such securities or the use of secondary market financial products.

<sup>†</sup> Priced at the stated yield to the April 1, 2023 optional redemption date at a redemption price of 100%. See *The Bonds – Redemption Provisions* herein.

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

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 November 25, 2013 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.

## TABLE OF CONTENTS

### PART I: INFORMATION CONCERNING THE BONDS

The Bonds.....	1	Financial Advisor .....	9
Description of the Bonds .....	1	Ratings.....	9
Redemption Provisions .....	2	Competitive Sale of Bonds .....	9
Security for the Bonds .....	2	Continuing Disclosure .....	9
Authorization, Purpose and Application of		Appendix A - Proposed Forms of Opinions of Bond	
Proceeds.....	2	Counsel.....	A-1
Book-Entry Only System.....	3	Appendix B - Proposed Form of Continuing	
Tax Matters.....	4	Disclosure Certificate .....	B-1
Series B Bonds – Tax Exempt Bonds .....	4	Appendix C - Notice of Sale – Series B Bonds .....	C-1
Series C Bonds – Federally Taxable Bonds.....	6	Appendix D - Notice of Sale – Series C Bonds .....	D-1
Legal Matters.....	9		

### PART II. STATE OF NEW HAMPSHIRE INFORMATION STATEMENT DATED DECEMBER 5, 2013

#### **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**

Margaret Wood Hassan

**Executive Council**

Raymond S. Burton<sup>\*</sup>  
Christopher C. Pappas  
Debora B. Pignatelli  
Christopher T. Sununu  
Colin Van Ostern

**State Treasurer**

Catherine A. Provencher

**Secretary Of State**

William M. Gardner

**Attorney General**

Joseph A. Foster

**Commissioner of Administrative Services**

Linda M. Hodgdon

**Comptroller**

Karen L. Benincasa

**Budget Director**

Gerard J. Murphy

**BOND COUNSEL**

Edwards Wildman Palmer LLP  
111 Huntington Avenue at Prudential Center  
Boston, Massachusetts 02199-7613

**FINANCIAL ADVISOR**

Public Resources Advisory Group, Inc.  
40 Rector Street  
New York, New York 10006

---

<sup>\*</sup> Executive Council member Burton represented District 1 for over 30 years until his death on November 12, 2013. Governor Hassan has called for a special election to fill the now vacant seat. The primary election will be held on January 21, 2014 with a general election to follow, if necessary, on March 11, 2014.

**OFFICIAL STATEMENT**  
**OF**  
**THE STATE OF NEW HAMPSHIRE**  
**GENERAL OBLIGATION CAPITAL IMPROVEMENT BONDS**

**\$59,050,000**  
**2013 SERIES B**

**\$18,965,000**  
**2013 SERIES C**  
**(Federally Taxable)**

**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 \$59,050,000 aggregate principal amount of its General Obligation Capital Improvement Bonds, 2013 Series B (the “Series B Bonds”) and \$18,965,000 aggregate principal amount of its General Obligation Capital Improvement Bonds, 2013 Series C (Federally Taxable) (the “Series C Bonds” and, collectively with the Series B Bonds, the “Bonds”), each dated their date of delivery.

This Official Statement consists of two parts: Part I (including the cover and Appendices A, B, C, and D) and Part II, the State’s Information Statement dated December 5, 2013 (incorporated herein by reference) (the “Information Statement”). The Information Statement has been 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 2012. 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.

The Bonds were sold by competitive sale as set forth herein. See *Competitive Sale of Bonds* and Appendices C and D.

**THE BONDS**

**Description of the Bonds**

The Bonds will be dated their date of delivery and will bear interest payable semiannually on April 1 and October 1 of each year, commencing April 1, 2014, 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 will bear interest at the rates shown on the inside cover page of this Official Statement. The Bonds are subject to redemption prior to maturity as described below.

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

## **Redemption Provisions**

### ***Optional Redemption***

The Series B Bonds maturing on and before April 1, 2023 are not subject to redemption prior to maturity. The Series B Bonds maturing after April 1, 2023 are subject to redemption at the option of the State on and after April 1, 2023, 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.

The Series C Bonds are not subject to optional redemption prior to maturity.

### ***Notice of Redemption***

So long as DTC is the registered owner of the Series B Bonds, notice of any redemption of Series B Bonds prior to their maturities, specifying the Series B 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 B Bonds, if sufficient moneys are deposited with The Bank of New York Mellon Trust Company, N.A., 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 Bonds are expected to be used to finance all or a portion of the costs of various capital projects of the State, and to pay issuance costs.

## **Book-Entry Only System**

The Depository Trust Company (“DTC”), New York, NY, will act as securities depository for the Bonds. The Bonds will be issued 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 rating: AA+. 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](http://www.dtcc.com) and [www.dtc.org](http://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.

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**

### **Series B Bonds – Tax Exempt Bonds**

In the opinion of Edwards Wildman Palmer 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. However, Bond Counsel observes that such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. Bond Counsel expresses no opinion regarding any other federal tax consequences arising with respect to the ownership or disposition of, or the accrual or receipt of interest on, the 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 with respect to the Series B Bonds 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 Bonds”), will be treated as having amortizable bond premium for federal income tax purposes and for purposes of the New Hampshire personal income tax on interest and dividends. No deduction is allowable for the amortizable bond premium in the case of obligations, such as the Premium Bonds, the interest on which is excluded from gross income for federal income tax purposes. However, a Beneficial Owner’s basis in a Premium Bond will be reduced by the amount of amortizable bond premium properly allocable to such Beneficial Owner. Beneficial Owners of Premium Bonds should consult their own tax advisors with respect to the proper treatment of amortizable bond premium in their particular circumstances.

Bond Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken) or events occurring (or not occurring) after the date of issuance of the Series B Bonds may adversely affect the value of, or the tax status of interest on, the Series B Bonds.

Prospective Beneficial Owners should be aware that from time to time legislation is or may be proposed which, if enacted into law, could result in interest on the Series B Bonds being subject directly or indirectly to federal income taxation, or otherwise prevent Beneficial Owners from realizing the full benefit provided under current federal tax law of the exclusion of interest on the Series B Bonds from gross income. To date, no such legislation has been enacted into law. However, it is not possible to predict whether any such legislation will be enacted into law. Further, no assurance can be given that any 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 market value and marketability 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 any such legislation, interpretation or development.

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, deduction or exclusion. 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.

## Series C Bonds – Federally Taxable Bonds

In the opinion of Bond Counsel, 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.

**Medicare Tax on Unearned Income.** The Health Care and Education Reconciliation Act of 2010 (P.L. 111-152) requires certain U.S. Holders that are individuals, estates or trusts to pay an additional 3.8% tax on, among other things, interest and gains from the sale or other disposition of the Series C Bonds for taxable years beginning after December 31, 2012. U.S. Holders that are individuals, estates or trusts should consult their tax advisors regarding the effect, if any, of this legislation on their ownership and disposition of the Series C Bonds.

#### *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 Wildman Palmer LLP, Boston, Massachusetts, Bond Counsel. The proposed forms of the approving opinions of Edwards Wildman Palmer 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, Inc. 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+, Aa1, 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 5, 2013, the Series B Bonds were awarded to a group of underwriters managed by Merrill Lynch, Pierce, Fenner & Smith Incorporated (the "Series B Underwriters"). The Series B Underwriters have supplied the information as to the public offering yields of the Bonds set forth on the inside cover hereof. The Series B Underwriters have informed the State that if all of the Bonds are resold to the public at those yields, they anticipate the total Series B Underwriters' compensation to be \$219,003.04. The Series B Underwriters may change the public offering yields from time to time.

After competitive bidding on December 5, 2013, the Series C Bonds were awarded to Citigroup Global Markets Inc. (the "Series C Underwriter" and, collectively with the Series B Underwriters, the "Underwriters"). The Series C Underwriter has supplied the information as to the public offering yields of the Bonds set forth on the inside cover hereof. The Series C Underwriter has informed the State that if all of the Bonds are resold to the public at those yields, it anticipates the total Series C Underwriter's compensation to be \$25,223.45. The Series C Underwriter may change the public offering yields 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. 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, the State has not failed to comply in all material respects with any previous undertakings to provide annual reports or notices of significant or material events in accordance with the Rule within the last five years.

The State had undertaken pursuant to the Rule to provide its financial statements for fiscal year 2010 to the MSRB by March 27, 2011, and on March 28, 2011, the State filed its audited financial statements and a notice of its failure to file such statements by the required date. See *Financial Statements* in the Information Statement included as Part II of this Official Statement.

The State has recently determined that it did not timely file with the MSRB, through its Electronic Municipal Market Access System, a notice of redemption for bonds currently refunded by its General Obligation Refunding Bonds, 2009 Series A, dated March 24, 2009 (the refunded bonds were paid in full on April 23, 2009). The State has also determined that it did not timely file notices of defeasance for bonds refunded by its Turnpike System Revenue Bonds, 2009 Refunding Series B, dated December 1, 2009, Turnpike System Revenue Bonds, 2012 Refunding Series (Delayed Delivery), dated January 5, 2012, and Turnpike System Revenue Bonds, 2012 Refunding Series B (Delayed Delivery), dated November 5, 2012. The State has filed the defeasance notices and has adopted policies to ensure that future filings will be made in a timely fashion.

STATE OF NEW HAMPSHIRE

By: /s/ Catherine A. Provencher  
State Treasurer

December 5, 2013

PROPOSED FORMS OF OPINIONS OF BOND COUNSEL



EDWARDS WILDMAN PALMER LLP  
111 HUNTINGTON AVENUE  
BOSTON, MA 02199  
+1 617 239 0100 main +1 617 227 4420 fax  
edwardswildman.com

The Honorable Catherine A. Provencher

State Treasurer  
State House Annex  
Concord, New Hampshire 03301

\$59,050,000  
State of New Hampshire  
General Obligation Capital Improvement Bonds, 2013 Series B (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 excluded from the gross income of the owners of the Bonds for federal income tax purposes. In addition, interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, however such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. In rendering the opinions set forth in this paragraph, we have assumed compliance by the State with all requirements of the Internal Revenue Code of 1986 that must be satisfied subsequent to the issuance of the Bonds in order that interest thereon be, and continue to be, excluded from gross income for federal income tax purposes. The State has covenanted to comply with all such requirements. Failure by the State to comply with certain of such requirements may cause interest on the Bonds to become included in gross income for federal income tax purposes retroactive to the date of issuance of the Bonds. We express no opinion regarding any other federal tax consequences arising with respect to the Bonds.

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

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

EDWARDS WILDMAN PALMER LLP





EDWARDS WILDMAN PALMER LLP  
111 HUNTINGTON AVENUE  
BOSTON, MA 02199  
+1 617 239 0100 main +1 617 227 4420 fax  
edwardswildman.com

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

\$18,965,000  
State of New Hampshire  
General Obligation Capital Improvement Bonds, 2013 Series C  
(Federally Taxable) (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 Wildman Palmer LLP 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 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.

**PROPOSED FORM OF CONTINUING DISCLOSURE CERTIFICATE**

This Continuing Disclosure Certificate (the “Disclosure Certificate”) is executed and delivered by the State of New Hampshire (the “State”) in connection with the issuance of its \$59,050,000 General Obligation Capital Improvement Bonds, 2013 Series B, dated their date of delivery (the “Series B Bonds”), and \$18,965,000 General Obligation Capital Improvement Bonds, 2013 Series C (Federally Taxable), dated their date of delivery (the “Series C Bonds”, and collectively with the Series B Bonds, 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 5, 2013 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 and OPEB 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 and audited financial statements for such fiscal year shall be submitted when available.

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 Significant 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:

1. principal and interest payment delinquencies;
2. non-payment related defaults, if material;
3. unscheduled draws on the debt service reserves reflecting financial difficulties;
4. unscheduled draws on the credit enhancements reflecting financial difficulties;
5. substitution of the credit or liquidity providers or their failure to perform;
6. adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determination of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds;
7. modifications to rights of Bondholders, if material;
8. (i) bonds calls, if material, and (ii) tender offers;
9. defeasances;
10. release, substitution or sale of property securing repayment of the Bonds, if material;
11. rating changes;
12. bankruptcy, insolvency, receivership or similar event of the State;\*
13. the consummation of a merger, consolidation, or acquisition involving the State or the sale of all or substantially all of the assets of the State, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and

---

\* As noted in the Rule, this event is considered to occur when any of the following occur: (i) the appointment of a receiver, fiscal agent or similar officer for the State in a proceeding under the U.S. Bankruptcy Code or in any proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the State, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or (ii) the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the State.

14. appointment of a successor or additional trustee or the change of name of a trustee, if material.

(b) Upon the occurrence of a Listed Event described in subsections (a)(2), (7), (8)(i), (10), (13) or (14), the State shall as soon as possible determine if such event is material under applicable federal securities laws.

(c) Upon the occurrence of a Listed Event described in subsections (a)(1), (3), (4), (5), (6), (8)(ii), (9), (11) or (12), and in the event the State determines that the occurrence of a Listed Event described in subsections (a)(2), (7), (8)(i), (10), (13) or (14) is material under applicable federal securities laws, the State shall, in a timely manner not in excess of ten (10) business days after the occurrence of the event, 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. Additional Information.** Nothing in this Disclosure Certificate shall be deemed to prevent the State from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Certificate. If the State chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Certificate, the State shall have no obligation under this Certificate to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

**SECTION 10. 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 11. 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 17, 2013

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]

**NOTICE OF SALE – SERIES B BONDS**

**\$58,670,000\***  
**STATE OF NEW HAMPSHIRE**  
**GENERAL OBLIGATION CAPITAL IMPROVEMENT BONDS**  
**2013 SERIES B**

Notice is hereby given that electronic bids will be received until 10:00 A.M. (local Concord, New Hampshire time) on Thursday, December 5, 2013 by Catherine A. Provencher, State Treasurer of the State of New Hampshire, for the purchase of \$58,670,000\* State of New Hampshire General Obligation Capital Improvement Bonds, 2013 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 April 1 and October 1, commencing April 1, 2014.

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

<u>Year</u>	<u>Principal Amount</u> <sup>(1)(2)</sup>	<u>Year</u>	<u>Principal Amount</u> <sup>(1)(2)</sup>
2015	\$3,915,000	2025	\$2,345,000
2016	3,910,000	2026	2,345,000
2017	3,910,000	2027	2,345,000
2018	3,910,000	2028	2,345,000
2019	3,910,000	2029	2,345,000
2020	3,910,000	2030	2,345,000
2021	3,910,000	2031	2,345,000
2022	3,910,000	2032	2,345,000
2023	3,915,000	2033	2,345,000
2024	2,365,000		

(1) May represent mandatory sinking fund redemption amount or portion of stated maturity if Term Bonds (as defined herein) are specified.  
 (2) 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**

The Bonds maturing on or before April 1, 2023 are not subject to redemption prior to maturity. The Bonds maturing after April 1, 2023 are subject to redemption at the option of the State on and after April 1, 2023, in whole

\* Preliminary; subject to change.

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.

### **Mandatory Redemption**

The prospective bidder may designate two or more consecutive serial maturities of Bonds as one or more term bonds (each, a “Term Bond”). Any such Term Bond shall be subject to mandatory redemption commencing on April 1 of the first year which has been combined to form such Term Bond and continuing on April 1 in each year thereafter until the stated maturity date of that Term Bond. The amount of 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**

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.

### **Notice of Redemption**

So long as DTC is the registered owner of the Bonds, notice of any redemption of the Bonds prior to their maturities, specifying the Bonds (or the portions thereof) to be redeemed shall be mailed to DTC not more than 60 days nor less than 30 days prior to the redemption date. Any failure on the part of DTC to notify the DTC Participants of the redemption or failure on the part of the DTC Participants or of a nominee of a Beneficial Owner (having received notice from a DTC Participant or otherwise) to notify the Beneficial Owner shall not affect the validity of the redemption. Following proper notice of the redemption of any the Bonds, if sufficient moneys are deposited with The Bank of New York Mellon Trust Company, N.A., 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 The Bank of New York Mellon Trust Company, N.A., 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 10:00 a.m., local Concord, New Hampshire time, on Thursday, December 5, 2013. 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, Inc., by telephone at (212) 566-7800. 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.



## **Adjustments to Principal Amounts of the Bonds**

The State reserves the right to revise the maturity schedule and the aggregate principal amount of the Bonds as set forth in this official Notice of Sale (the "Preliminary Amounts") before the receipt of electronic bids for the purchase of the Bonds. ANY SUCH REVISIONS made prior to the receipt of electronic bids (the "Revised Amounts") WILL BE PUBLISHED ON TM3 NOT LATER THAN 1:00 P.M. (local Concord, New Hampshire time) ON THE LAST BUSINESS DAY PRIOR TO THE DATE OF THE SALE. 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.

As promptly as reasonably possible after the bids are received, the State will notify the bidder to whom the Bonds will be awarded, if and when such award is made, and such bidder, upon such notice, shall advise the State of the initial public offering prices of each maturity of the Bonds (the "Initial Reoffering Prices") as described below under *Undertakings of the Successful Bidder*. The Initial Reoffering Prices of the Bonds will be used to calculate the final maturity schedule and the final aggregate principal amount of the Bonds (the "Final Amounts"). In determining the Final Amounts, the State will not reduce or increase the revised aggregate principal amount by more than 15% from the amount bid upon. THE SUCCESSFUL BIDDER MAY NOT WITHDRAW ITS BID OR CHANGE THE INTEREST RATES BID OR THE INITIAL REOFFERING PRICES AS A RESULT OF ANY CHANGES MADE TO THE REVISED AMOUNTS WITHIN THIS LIMIT. The dollar amount bid by the successful bidder will be adjusted to reflect any adjustment in the aggregate principal amount of the Bonds. Such adjusted bid price will reflect changes in the dollar amount of the underwriter's discount and original issue discount/premium, if any, but will not change the selling compensation per \$1,000 of par amount of bonds from the selling compensation that would have been received based on the purchase price in the winning bid and the Initial Reoffering Prices. The Final Amounts will be communicated to the successful bidder as soon as possible, but not later than 5:00 P.M. (local Concord, New Hampshire time) on the date of the sale.

## **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 17, 2013) 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. (local 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 THOMSON MUNICIPAL MARKET MONITOR ("TM3") ([www.TM3.com](http://www.TM3.com)) NOT LATER THAN 9:00 A.M. (local Concord, New Hampshire time) 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.

## **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 5, 2013 (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 17, 2013 (unless a notice of change in the delivery date is announced on TM3 not later than 1:00 p.m. (local Concord, New Hampshire time) 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 Wildman Palmer LLP, Boston, Massachusetts, Bond Counsel to the State, as to the validity and tax status of the Bonds, substantially in the form as provided in Appendix A 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 November 25, 2013 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 a reasonable number of 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 enumerated 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 November 25, 2013 prepared for and authorized by the State Treasurer. The Preliminary Official Statement may be obtained by accessing the following website: [www.i-dealprospectus.com](http://www.i-dealprospectus.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, Inc., 40 Rector Street, Suite 1600, New York, New York 10006, Attention: Monika Conley (telephone 212-566-7800; telecopy 212-566-7816).

THE STATE OF NEW HAMPSHIRE

By Catherine A. Provencher  
State Treasurer

Date: November 25, 2013

NOTICE OF SALE – SERIES C BONDS

**\$19,140,000\***  
**STATE OF NEW HAMPSHIRE**  
**GENERAL OBLIGATION CAPITAL IMPROVEMENT BONDS**  
**2013 SERIES C (Federally Taxable)**

Notice is hereby given that electronic bids will be received until 10:30 A.M. (local Concord, New Hampshire time) on Thursday, December 5, 2013, by Catherine A. Provencher, State Treasurer of the State of New Hampshire, for the purchase of \$19,140,000\* State of New Hampshire General Obligation Capital Improvement Bonds, 2013 Series C (Federally Taxable) (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 April 1 and October 1, commencing April 1, 2014.

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

<u>Year</u>	<u>Principal Amount</u> <sup>(1)(2)</sup>	<u>Year</u>	<u>Principal Amount</u> <sup>(1)(2)</sup>
2014	\$2,300,000	2019	\$1,535,000
2015	2,295,000	2020	1,535,000
2016	2,295,000	2021	1,530,000
2017	2,295,000	2022	1,530,000
2018	2,295,000	2023	1,530,000

<sup>(1)</sup> Preliminary, subject to change.

<sup>(2)</sup> May represent mandatory sinking fund redemption amount or portion of stated maturity if Term Bonds (as defined herein) are specified.

**Authorization and Security**

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

**Optional Redemption**

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

**Mandatory Redemption**

The prospective bidder may designate two or more consecutive serial maturities of Bonds as one or more term bonds (each, a “Term Bond”). Any such Term Bond shall be subject to mandatory redemption commencing on April 1 of the first year which has been combined to form such Term Bond and continuing on April 1 in each year thereafter until the stated maturity date of that Term Bond. The amount of Bonds to be redeemed in any year by

\* Preliminary; subject to change.

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**

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.

### **Notice of Redemption**

So long as DTC is the registered owner of the Bonds, notice of any redemption of the Bonds prior to their maturities, specifying the Bonds 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 Bonds, if sufficient moneys are deposited with The Bank of New York Mellon Trust Company, N.A., 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 The Bank of New York Mellon Trust Company, N.A., 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 10:30 a.m., local Concord, New Hampshire time, on Thursday, December 5, 2013. 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, Inc., by telephone at (212) 566-7800. 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 1/100 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.

## **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.

## **Adjustments to Principal Amounts of the Bonds**

The State reserves the right to revise the maturity schedule and the aggregate principal amount of the Bonds as set forth in this official Notice of Sale (the "Preliminary Amounts") before the receipt of electronic bids for the purchase of the Bonds. ANY SUCH REVISIONS made prior to the receipt of electronic bids (the "Revised Amounts") WILL BE PUBLISHED ON TM3 NOT LATER THAN 1:00 P.M. (local Concord, New Hampshire time) ON THE LAST BUSINESS DAY PRIOR TO THE DATE OF THE SALE. 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.

As promptly as reasonably possible after the bids are received, the State will notify the bidder to whom the Bonds will be awarded, if and when such award is made, and such bidder, upon such notice, shall advise the State of the initial public offering prices of each maturity of the Bonds (the "Initial Reoffering Prices") as described below

under *Undertakings of the Successful Bidder*. The Initial Reoffering Prices of the Bonds will be used to calculate the final maturity schedule and the final aggregate principal amount of the Bonds (the "Final Amounts"). In determining the Final Amounts, the State will not reduce or increase the revised aggregate principal amount by more than 15% from the amount bid upon. **THE SUCCESSFUL BIDDER MAY NOT WITHDRAW ITS BID OR CHANGE THE INTEREST RATES BID OR THE INITIAL REOFFERING PRICES AS A RESULT OF ANY CHANGES MADE TO THE REVISED AMOUNTS WITHIN THIS LIMIT.** The dollar amount bid by the successful bidder will be adjusted to reflect any adjustment in the aggregate principal amount of the Bonds. Such adjusted bid price will reflect changes in the dollar amount of the underwriter's discount and original issue discount/premium, if any, but will not change the selling compensation per \$1,000 of par amount of bonds from the selling compensation that would have been received based on the purchase price in the winning bid and the Initial Reoffering Prices. The Final Amounts will be communicated to the successful bidder as soon as possible, but not later than 5:00 P.M. (local Concord, New Hampshire time) on the date of the sale.

### **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 17, 2013) 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. (local 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 THOMSON MUNICIPAL MARKET MONITOR ("TM3") (www.TM3.com) NOT LATER THAN 9:00 A.M. (local Concord, New Hampshire time) 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.

### **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.

## **Delivery of the Bonds**

The Bonds will be delivered on or about December 17, 2013 (unless a notice of change in the delivery date is announced on TM3 not later than 1:00 p.m. (local Concord, New Hampshire time) 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 Wildman Palmer LLP, Boston, Massachusetts, Bond Counsel to the State, as to the validity and tax status of the Bonds, substantially in the form as provided in Appendix A 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 November 25, 2013 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 a reasonable number of 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 enumerated events. A description of this undertaking is set forth in the Preliminary Official Statement.

**Additional Information**

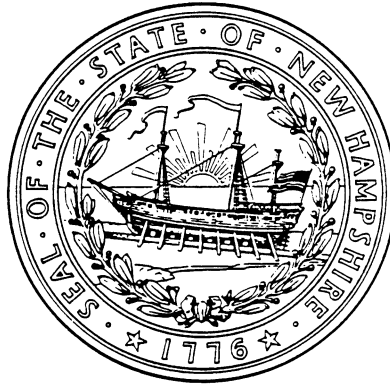
For further information relating to the Bonds, reference is made to the Preliminary Official Statement dated November 25, 2013 prepared for and authorized by the State Treasurer. The Preliminary Official Statement may be obtained by accessing the following website: [www.i-dealprospectus.com](http://www.i-dealprospectus.com). 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, Inc., 40 Rector Street, Suite 1600, New York, New York 10006, Attention: Monika Conley (telephone 212-566-7800; telecopy 212-566-7816).

THE STATE OF NEW HAMPSHIRE

By Catherine A. Provencher  
State Treasurer

Date: November 25, 2013

# 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 Municipal Securities Rulemaking Board for purposes of Rule 15c2-12 of the Securities and Exchange Commission. 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 5, 2013

**TABLE OF CONTENTS**

	<u>Page</u>		<u>Page</u>
STATE GOVERNMENT .....	1	American Recovery and Reinvestment Act of 2009.....	32
Executive Branch .....	1	Operating Budget Fiscal Years 2014 and 2015.....	33
Legislative Branch .....	1	Fiscal Year 2014 Revenue Performance four months ended October 31, 2013 (unaudited) .....	34
Judicial Branch.....	1		
STATE DEMOGRAPHIC AND ECONOMIC DATA .....	1	MEDICAID PROGRAM .....	40
General .....	1	SCHOOL FUNDING .....	46
Population .....	1	STATE INDEBTEDNESS .....	48
Personal Income .....	2	Debt Management Program .....	48
Civilian Labor Force, Employment and Unemployment .....	3	Authorization and Classification of State Debt.....	48
Composition of Employment .....	3	Debt Statement.....	48
Largest Employers .....	4	Recent Debt Issuances .....	50
State and Local Taxation.....	5	Schedule of Debt Service Payments.....	51
Housing .....	5	Temporary Loans .....	52
Building Activity .....	6	Authorized But Unissued Debt .....	52
Transportation .....	7	Capital Budget and Bonds Authorized.....	53
Education .....	8	Agencies, Authorities and Bonded or Guaranteed Indebtedness.....	55
STATE FINANCES .....	8	STATE RETIREMENT SYSTEM.....	59
General .....	8	HEALTH CARE COVERAGE FOR RETIRED EMPLOYEES .....	75
Fund Types.....	9	STATE RETIREE HEALTH PLAN COMMISSION.....	77
Governmental Funds .....	10	JUDICIAL RETIREMENT PLAN.....	77
Proprietary (Enterprise) Funds.....	10	EMPLOYEE RELATIONS.....	79
Fiduciary Funds .....	11	LITIGATION .....	80
Investment Policy.....	11	FINANCIAL STATEMENTS.....	89
Budget and Appropriation Process.....	12	MISCELLANEOUS.....	91
Financial Controls.....	12	ADDITIONAL INFORMATION .....	91
Revenue Stabilization Reserve Account .....	14	EXHIBIT A .....	A-1
State Revenues .....	14		
Expenditures .....	23		
Results of Operations .....	23		
Fiscal Year 2009.....	23		
Fiscal Year 2010.....	24		
Fiscal Year 2011.....	25		
Fiscal Year 2012.....	26		
Fiscal Year 2013 (unaudited) .....	27		

**STATE OF NEW HAMPSHIRE**

**Governor**

Margaret Wood Hassan

**Executive Council**

Raymond S. Burton\*  
Christopher C. Pappas  
Debora B. Pignatelli  
Christopher T. Sununu  
Colin Van Ostern

**State Treasurer**

Catherine A. Provencher

**Secretary of State**

William M. Gardner

**Attorney General**

Joseph A. Foster

**Commissioner of Administrative Services**

Linda M. Hodgdon

**Comptroller**

Karen L. Benincasa

**Budget Director**

Gerard J. Murphy

---

\* Executive Council member Burton represented District 1 for over 30 years until his death on November 12, 2013. Governor Hassan has called for a special election to fill the now vacant seat. The primary election will be held on January 21, 2014 with a general election to follow, if necessary, on March 11, 2014.

## 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 or Guaranteed 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.

### 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, and a Circuit Court with three divisions, probate, district, and family, with 32 sites. 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 an increase in population between 2002 and 2012, mostly between 2002 and 2006. The State’s population was 1,320,718 in 2012 according to the U.S. Census Bureau. Population has

increased by 4.1% since 2002 and 0.6% since 2007. 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>
2002	1,269	1.1%	14,122	0.6%	287,625	0.9%
2003	1,280	0.8	14,182	0.4	290,108	0.9
2004	1,290	0.8	14,207	0.2	292,805	0.9
2005	1,298	0.6	14,217	0.1	295,517	0.9
2006	1,308	0.8	14,246	0.2	298,380	1.0
2007	1,313	0.3	14,279	0.2	301,231	1.0
2008	1,316	0.3	14,340	0.4	304,094	1.0
2009	1,316	0.0	14,404	0.4	306,772	0.9
2010	1,317	0.1	14,463	0.4	309,326	0.8
2011	1,318	0.1	14,517	0.4	311,588	0.7
2012	1,321	0.2	14,563	0.3	313,914	0.7
Percent Change:						
2002-2012		4.1%		3.1%		9.1%
2007-2012		0.6%		2.0%		4.2%

Source: U.S. Census Bureau.

**Personal Income**

The State's per capita personal income increased 38.7% between 2002 and 2012 (as contrasted with an increase of 37.5% in the per capita personal income for the United States and a 40.1% increase for the New England region). The State's per capita personal income ranked 9th in 2012 with \$49,129 or 112.3% of the national average. The State's total personal income for 2012 was \$64.89 billion. The following table sets forth information on personal income for New Hampshire, New England and the United States since 2002.

**Comparisons of New Hampshire Personal Income  
to New England and United States, 2002-2012**

<u>Year</u>	<u>New Hampshire Total Personal Income (In Millions)</u>	<u>Per Capita Personal Income</u>			<u>Percent Change</u>			<u>New Hampshire Per Capita Personal Income Ranking<sup>(1)</sup></u>
		<u>New Hampshire</u>	<u>New England</u>	<u>United States</u>	<u>New Hampshire</u>	<u>New England</u>	<u>United States</u>	
2002	\$44,957	\$35,424	\$38,268	\$31,798	0.8%	0.1%	0.9%	6
2003	46,230	36,121	39,160	32,676	2.0	2.3	2.8	6
2004	49,313	38,224	41,334	34,300	5.8	5.6	5.0	6
2005	51,008	39,282	43,003	35,888	2.8	4.0	4.6	7
2006	54,512	41,663	46,078	38,127	6.1	7.2	6.2	8
2007	56,949	43,388	48,388	39,804	4.1	5.0	4.4	8
2008	58,400	44,380	49,414	40,873	2.3	2.1	2.7	9
2009	57,629	43,788	48,176	39,357	(1.3)	(2.5)	(3.7)	8
2010	59,195	44,952	49,416	40,163	2.7	2.6	2.0	8
2011	62,651	47,542	51,900	42,298	5.8	5.0	5.3	8
2012	64,885	49,129	53,600	43,735	3.3	3.3	3.4	9

Source: U.S. Department of Commerce, Bureau of Economic Analysis.

<sup>(1)</sup> Does not include the District of Columbia.

## Civilian Labor Force, Employment and Unemployment

Average annual employment growth rate in New Hampshire grew faster than those in the region but lower than the nation growth rate from 2002 to 2012. 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
	<u>2002</u>	<u>2012</u>	<u>2002-2012</u>
New Hampshire .....	680	701	0.32%
Connecticut .....	1,701	1,722	0.13
Maine .....	651	655	0.05
Massachusetts .....	3,243	3,242	(0.01)
Rhode Island .....	526	502	(0.45)
Vermont .....	332	339	0.20
New England .....	7,133	7,161	0.04
United States .....	136,485	142,469	0.44

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

In the last ten years, New Hampshire's annual unemployment rate was lower than the rates for New England and the United States, and was often the lowest in the nation. As of October 2013, the unemployment rate in the State was 5.0%, a decline from 5.3% in October 2012 and significantly lower than 6.7% in the New England region and 7.3% nationally. The table below sets forth information on the civilian labor force, employment and unemployment statistics since 2002.

<u>Year</u>	<u>Labor Force Trends (Not Seasonally Adjusted)</u> <u>New Hampshire Labor Force</u> <u>(In Thousands)</u>			<u>Unemployment Rate</u>		
	<u>Civilian Labor Force</u>	<u>Employed</u>	<u>Unemployed</u>	<u>New Hampshire</u>	<u>New England</u>	<u>United States</u>
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	735	709	26	3.5	4.5	4.6
2007	740	714	26	3.5	4.5	4.6
2008	743	714	29	3.9	5.4	5.8
2009	742	696	46	6.2	8.1	9.3
2010	739	694	45	6.1	8.5	9.6
2011	738	697	41	5.5	7.8	8.9
2012	742	701	41	5.5	7.2	8.1
<u>Month</u>						
October 2012	743	704	39	5.3	6.8	8.1
October 2013	738	702	36	5.0	6.7	7.3

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

### Composition of Employment

The service sector was the largest employment sector in New Hampshire in 2012, accounting for 44.6% of nonagricultural employment, as compared to 39.0% in 2002. 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 44.9% of employment in 2012, up from 40.5% in 2002.



The second largest employment sector in New Hampshire during 2012 was wholesale and retail trade, accounting for 19.1% of total employment as compared to 15.4% nationally. In 2002, wholesale and retail trade accounted for 19.8% 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 10.4% of nonagricultural employment in 2012, down from 13.7% in 2002. For the United States as a whole, manufacturing accounted for 8.9% of nonagricultural employment in 2012, versus 11.7% in 2002. 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	
	2002	2012	2002	2012
Manufacturing	13.7%	10.4%	11.7%	8.9%
Durable Goods	10.2	7.9	7.3	5.6
Nondurable Goods	3.5	2.5	4.4	3.3
Nonmanufacturing	86.3	89.6	88.3	91.1
Construction & Mining	4.7	3.6	5.6	4.9
Wholesale and Retail Trade	19.8	19.1	15.9	15.4
Service Industries	39.0	44.6	40.5	44.9
Government	14.3	14.4	16.5	16.4
Finance, Insurance & Real Estate	5.9	5.5	6.1	5.8
Transportation & Public Utilities	2.6	2.4	3.7	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 January 2013.

**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.	8,008	Bedford	Retail Department Stores
2.	DeMoulas & Market Basket	7,500	Nashua	Supermarkets
3.	Dartmouth Hitchcock Medical Center	6,404	Lebanon	Acute Care Hospital
4.	Fidelity Investments	5,000	Merrimack	Financial Services
5.	Hannaford Brothers	4,900	Manchester	Supermarkets
6.	Liberty Mutual-Northern N.E. Division	4,700	Bedford	Financial Services
7.	BAE Systems Electronic Systems	4,500	Nashua	Communications
8.	Elliot Hospital	3,485	Manchester	Hospital
9.	Shaw's Supermarkets Inc.	3,358	Stratham	Supermarkets
10.	Concord Hospital	3,295	Concord	Hospital
11.	Dartmouth College	3,175	Hanover	Private College
12.	Home Depot	2,571	Manchester	Hardware Store
13.	Wentworth-Douglas Hospital	2,321	Dover	Hospital
14.	Southern New Hampshire Medical Center	2,269	Nashua	Healthcare Providers
15.	Catholic Medical Center	2,100	Manchester	Healthcare Providers
16.	Lowe's	1,650	Bedford	Hardware Store
17.	Langdon Place Retirement & Rehab	1,600	Nashua	Long Term Care Providers
18.	New Hampshire Motor Speedway	1,500	Loudon	Motorsports Facility
19.	Public Service Company of New Hampshire	1,500	Manchester	Electric Utility
20.	Exeter Hospital	1,413	Exeter	Hospital

Source: *New Hampshire Business Review, Book of Lists 2013.*

**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.

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.

**Housing**

According to the 2012 American Community Survey 1-year estimates, housing units in the State numbered 617,005, of which 84.1% were occupied. The tenure of occupied housing units in the State was 71.5% owner occupied and 28.5% renter occupied. The median purchase price of all primary homes sold in 2012 was \$205,000, a decrease of 1% from 2011. The median price for primary non-condominium homes sold in 2012 was \$212,500, a decrease of 0.9% from 2011.

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> <sup>(1)</sup>	Percent <u>Change</u>
2001	\$174,500	14.5%	\$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	217,000	(13.2)	969	0.0
2010	223,500	3.0	980	1.1
2011	214,400	(4.1)	984	0.4
2012	212,000	(0.9)	1,005	2.1
2013 <sup>(2)</sup>	218,000	6.3	1,018	1.3

Source: New Hampshire Housing Finance Authority.

<sup>(1)</sup> Includes utilities.

<sup>(2)</sup> January-through August.

The New Hampshire Housing Finance Authority issued an updated report in October 2013 with respect to foreclosure activity in the State that included the following:

“The 213 foreclosure deeds recorded in August of this year is a decrease of 24% from August of 2012 and a nearly identical number to those recorded in the prior month (July 2013). The cumulative total for the first eight months of 2013 is 26% below the total for the same period in 2012, and lower than the first eight month total in any year since 2007. At the current pace, 2013 will end the year with fewer foreclosures than any of the prior five years. We estimate this number to be fewer than 2,800 foreclosure deeds, a decline of 25% from year end 2012. These improvements are in part due to slow but steady improvements in the housing market and the overall economy. They may also be attributable in part to the easing of lender attitudes toward short sales, allowing underwater borrowers to exit ownership prior to foreclosure.”

**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, with the exception of 2012. There was growth in the 1992 to 2002 period in New Hampshire, New England, and the nation. The number of permits and dollar value peaked in 2004 and declined in each subsequent year through 2009, increased in 2010 and declined again in 2011 in the State and the region but continued to grow for the nation as a whole. In 2012, while the number of permits and dollar value had increased significantly throughout the New England region and the nation, the State saw slight declines in both measures with building permits dropped to 2,296 and housing value totaled \$426 million. This represents a decrease of 2.1% in the number of permits, and a decrease of 1.4% in dollar value, from 2011. 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>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
<b>New Hampshire</b>						
Single Family	3,772	2,333	1,662	1,890	1,606	1,682
Multi-Family	<u>789</u>	<u>901</u>	<u>625</u>	<u>780</u>	<u>740</u>	<u>614</u>
Total .....	4,561	3,234	2,287	2,670	2,346	2,296
Value .....	\$856	\$593	\$421	\$462	\$432	\$426
<b>New England</b>						
Single Family	26,079	15,870	13,595	14,880	12,322	14,186
Multi-Family	<u>11,453</u>	<u>8,584</u>	<u>5,868</u>	<u>6,084</u>	<u>5,665</u>	<u>8,923</u>
Total .....	37,532	24,454	19,463	20,964	17,987	23,109
Value .....	\$7,119	\$4,705	\$3,560	\$4,048	\$3,659	\$4,675
<b>United States</b>						
Single Family	979,889	575,554	441,148	447,311	418,498	518,695
Multi-Family	<u>418,526</u>	<u>329,805</u>	<u>141,815</u>	<u>157,299</u>	<u>205,563</u>	<u>310,963</u>
Total .....	1,398,415	905,359	582,963	604,610	624,061	829,658
Value .....	\$225,237	\$141,623	\$95,410	\$101,943	\$105,269	\$140,425

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 to date provides for continued development of the State's Turnpike System. The State issued in December, 2009 and August, 2012, \$150 million and \$110 million, respectively, of its Turnpike System revenue bonds to finance additional capital improvements to the Turnpike System. The State has also issued \$178.25 million of Federal Highway Grant Anticipation Bonds since November 2010 to finance a portion of the costs of improvements to Interstate 93 from the Massachusetts border to Manchester.

There are twenty-four public commercial airports in the State, three of which have scheduled air service (Manchester, Pease 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, has grown from 427,657 enplanements in fiscal year 1994 to 1,222,769 enplanements in fiscal year 2013. Due to a continued soft global economy, jet fuel price uncertainty and a dramatically changing aviation industry, the airport experienced a 6% decrease in enplanements in fiscal year 2013 as compared with fiscal year 2012 enplanements. Air cargo activity remains strong.

During the past two decades, Manchester-Boston Regional Airport has undertaken a number of expansion, improvement and renovation projects. The new terminal project in 1992 was financed with bonds guaranteed by the State (and subsequently refunded and paid in 2002), while other projects have been financed by the City of Manchester through the issuance of airport revenue bonds (October 1998, April 2000, June 2002, and July 2005; and a refunding of bonds in July 2008, December 2009 and June 2012). These projects are expected to enhance the airport's capacity for increased passenger and freight traffic in the future.

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 (NHRTA) 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. Early in 2013, the New Hampshire Department of Transportation, working in concert with its counterparts in Massachusetts, started the New Hampshire Capitol Corridor Rail and Transit Study, a 21-month project supported by both the Federal Railroad Administration and Federal Transit Administration. An advisory committee made up of many stakeholders from both New Hampshire and Massachusetts has been established to provide guidance as the study moves forward. The NHRTA has two seats on the advisory committee. The study is expected to be completed in the fall of 2014. One component of the study is to review the governance model in the event a project is implemented to better define what the role of the NHRTA will be.

## 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 176 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.

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, Plymouth State University and Granite State College. The State also supports a network of seven community colleges through the Community College System of New Hampshire located throughout the State. The Community Colleges offer a two-year associates degree and a variety of certificates in approximately 100 different industrial, business and health programs. In addition to the state-supported University System of New Hampshire and Community College System of New Hampshire, twenty (17 non-profit and 3 private for-profit) higher educational institutions are also located in New Hampshire, including Dartmouth College in Hanover. Since 1983, over 50% of New Hampshire high school graduates have continued their education beyond the high school level.

As the following table indicates, as of 2012, the educational level of New Hampshire residents over the age of 25 was higher than that of the nation as a whole.

<u>Level of Education</u>	<u>2000</u> <sup>(1)</sup>		<u>2012</u> <sup>(2)</sup>	
	<u>New Hampshire</u>	<u>United States</u>	<u>New Hampshire</u>	<u>United States</u>
9-11 years	N/A	84.5%	97.6%	94.2%
12 years	88.1%	78.5	91.8	86.3
1-3 years post-secondary	N/A	47.5	62.4	58.3
4 or more years post-secondary	30.1	21.9	34.6	29.1

<sup>(1)</sup> Source: U.S. Census of Population, Census Bureau..

<sup>(2)</sup> Source: 2012 U.S. Census Bureau, 2011 American Community Survey

## 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”). The State has contracted with KPMG LLP to provide audit services since fiscal year 1997 and has a current audit contract through completion of the fiscal year 2016 audit. The audited

financial statements for fiscal year 2012, together with the unqualified report thereon of KPMG LLP, are incorporated herein by reference, copies of which have been provided to the Municipal Securities Rulemaking Board, through its Electronic Municipal Market Access (“EMMA”) system, as directed by SEC Rule 15c2-12. See “FINANCIAL STATEMENTS.” The audited financial statements for fiscal year 2012 are also available as part of the State’s fiscal year 2012 CAFR (pages 14 through 75 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>.

The release of the fiscal year 2011 CAFR on February 29, 2012 was delayed from the statutorily required date of December 31, 2011 due to the lack of sufficient available information to objectively estimate the effect of outcomes of hospitals’ requests for Medicaid Enhancement Tax refunds (discussed in Note 19 to the financial statements). It was not until February, 2012 that the Department of Revenue Administration (the “DRA”) was able to reach resolution for many of the requests, thereby providing documentation on which to base an estimate and provide sufficient audit assurance.

All dollar amounts referred to in this Information Statement for any period subsequent to June 30, 2012 are preliminary, unaudited and subject to change, whether or not expressly labeled as such.

For information relating to the timing of expected receipt of audited financial statements for fiscal year 2013 and a summary of management letters delivered to the State for fiscal years 2008 through 2012, see “FINANCIAL STATEMENTS.”

The CAFR 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 enterprise resource planning 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). In general, 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 Trust Fund.* The Education Trust Fund is established in RSA 198:39. See "SCHOOL FUNDING." Adequate education grants to school districts are appropriated from this fund, as is kindergarten and charter school aid and low and moderate income homeowners property tax relief. Pursuant to RSA 198:39, certain revenues are dedicated to this fund including portions of the State's business, cigarette, real estate transfer, and rental car taxes. In addition, lottery revenues and up to \$40 million in tobacco settlement revenues are dedicated to the Education Trust Fund as are utility property tax and excess statewide education tax revenues.

## **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 Trust 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.

*State Revolving Fund.* Under a program with the U.S. Environmental Protection Agency to improve cleanliness and potability of the State's water supplies, the State Revolving Loan Fund lends funds to municipalities and qualified private water organizations for the purpose of constructing wastewater and drinking water treatment facilities. The loans are repaid by the debtors on fixed terms, and, based on specific federal criteria, may allow for forgiveness of portions of the loans. Loans are repaid with fixed rates for interest and administration paid to the State. Repayments are credited to special accounts and then used to lend out more funds to communities and qualified private water organizations.

*Unemployment Trust Fund.* This fund is used to account for contributions from employers and to pay benefits to eligible claimants.

In accordance with the provisions of Section 1201 of the Social Security Act, the State applied for, received and repaid advances from the Federal Unemployment Account to the State's Unemployment Trust Fund. These repayable advances were needed on an intermittent basis in both calendar years 2010 and 2011. The advances were necessary in order to continue the payment of unemployment compensation to eligible individuals.

For calendar year 2010, the advances were interest-free. For calendar year 2011, interest was due and owing unless the State met the criteria for a "cash flow" loan which bears no interest. The criteria for a "cash flow" loan are (1) states must have a zero outstanding balance as of January 1st and (2) states must repay advances by September 30th and not borrow again for the remainder of the calendar year. The State did not have an outstanding loan as of January 1, 2011 and on May 5, 2011 fully paid the \$56.3 million borrowed for the period January 12 through May 4, 2011. As a result, the State met the criteria for an interest free "cash flow" loan and was not required to pay any interest. The State has had no unpaid outstanding loan advances since May 2011.

The State's unemployment compensation law changed in the 2009 legislative session. All employers have experienced a 1% emergency surcharge rate increase, all negatively rated employers whose benefit charge exceeds taxes paid have experienced a 1.5% rate increase and those negatively rated employers identified as chronic experienced an additional 0.5% rate increase. Of the emergency surcharge, 0.5% is the result of the 2009 law. The resultant increase in the amount of employer tax projected to be collected in future years was expected to be sufficient to regain the solvency of the fund from the second half of calendar year 2011 forward.

As expected, the additional surcharges enabled the State's Unemployment Compensation Trust Fund to strengthen. Therefore, effective with wages paid October 1, 2012 for which taxes are due the following quarter, one of the two 0.5% surcharges was removed. The second 0.5% surcharge was removed with wages paid October 1, 2013 for which taxes are due the following quarter.

*Internal Service Fund.* The Employee Benefit Risk Management Fund was created to account for the State's 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 COVERAGE 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.

Pursuant to Chapter 229, Laws of 2011, beginning with the 2014-2015 biennial budget, all departments are required by November 15 prior to the start of the biennial legislative session to also submit a budget that in the first year is 10% less than the first year of the preceding biennium and in the second year is 10% less than the second year of the preceding biennium, exclusive of debt service.

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.

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 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.

*ERP System.* The Legislature appropriated nearly \$22 million dollars in the 2002-2003 capital budget and passed subsequent laws to enable the acquisition and implementation of an enterprise resource planning (ERP) system. The ERP is designed to serve as a single system of fully integrated modules that facilitate the financial and human resources 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 first phase of this project was completed in July, 2008 with the implementation of a new accounting structure that improved clarity of expenditures. In August, 2008, the budgeting component of the ERP was implemented and used for fiscal years 2010-2011 budget planning.

In July, 2009, the remaining financial, grants, procurement, revenue and receipts and treasury functions were implemented. This phase was a major undertaking to improve the sustainability, accountability, and efficiency of financial administration, processing controls, and management information.

The Legislature appropriated \$1.4 million in the 2010-2011 capital budget for planning of Phase II of the project which includes human resources and payroll and a capital appropriation of \$4.0 million was approved in the 2012-2013 capital budget for the implementation of human resources, payroll, fixed assets, and strategic sourcing. Human resources and payroll functions were implemented in February, 2013. Fixed assets and strategic sourcing have been configured and will be implemented pending resource availability. The State expects to realize increased efficiencies by the implementation of full ERP functionality.

Limitations built into the legacy human resources and payroll system required labor intensive manual steps to account for and process employee leave plans, payroll calculations, and payroll cost accounting and to maintain compliance with appropriations. Phase II streamlined these paper-bound processes by moving employee, manager and back office processing to digital forms, and extensively automated policies and business rules to reduce manual calculation, collation, and records coordination.

The ERP implementation enabled the retirement of the legacy human resources and payroll system which was unsupported by the software publisher and for which the State was only licensed to use through May of 2014. The implementation was significant and challenging because it impacted over 15,000 State employees. The realization of the full benefits associated with the additional functionality provided in Phase 2 is currently limited by the aging desktop computer technology for approximately 3,000 employees spread across State government which

prevents those employees from accessing all functions of the ERP from their local computer. The 2014-2015 capital budget includes an appropriation to modernize desktop computers to address this issue. In the interim, computer kiosks have been made available in locations where employees do not have ready access to computers. Additionally, the ability of central and agency staff to implement additional functionality is limited by the staff reductions at various State agencies imposed by the 2012-2013 budget and continued by the 2014-2015 biennial budget.

The State plans to use the functionality enabled during Phase II to achieve similar efficiencies in asset management accounting and control and to increase the State's purchasing power by implementing web-based strategic sourcing for suppliers and vendors and thereby increase competitive bidding for State businesses.

*DRA System Upgrade.* In 2012, the DRA implemented a new document imaging/electronic remittance system. In Fiscal Year 2013, the DRA received approximately 287,200 transactions for preparation, scanning and then validation. As of June 30, 2013, 221,100 of the 287,200 transaction received had been validated. The remaining 66,100 transactions were awaiting completion. Between July 1, 2013 and October 28, 2013, 63,600 of the remaining 66,100 transactions were validated. During that same time, however, approximately 4,700 additional transactions were received by the DRA. Therefore, as of October 28, 2013, there were approximately 7,200 transactions remaining to be validated (including approximately 2,800 waiting to be scanned and 2,400 being prepped to be scanned). As of November 20, 2013, the DRA is current on all Business Tax and Interest & Dividends Tax returns processing. Under the new system, all payments were processed and deposited in "real time" as received.

### **Revenue Stabilization Reserve Account**

Legislation was enacted in 1986 to establish a Revenue Stabilization Reserve 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 Reserve Account, to the extent available, an amount equal to the lesser of the deficit or the revenue shortfall. No monies in the Revenue Stabilization Reserve 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 Reserve 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 Reserve 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 Reserve Account. The maximum amount in the account is equal to 10% of General Fund unrestricted revenue for the most recently completed fiscal year.

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 Reserve Account at June 30, 2009 leaving a balance of \$20 million at June 30, 2009. The actual draw on the Revenue Stabilization Reserve Account at June 30, 2009 was \$79.7 million leaving a balance of \$9.3 million. Chapter 224:206, Laws of 2011, directed that any budget surplus at June 30, 2011 shall not be deposited in the Revenue Stabilization Reserve Account and shall remain in the General Fund and the balance in the Revenue Stabilization Reserve Account remained at \$9.3 million at June 30, 2012. Chapter 144:135, Laws of 2013 also directed that any budget surplus at June 30, 2013 shall not be deposited in the Revenue Stabilization Reserve Account and shall remain in the General Fund and the balance in the Revenue Stabilization Reserve Account remains at \$9.3 million.

### **State Revenues**

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

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

The following are the principal sources of unrestricted revenues of the State. Except as otherwise noted below, such revenues are credited to the General Fund:

*Meals and Rooms Tax.* Effective July 1, 2009, a tax is imposed equal to 9% of the charges for (i) hotel, motel and other public accommodations, (ii) meals served in restaurants, cafes and other eating establishments, and (iii) rental cars. Prior to July 1, 2009, the meals and rooms tax rate was at 8%. The portion taxed on rental cars is designated as revenue to the Education Trust Fund. Effective July 1, 2009, this tax was extended to cover campsites, however, Chapter 6 of the Laws of 2010 repealed the extension of the meals and rooms tax to campsites effective May 3, 2010. Chapter 144 of the Laws of 2009 designated 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 for fiscal years 2010 through 2015 are shown below:

<u>Fiscal Year</u>	<u>Amount (in thousands)</u>
2010	\$ 366
2011	5,030
2012	14,580
2013	14,424
2014	14,001
2015	13,576

In addition 3.15% of net meals and rooms tax collections is designated for travel and tourism development. Chapter 224 of the Laws of 2011 suspended the distribution of meals and rooms taxes to the Division of Resources and Economic Development for travel and tourism development only for the biennium ending June 30, 2013.

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. However, since 2009 various chapter laws have capped the distribution to cities and towns at no more than the 2009 level as shown on the table below with the percentage of previous year's tax collections for fiscal years 2009 through 2014. Chapter 144, Laws of 2013, capped the fiscal year 2014 distribution at the 2009 level; however, absent any further legislative action, the distribution will revert back to original statutory distribution in fiscal year 2015.

<u>Fiscal Year</u>	<u>Amount Distributed</u>	<u>% of Previous Years Total Meals and Rooms Tax Collection</u>
2009	\$58,805,057	28.5%
2010	58,805,057	28.9
2011	58,805,057	25.3
2012	58,805,057	24.5
2013	58,805,057	25.3
2014	58,805,057	22.4

*Business Profits Tax (BPT).* 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 Trust 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 (BET).* 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 Trust 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. The business enterprise tax may be used as a credit against the business profits tax under RSA 77-A:5. Any unused portion of the credit may be carried forward and allowed against the business profits tax for five (5) taxable periods from the taxable period in which the business profits tax was paid.

Several pieces of legislation adopted in 2011 and 2012 are projected to significantly reduce business tax revenue starting in fiscal year 2014. When the legislation was adopted, the Department of Revenue Administration provided estimated worst case impacts for each change. In performing its work for the 2014-2015 operating budget, the Consensus Revenue Estimating Panel (“CREP”), created by Executive Order, reconsidered each of the legislative changes. The Department of Revenue Administration (“DRA”) worked with the CREP to refine the estimated impacts from a worst case to what is believed to be a more realistic impacts in developing budgeted revenue for the 2014-2015 biennium.

- Chapter 224:363 Laws of 2011 increases the Net Operating Loss that may be generated in a tax year from \$1 million to \$10 million effective July 1, 2013 and is estimated to result in \$20 million annual revenue reduction in fiscal years 2014 and 2015. The initial 2011 DRA estimates were based on data from tax year 2009 which is deemed to be a year in which larger losses may have been realized when compared to tax year 2013. As the losses can be carried forward over a ten year period, the estimated impact of the \$20 million is assumed to be realized by taxpayers evenly over the subsequent 10 years. The effective reductions recommended by the CREP and ultimately passed with the 2014-2015 biennial budget were \$2 million and \$4 million in fiscal years 2014 and 2015, respectively.
- Chapter 225, Laws of 2011 changed the carry-forward periods for the BET credit against the BPT from 5 to 10 taxable periods applicable for taxable periods ending on or after July 1, 2014 and is estimated to result in \$8 million annual revenue reduction in fiscal year 2015. The CREP reduced the impact to \$3 million in fiscal year 2015.
- Chapter 287, Laws of 2012 established the Education Tax Credit against BPT and BET to be used starting in 2014 for the 2013 tax period and is estimated to result in \$2 million annual revenue reduction in fiscal years 2014 and 2015. The CREP agreed with these DRA projections.
- Chapter 279, Laws of 2012 increased the BET filing thresholds effective for taxable periods ending on or after December 31, 2013 and is estimated to result in \$3 million annual revenue reduction in fiscal years 2014 and 2015. The CREP agreed with these DRA projections.
- Chapter 116 Laws of 2012 changed the prospective repeal date for the Research and Development Tax Credit from July 1, 2013 to July 1, 2015 and was estimated to result in \$1 million annual revenue reduction in fiscal years 2014 and 2015. Chapter 5 of the Laws of 2013 increased the Research and Development Tax Credit by \$1 million per year to \$2 million per year, and made the credit permanent.

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

*Liquor Sales and Distribution.* The State Liquor Commission is comprised of one commissioner and one deputy commissioner 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 licensed 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, however various chapter laws have suspended this provision since 2003. 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 Trust 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. 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. Pursuant to Chapter 224:377-381 of the Laws of 2011, effective July 1, 2011, the tobacco tax rate for each pack containing 20 cigarettes was decreased from \$1.78 to \$1.68 per pack, the rate for each pack containing 25 cigarettes was decreased from \$2.23 to \$2.10 per pack, and the rate for all other tobacco products, except premium cigars, was decreased from 65.03% to 48.0% of the wholesale price.

The 2011 law decreasing the tax had a contingency provision requiring the DRA to report, on or before July 15, 2013, the amount of tobacco tax revenue received for the period of July 1, 2011 through June 30, 2013. If the DRA reported that the amount of tobacco tax revenue received for the period was below the amounts received for the period of July 1, 2009 through June 30, 2011, then, effective August 1, 2013, the tax rate for each pack containing 20 cigarettes shall increase back to \$1.78 per pack, the tax rate for each pack containing 25 cigarettes shall increase back to \$2.23 per pack, and the tax rate for all other tobacco products, excluding premium cigars, shall increase back to 65.03% of the wholesale sales price. The DRA did report that tobacco tax revenues for the period July 1, 2011 through June 30, 2013 were below revenues for the period July 1, 2009 through June 30, 2011; accordingly, as of August 1, 2013 tobacco tax rates reverted to rates in effect on June 30, 2011. An estimated annual increase of \$10 million in tobacco tax revenue is expected to result from the reversion to \$1.78 per package of 20 cigarettes.

*Medicaid Enhancement Tax (MET) Revenues.* Effective July 1, 1993, the State lowered the MET 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" was 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." As of July 1, 2011, Chapter 224 of the Laws of 2011 amended the definition of "hospital" under RSA 84-A:1, III to mean general hospitals and special hospitals for rehabilitation required to be licensed under RSA 151 that provide inpatient and outpatient hospital services, but not including government facilities. The definition of "net patient services revenue" under RSA 84-A:1, IV-a was amended to include revenues received from the State's uncompensated care account and revenues received from all payers of inpatient and outpatient patient care. A portion of the revenue collected pursuant to the tax is placed in the Uncompensated Care Fund to fund medical care for the Medicaid population. The tax is due on October 15 but no interest or penalties are assessed if the tax is received by the State on or before October 31. A final tax return is then due to be filed the following July.

From inception of the tax until June 30, 2010, hospitals often received payment from the State to reimburse for the provision of uncompensated care in the amount that they paid to the State in MET. The source of uncompensated care reimbursements to hospitals was approximately one-half of the MET receipts and the balance was federal disproportionate share hospital (DSH) Medicaid funds. The other half of the tax paid by the hospitals was credited as General Fund unrestricted revenue. In fiscal year 2011, the uncompensated care payments were made under a redesigned calculation formula, however one-half of the total tax paid by hospitals continued to be used to match federal dollars and, in the aggregate, hospitals received uncompensated care payments equal to the total tax received by the State. The operating budget for fiscal years 2012 and 2013, Chapters 223 and 224 of the Laws of 2011, kept the tax rate at 5.5% of net patient services revenue but significantly decreased the State's commitment to reimburse hospitals for uncompensated care. Certain hospitals have challenged a number of legislative and agency actions since 2005 that have reduced the reimbursement rates for certain Medicaid services and related payments. If the plaintiffs were to prevail on all claims, the cost to the State could be in excess of \$100 million. See LITIGATION – *Dartmouth Hitchcock, et al v. Toumpas*.

Since June of 2011, the DRA has received requests for refund or credit of the MET from 20 of the 28 hospital taxpayers for prior fiscal periods ending June 30, 2008 through June 30, 2013, totaling \$109 million. Refund and credit requests received by the DRA for fiscal period 2013 were immaterial. Soon after receipt, the DRA denied \$20 million of those requests related to fiscal year 2008 as being outside the statute of limitations. The appeal period for those denials expired and no hospital appealed. The DRA reached agreements with over half of the hospitals to resolve all outstanding issues between them relating to \$66 million of the \$89 million in MET refund and credit requests for fiscal years 2009 through 2013, and denied \$7 million in requests related to fiscal year 2012, leaving \$16 million in requests outstanding.

Additionally, the DRA issued tax notices for fiscal year 2012 for \$13 million, of which \$11 million in tax notices have settled and/or paid and \$2 million in tax notices remain outstanding. The DRA continues to work to reach settlement agreements with the other hospitals for the remaining outstanding amounts related to fiscal years 2009 through 2013 (\$16 million of refund and credit requests and \$2 million of outstanding tax notices).

During fiscal year 2013, as a result of the settlement agreements for fiscal years 2009 through 2013, the State received approximately \$5.4 million of MET revenue and granted \$2.8 million in credits for fiscal year 2014 and \$2.8 million in credits for fiscal year 2015. As the credits granted apply to previous tax years, the State expects to accrue the total \$5.6 million against fiscal year 2013 revenue, likely resulting in a reduction of the unaudited surplus balance. See RESULTS OF OPERATIONS – Fiscal Year 2013 (unaudited).

See MEDICAID PROGRAM.

Superior court litigation (*Catholic Medical Center et al v. DRA*) challenging the constitutionality of the MET as to the fiscal year 2011 MET payment brought by three hospitals was converted to a declaratory judgment, meaning there can be no fiscal impact on the State for the fiscal periods 2009 through 2013 in the event of an adverse ruling. Any potential fiscal impact will apply only to fiscal years 2014 and beyond. See also MEDICAID PROGRAM and LITIGATION – *Catholic Medical Center et al v. DRA*.

**Medicaid Enhancement Tax Estimates and Uses For Fiscal Years 2012-2015  
(millions)**

	FY 2012 (Actual)	FY 2012 (Budget)	FY 2013 (Actual Unaudited)	FY 2013 (Budget)	FY 2014 (Budget)	FY 2015 (Budget)
Medicaid Enhancement Tax Revenues	\$175.3	\$194.0	\$184.9	\$213.4	\$184.8	\$190.3
To hospitals for uncompensated care	24.6	24.6	\$26.7	26.7	\$30.9	26.3
To General Fund	74.8	97.0	\$76.3	104.8	\$72.2	73.7
To medical providers	75.9	75.9	\$81.9	81.9	\$81.7	90.3

Fiscal year 2013 MET payments from hospitals were due in October 2012. The Department of Health and Human Services estimated receipt of \$213.8 million in MET payments for fiscal year 2013. The State received \$184.9 million in fiscal year 2013 MET payments. The unaudited fiscal year 2013 MET collections result in a shortfall of \$28.5 million from the \$213.4 million estimated when the budget was adopted. When making the October 2012 MET payments, some hospitals used a definition of net patient services revenue that varied from the definition used in previous years and excluded certain hospital services. In addition, as previously stated, the DRA received refund and credit requests for fiscal period 2013, which were immaterial.

Fiscal year 2014 MET payments from hospitals were due on October 15, 2013, but no interest or penalties are assessed if the tax is received by the State on or before October 31, 2013. Through November 15, 2013, the State has received \$168.4 million in MET payments from hospital taxpayers. The Commissioner of the DRA granted an extension to seven hospitals to make payments by December 13, 2013, totaling \$12.8 million. Therefore, fiscal year 2014 MET payments are expected to total \$181.2 million, as compared to budgeted receipts of \$190.3 million. A final MET return is then due to be filed on July 10, 2014. If the required return shows an additional amount of tax to be due, such additional amount is due and payable at the time the return is due. As shown above, fiscal year 2013 MET revenue underperformed and there continues to be uncertainty for fiscal year 2014 as a result of litigation with the hospitals that pay the tax. See LITIGATION.

*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). Chapter 277 of the Laws of 2006, reduced such tax to 1.75% effective July 1, 2007, 1.5% effective January 1, 2009, and 1.25% effective January 1, 2010, and would have reduced it to 1% effective January 1, 2011 but for Chapter 1 of the Laws of 2010 Special Session which repealed the provision bringing the tax to 1%. The tax rate remains at 1.25%. This applies to all lines of insurance except accident and health insurance (RSA 401:1, IV), and insurers licensed as Health Service Corporations (RSA 420-A), Health Maintenance Organizations (RSA 420-B), and Delta Dental Plan Of NH, Inc. (RSA 420-F) which remains at 2%. Prior to 2011, ocean marine insurance was taxed on an underwriting profit basis. The purpose of the legislation was 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, 2010, companies of 35 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 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 amended 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 was 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 was estimated to generate an additional \$15 million in each of fiscal years 2010 and 2011. However, Chapter 1, Laws of the 2010 Special Session, repealed the inclusion of distributions from limited liability companies, partnerships and association as dividends subject to the interest and dividends tax effective January 1, 2010, leaving such distributions received during the 2009 tax year subject to the tax.

*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. Chapter 279 Laws of 2012 amended RSA 82-A to exclude internet access from the definition of communication services effective June 21, 2012. This resulted in a shortfall of \$28.5 million in communication services tax revenue for fiscal year 2013.



*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 Trust 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. Pursuant to Chapter 179 of the Laws of 2011, the buyer and seller must each file a separate Declaration of Consideration (Form CD-57) with the DRA. 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 Land and Community Heritage Investment Program (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. Chapter 224:3, Laws of 2011, provides that \$120,000 in each of fiscal years 2012 and 2013 are credited to the LCHIP administrative fund. The balance of all recording surcharge fees collected shall be credited to the General Fund. For the 2014-2015 biennium, all revenues from the \$25 fee will again be dedicated to the LCHIP program.

*Court Fines and Fees.* The Unified Court System was established during the 1984-1985 biennium. Prior to July 1, 2009 fines and fees collected by the various components of the court system were 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. Effective July 1, 2013, pursuant to RSA 262:44-I, fines collected through the plea by mail program are credited as restricted General Fund agency income to the Department of Safety. All fines, fees and surcharges imposed and collected by the various components of the court system are credited to various funds depending upon the law involved. Approximately 56% of revenues collected are credited to the General Fund, 28% to the Highway Fund and 16% to restricted funds.

*Statewide Education Property 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 DRA to set the education property tax rate at a level sufficient to generate \$363.0 million.

*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. The proceeds from this tax have been dedicated to the Education Trust Fund.

*Electric Consumption 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. On games of chance, the State receives a blended rate between 3% and 10% of revenues in addition to fixed fees on Bingo and Lucky 7. The State now imposes a tax ranging from 1% to 1.25% of the contributions plus one-quarter of the breakage of all simulcast harness and thoroughbred racing pari-

mutuel pools. For simulcast greyhound racing pari-mutuel pools, the tax is 1.5% of contributions plus one-quarter of the breakage. Live racing is no longer conducted in the State.

*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. Effective May 23, 2011, Chapter 47 of the Laws of 2011, the tax on gambling winnings was repealed. The repeal was not applied retroactively and, therefore, those taxpayers who reported and paid gambling winnings tax for gambling winnings received between July 1, 2009 and December 31, 2010 are not entitled to a refund based upon the repeal. Taxable gambling winnings received between January 1, 2011 and May 22, 2011 must have been reported and the tax due paid by April of 2012.

*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; escheatment of abandoned property; corporate record fees; agricultural fees; 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 Trust Fund.

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

*Fuel Tax.* The State imposes a tax upon the sale of each gallon of motor fuel sold in the State at the rate of 18 cents per gallon for motor vehicle and marine fuels, 4 cents per gallon for aviation fuel, and 2 cents per gallon for aviation jet fuel. The proceeds from the aviation and aviation jet fuel tax are credited to the General Fund. The proceeds of the motor vehicle gasoline tax are credited to the Highway Fund and, while not pledged, are required to be used first for the payment of principal of and interest on bonds or notes of the State issued for highway purposes. Prior to July 1, 2007, 2.64 cents of the 18 cent motor vehicle fuel tax was allocated to a separate account in the Highway Fund, the Highway and Bridge Betterment Account. Effective July 1, 2007, the amount allocated to the separate Highway and Bridge Betterment Account was reduced to 1.76 cents. 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, which were effective for the 2010-2011 biennium only, were estimated to generate \$40.9 million in fiscal year 2010 and \$44.7 million in fiscal year 2011. The portion of revenue actually attributable to the surcharge is not identifiable. In fiscal year 2009, \$73.3 million was credited as registration fees. In fiscal years 2010 and 2011, registration revenues, including the surcharge, totaled \$113.5 million and \$103.9 million, respectively. The surcharges were repealed effective July 1, 2011. Registration fee revenue for fiscal year 2013 was \$77.8 million.

*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.

*Federal Sequestration.* Certain federal funding received by the State will be adversely affected by implementation of certain provisions of the federal Budget Control Act of 2011 (the “Budget Control Act”), that was signed into law by the President on August 2, 2011. The Joint Select Committee on Deficit Reduction failed to reach an agreement on the deficit reduction actions as required by the Budget Control Act and, as a result, sequestration—a unique budgetary feature of the Budget Control Act—was triggered. No legislative action was taken by Congress prior to March 1, 2013 and, accordingly, implementation of sequestration began on March 1, 2013 resulting in cancellation of \$85 billion in federal appropriations through the end of federal fiscal year 2013 (September 30, 2013). When federal fiscal year 2014 began on October 1, 2013, no federal appropriations bills had been enacted for the fiscal year, so the federal government experienced a partial shutdown. Due to remaining balances from prior years’ federal grant awards and usage of State funds where allowed, the partial shutdown did not have a material effect on federally-funded programs and employees in the State’s budget. The federal shutdown did not have any significant impact on other State revenues. The federal shutdown ended on October 16, 2013 with the passage of H.R. 2775 which provided appropriations retroactively back to October 1, 2013 through January 15, 2014. For the most part, this agreement provided appropriations for the first 3.5 months of federal fiscal year 2014 based on prorated federal fiscal year 2013 post-sequestration appropriations with a few exceptions; however the spending caps of sequestration are still in place.

Sequestration has and will adversely affect the availability of certain federal funds received annually by the State. Some of the largest sources of federal revenues for the State, however, such as Medicaid reimbursements, which are budgeted at approximately \$1.45 billion dollars over the 2014-2015 biennium, and federal aid to highways, which is budgeted at approximately \$380 million dollars over the 2014-2015 biennium, are generally exempt from sequestration. Exclusive of Medicaid and federal highway dollars, the State has budgeted approximately \$1.5 billion in total in federal funds over the 2014-2015 biennium.

Due to continued uncertainty at the federal level, the complete effects of sequestration on the State are still uncertain. Based on guidance relative to sequestration that State agencies have received from their federal counterparts, these agencies have identified specific reductions to certain federally funded programs. The State estimates the total reduction in federal funds for fiscal year 2014 ranges between \$10 million and \$15 million. These reductions are spread across a wide number of programs with over 50 individual programs identified, with the impact to each individual program being reductions ranging from 1% to 15%. These reductions will be managed by State agencies in a variety of ways - through delays in the hiring open positions, location of alternative funding sources, reductions in program operating expenditures, and reductions in program grants and benefits awarded. While no State positions appear to be in jeopardy, there may be sub-grantee positions lost as a result of these reductions.

For certain other programs, there will be timing differences between reductions in federal appropriations from sequestration and reductions in receipt of federal dollars by the State. Frequently, the State receives federal reimbursements one to two years after a federal appropriation is made.

The Internal Revenue Service notified the State on March 4, 2013 of an 8.7% reduction in direct pay subsidies for the State’s outstanding “build America bonds” (BABs) and recovery zone economic development bonds (RZEDBs). The actual result for fiscal year 2013 was a reduction in direct pay subsidies payable to the State with respect to interest on one general obligation BABs issue in the amount of approximately \$36,106. On October 3, 2013 the Internal Revenue Service notified the State that the sequestration reduction was lowered to 7.2%. The State projects this will result in an aggregate shortfall in fiscal year 2014 of \$511,109 (of the \$6.8 million in direct pay subsidies expected prior to the impact of sequestration), representing direct pay subsidies for interest payments on two general obligation BABs issues, one turnpike BABs issue, one GARVEE BABs issue and one

GARVEE RZEDBs issue. The State expects to make-up for the reduced federal subsidy payments with other moneys in the General Fund, Turnpike System and Highway Fund.

The State cannot predict at this time what total impacts sequestration will have on the State as a whole. The State will likely face reduced federal grant awards in future years as a result of overall efforts to control federal spending. Longer term, adverse effects may also arise due to the economic impacts of reduced federal spending in New Hampshire and New England, including reduced federal funds for research and defense related work and other activities that now receive federal funds.

## **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 2009*

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 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 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 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 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 deteriorated. To close the then projected fiscal year 2009 shortfall, the following actions were taken:

- Chapter 144 of the Laws of 2009 (“HB 2”) directed 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 by the Joint Underwriters Association (“JUA”) and has accumulated a surplus in excess of required reserves. However, a group of medical providers (“Providers”) in the State challenged the State’s right to use this surplus and on January 28, 2010, the State Supreme Court decided in the favor of the Providers’ position, rendering this revenue action ineffective. In order to address this shortfall, an additional \$65 million was transferred from the State’s Rainy Day Fund in lieu of the amount from the medical malpractice insurance fund.
- 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 was expanded with Executive Order 2008-8 to freeze vacant positions, equipment and out of state travel for fiscal year 2009, reducing 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.

Various other actions taken by the State to close the gap, along with ongoing efforts by agencies and departments statewide to manage expenses, contributed to fiscal year 2009 lapses coming in approximately \$20 million above estimates. After these measures, a total of \$79.7 million (including the \$65 million transfer referenced above) 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 \$9.3 million at June 30, 2009.

General and Education Trust 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 Trust Funds were \$74.2 million as compared to \$61.3 million for the prior year.

#### *Fiscal Year 2010*

Effective with the close of fiscal year 2009, a total of \$79.7 million was drawn from the Rainy Day Fund to eliminate the deficit at that time. Accordingly, fiscal year 2010 began with no undesignated surplus. The State’s revenues continued to decline from plan throughout the early part of fiscal year 2010, and mid-year revenue estimates from the House Ways and Means Committee predicted a \$295 million shortfall over the biennium, of which \$173.4 million was expected for fiscal year 2010. To close the then projected fiscal year 2010 shortfall, the following actions were taken:

- On April 12, 2010, the Joint Legislative Fiscal Committee approved the Governor's Executive Order 2010-2, addressing this shortfall and affecting the Departments of Health and Human Services, Administrative Services, Corrections and Education, as described below.
- On June 9, 2010, the House and Senate approved Special Session House Bill 1 (SSHB1), which, combined with Executive Order 2010-2, was intended to address the projected shortfall. On June 10, 2010 the bill was signed into law thereby enacting revenue enhancements and spending reductions spanning the remainder of the 2010-2011 biennium. The actions expected to affect the remainder of the 2010-2011 biennium included General Fund spending reductions, transfers from dedicated fund balances, increases in expected lapses, restructuring of the state debt, a transfer from the University System, transfers of State Fiscal Stabilization Funds (ARRA) from fiscal year 2011 and the sale of assets to the Turnpike System, among others.

Prior to Executive Order 2010-2 and SSHB1, the General and Education Trust Funds revenues for fiscal year 2010 were expected to be \$2,224.7 million, which amount was \$34.4 million below the amount in the original enacted budget. Executive Order 2010-2 and SSHB1 resulted in \$28.1 million of projected additional revenues.

Appropriations under the original enacted budget totaled \$2,485.7 million. Executive Order 2010-2 and SSHB1 reduced appropriations to \$2,237.2 million before year end lapses. The amount of lapses anticipated in the original budget was \$23.1 million and legislative actions added another \$18.4 million. Final lapses were \$44.4 million, \$2.9 million greater than the amount expected, thereby resulting in total net appropriations of \$2,192.8 million for fiscal year 2010. Transfers from other funds and the effects of adjustments to conform reporting to generally accepted accounting principles resulted in a General and Education Trust Fund undesignated fund balance of \$65.7 million at the end of fiscal year 2010. A balance of \$9.3 million also remains in the Rainy Day Fund. As provided by law, no further transfer to or from to the Rainy Day Fund will be made until the end of the current biennium.

Fiscal year 2010 unrestricted revenue for the General and Education Funds totaled \$2,252.8 million including \$28.1 million of revenue related to legislative actions discussed above. After excluding \$15.1 million of Executive Order revenues from the prior year, non Special Session and Executive Order revenues for fiscal year 2010 exceeded prior year (2009) revenues by \$22.3 million but were still \$34.4 million below the original plan. Ongoing economic weakness and the resulting impact on the investment environment and discretionary spending is believed to have contributed to the following effects on revenues:

- Interest & Dividend Taxes were below the plan by 27% and below the prior year by 13%.
- Meals and Rooms Taxes were below the plan by 7%, although above the prior year by 11% due to a rate increase of 12.5% effective for all of fiscal year 2010.
- The Lottery Commission contributed 11% less than plan for the year and was 3% below the prior year, due to increased regional competition, low Powerball jackpots and a fall-off in sales of other products.
- Other taxes and revenues, comprised of numerous categories, were \$5.7 million less than the plan and \$20.7 million less than the prior year, primarily in miscellaneous taxes and fees.

These impacts of the economic environment were mitigated in part by the strong performance from the Tobacco Tax which was 12% above the plan and 30% above the prior year due to a tax rate increase of 34%, which was effective for all of fiscal year 2010. Also, the Real Estate Transfer Tax showed signs of stabilization, ending the year slightly above the plan and \$3.6 million above the prior year.

### *Fiscal Year 2011*

Fiscal year 2011 began with a an undesignated surplus of \$65.7 million and a Rainy Day Account balance of \$9.3 million versus the original fiscal year 2011 budget estimate which was a combined total of \$21.6 million.

This was an increase of approximately \$53.4 million of which a significant portion was utilized during fiscal year 2011.

In fiscal year 2010 as the State's revenue receipts remained less than the original budget had projected, the State implemented cost reduction plans to align with the revised revenue projections for both fiscal years 2010 and 2011. The revised revenue estimate for fiscal year 2011 became \$2,234.1 million (2010 Special Session) which represented a reduction of approximately \$58 million for the general revenue decline and an additional \$17 million in reductions for certain tax laws that were repealed in 2010.

The General and Education Trust Funds revenues, before Executive Order and Special Session revenues, for fiscal year 2011 were \$2,193.2 million, which were \$40.9 million (1.8%) below plan (SSHB1 2010 Special Session) and \$31.5 million (1.4%) below prior year. Several individual categories also performed below SSBH1 estimates and below prior year results, respectively, including: Business taxes, \$12.8 million (2.5%) and \$19.9 million (3.9%); Interest and Dividends, \$13.5 million (15.0%) and \$8.3 million (9.8%); Real Estate Transfer tax, \$7.2 million (8.1%) and \$2.8 million (3.3%); and Lottery collections, \$15.5 million (19.9%) and \$4.0 million (6.0%). Other results include Meals and Rooms taxes which were \$9.5 million (3.9%) below plan but \$3.0 million (1.3%) above prior year, Tobacco taxes which were \$6.0 million (2.7%) above plan but \$16.9 million (6.9%) below prior year, and the shortfall of Medicaid Enhancement Tax which was below plan and prior year by \$15.1 million (13.9%) and \$4.7 million (4.8%), respectively.

As a result of (i) the lower unrestricted revenues anticipated during fiscal year 2011, (ii) the absence of other funding sources originally budgeted (JUA funding, Sale/Lease of certain Liquor Assets), and (iii) the fiscal year 2010 utilization of fiscal year 2011 budgeted ARRA State Fiscal Stabilization Funds (Education & Government Services), the State implemented various cost savings and cost reduction measures. Some of the significant cost savings measures implemented included the restructuring of debt which generated savings of approximately \$40 million, direct budget cuts and a continued freeze on hiring, equipment and travel. In addition, the State received more ARRA FMAP funding (approximately \$32 million from a Federal extension of this program) as well as increased federal Education Jobs funding. Of the \$41 million of Education Jobs funding received, approximately 50% was used to fund the budgeted State education requirements and the remaining 50% was provided to Local Education Agencies.

In addition to direct budget reductions implemented during the year, various lapses were required of State agencies as of June 30, 2011. The initial budgeted lapse requirement for fiscal year 2011 of \$23.5 million had been increased during the 2010 Special Session and additional increases were part of Chapters 223 and 244 Laws of 2011. Ultimately, the State's actual lapse realized for fiscal year 2011 was \$101.9 million which was approximately \$78.4 million above the original budget estimate. Through enabling legislation and strict financial management during the year, the State was able to return a significant amount of additional funding back to the General Fund.

The final undesignated fund balance as of June 30, 2011 was \$17.7 million plus the Rainy Day fund balance of \$9.3 million for a total of \$27.0 million. The combined balances are approximately \$3 million less than the original budget had projected in 2009 (\$30.4 million).

#### *Fiscal Year 2012*

The General and Education Trust Fund revenues for fiscal year 2012 met budgeted estimates of \$2.2 billion. While total revenues were substantially the same as the estimates, several revenue sources varied from their individual plans. The largest underperformer was the total category of Medicaid Enhancement Tax and Medicaid Recoveries which was \$19.5 million, or 20% lower than plan. This was offset by the net increase of all other unrestricted revenue categories which over performed, the primary contributors were business taxes (\$13.1 million or 2.6% above plan), meals and rooms tax (\$10.2 million or 4.5% above plan) and the utility property tax (\$4.9 million or 17.4% above plan). Offsetting these favorable performers, tobacco tax (\$8.6 million or 3.8%), transfers from the Liquor Commission (\$3.8 million or 2.9%) and the Lottery (\$3.2 million or 4.6%), underachieved estimates.

Net appropriations exceeded budget estimates by \$21.8 million, or less than one percent. The plan, \$2,254.5 million, including \$7.3 million in net reductions under House Bills 1 and 2, was not achieved. In addition,

final lapses of \$40.2 million were \$3.0 million lower than the plan of \$43.2 million, resulting in total net appropriations \$25.0 million higher than estimated. Closing adjustments, made in accordance with generally accepted accounting principles (GAAP) to bring budgetary accounting basis to the modified accrual reporting basis, totaled \$40.2 million and were \$34.6 million more favorable than plan. These are reflective of lower adjustments for year-end liabilities in fiscal year 2012, primarily related to the reversal of a higher than normal payroll accrual in fiscal year 2011 that reduced payroll accruals at June 30, 2012 by \$12 million. The fluctuation between years results from 27 pay periods occurring in fiscal year 2012.

Non-recurring year end accruals totaling \$14 million related to payables for a Medicaid plan amendment and State retirement contributions were made on a GAAP basis in fiscal year 2011 but paid and reversed in fiscal year 2012. The General Fund portion of year-end Medicaid liabilities was approximately \$10 million lower than in fiscal year 2011. June 30, 2012 unassigned fund equity (surplus), exclusive of the \$9.3 million Revenue Stabilization Account, totaled \$13.8 million, for total Unassigned General Fund equity of \$23.1 million compared to an estimated \$13.6 million deficit. This represents a net favorable variance at June 30, 2012 of \$36.7 million when compared to the budget as adopted.

For information regarding the audit for fiscal year 2012, see FINANCIAL STATEMENTS.

*Fiscal Year 2013 (unaudited)*

All information relating to fiscal year 2013 is unaudited, preliminary and subject to change.

The fiscal year 2013 budget as adopted in 2011 (the “Fiscal Year 2013 Budget”) assumed the State would start the year with an unassigned general fund deficit of \$14.1 million. The Fiscal Year 2013 Budget also assumed that the State would make up the deficit during the year and would end fiscal year 2013 with approximately \$.6 million available to be transferred to the Rainy Day Fund as of June 30, 2013. Additionally, the Fiscal Year 2013 Budget assumed that \$10 million, to be generated by the sale of the State’s Lakes Region Facility by the end of the fiscal year, would be deposited directly to the Rainy Day Fund.

In June 2013, the Legislature updated certain projections for fiscal year 2013. The unassigned general fund balance at the start of fiscal year 2013 was updated to the actual fiscal year 2012 surplus of \$13.8 million. Revenue, expenditures and other adjustments estimates were also updated and the State was then-projected to end fiscal year 2013 with an unassigned general fund equity balance of approximately \$56.9 million. In addition, projected Rainy Day Fund balance was updated to remain at \$9.3 million – the level at which it has remained since the end of fiscal year 2009 – because the net proceeds from the sale of the Lakes Region Facility were removed from the projection and, pursuant to Chapter 144:135, Laws 2013, any remaining surplus as of June 30, 2013 would not be deposited to the Rainy Day Fund.

The preliminary, unaudited unassigned general fund balance as of June 30, 2013 is approximately \$75.7 million, which is \$18.8 million higher than the amount projected in the fiscal years 2014-2015 budget adopted in June 2013. However, the State expects that before issuing the 2013 audited financial statements, the preliminary unaudited revenue and resulting unassigned balance will be adjusted downward as a result of \$5.6 million in credits that the State granted to hospitals in settlement of disputes over MET paid by the hospitals in previous tax years. Other adjustments are also possible, but the final net impact is not yet known. See STATE REVENUES – Medicaid Enhancement Tax (MET) Revenues.

Unrestricted revenue for the General and Education Trust Funds received during fiscal year 2013 totaled \$2,282.8 million which was above the Fiscal Year 2013 Budget by \$52.9 million and \$3.0 million higher than the revised estimate made in June 2013.

- The favorable results as compared to the Fiscal Year 2013 Budget resulted, in part, from one-time settlements received during the year. An additional \$20.8 million of Tobacco Settlement revenue was received during fiscal year 2013 (see LITIGATION – *State of New Hampshire v. Philip Morris USA, RJ Reynolds, Inc. and Lorillard Tobacco Company*), as well as approximately \$9 million from the Methyl tertiary-butyl ether (“MtBE”) settlement (see LITIGATION – *State of New Hampshire v. Amerada Hess, et al*). Additionally, the following



taxes performed better than expected: Business Taxes by \$33.7 million; Meal and Rooms Taxes by \$14.2 million; and Real Estate Transfer Taxes by \$12.2 million. The Medicaid Enhancement Tax was below the Fiscal Year 2013 Budget by approximately \$28.5 million primarily as a result of hospitals reporting less than projected net patient services revenues, Tobacco Tax was below the Fiscal Year 2013 Budget by approximately \$13.1 million which was primarily the result of the decreased tax rate effective during fiscal year 2013 (the rate reduced on July 1, 2011 from \$1.78/pack of cigarettes to \$1.68/pack) and Communications Taxes were significantly below the Fiscal Year 2013 Budget by \$25.0 million primarily as a result of the change in the law which excluded certain internet services from the taxable base. The State's other remaining revenue sources combined were approximately \$29.6 million above the Fiscal Year 2013 Budget.

- Net appropriations exceeded the Fiscal Year 2013 Budget estimates by \$10.1 million, or approximately .5%. The Fiscal Year 2013 Budget of \$2,215.2 million included approximately \$7.8 million in net reductions under House Bills 1 and 2 that were not achieved during the fiscal year. Appropriations authorized after the passage of the Fiscal Year 2013 Budget via new legislation or existing laws were approximately \$19.3 million; however, lapses were approximately \$17.0 million higher than expected. Total closing adjustments made in accordance with generally accepted accounting principles (GAAP) to bring the budgetary accounting basis to the modified accrual accounting basis totaled \$4.4 million for fiscal year 2013. Significant adjustments included a benefit of approximately \$11.1 million related the Abandoned Property Escheat Revenue which was partially related to the refinement of the revenue calculation (\$6 million) and the remaining increase (\$5 million) was related to the increased value of the abandoned property assets. Additional GAAP adjustments were recorded to recognize a deficit in the Capital Fund related to the sale of the Community College System Stratham Property (\$2.8 million) as well as to recognize a projected increase in the State's Medicaid liability as of June 30, 2013 (\$5 million). The net of the other GAAP adjustments totaled \$1.1 million.

The following tables present a comparison of General Fund and Education Trust Fund unrestricted revenues for fiscal years 2009 through 2013 and General Fund and Education Trust Fund net appropriations for fiscal years 2009 through 2013. The information for fiscal years 2009 through 2012 is derived from the State's audited financial statements. The information for fiscal year 2013 is unaudited and subject to change.

**GENERAL AND EDUCATION TRUST FUND UNRESTRICTED REVENUES  
FISCAL YEARS 2009-2013  
(GAAP Basis - In Millions)**

Revenue Category	FY 2009			FY 2010			FY 2011			FY 2012			Unaudited FY 2013		
	General	Education	Total	General	Education	Total	General	Education	Total	General	Education	Total	General	Education	Total
Business Profits Tax	\$ 251.9	\$ 53.9	\$ 305.8	\$ 258.6	\$ 57.6	\$ 316.2	\$ 248.5	\$ 49.3	\$ 297.8	\$ 256.5	\$ 55.3	\$ 311.8	\$ 267.1	\$ 56.7	\$ 323.8
Business Enterprise Tax	61.9	123.4	185.3	71.7	122.2	193.9	63.0	129.4	192.4	68.5	135.8	204.3	78.3	149.7	228.0
Subtotal	313.8	177.3	491.1	330.3	179.8	510.1	311.5	178.7	490.2	325.0	191.1	516.1	345.4	206.4	551.8
Meals & Rooms Tax	203.6	6.1	209.7	228.3	4.2	232.5	228.9	6.6	235.5	231.8	7.6	239.4	241.2	7.2	248.4
Tobacco Tax	59.3	128.8	188.1	130.5	113.0	243.5	129.8	96.8	226.6	136.1	78.8	214.9	124.2	81.7	205.9
Liquor Sales and Distribution	146.0	-	146.0	120.7	-	120.7	125.7	-	125.7	127.6	-	127.6	132.3	-	132.3
Interest & Dividends Tax	97.1	-	97.1	84.9	-	84.9	76.6	-	76.6	83.5	-	83.5	93.0	-	93.0
Insurance Tax	94.2	-	94.2	86.8	-	86.8	84.9	-	84.9	85.0	-	85.0	95.4	-	95.4
Communications Tax	80.3	-	80.3	81.0	-	81.0	76.5	-	76.5	79.3	-	79.3	57.4	-	57.4
Real Estate Transfer Tax	53.5	27.7	81.2	56.0	28.8	84.8	54.0	28.0	82.0	52.8	29.2	82.0	62.3	31.1	93.4
Securities Revenue	34.7	-	34.7	34.2	-	34.2	37.0	-	37.0	37.6	-	37.6	38.1	-	38.1
Lottery Transfers Racing & Charitable Gaming Commission Transfers	-	68.1	68.1	-	66.2	66.2	-	62.2	62.2	-	66.8	66.8	-	74.3	74.3
Tobacco Settlement	12.8	40.0	52.8	4.2	40.0	44.2	1.7	40.0	41.7	2.5	40.0	42.5	23.2	40.0	63.2
Utility Property Tax	-	29.0	29.0	-	29.9	29.9	-	32.3	32.3	-	33.1	33.1	-	33.2	33.2
State Property Tax	-	363.7	363.7	-	363.2	363.2	-	363.6	363.6	-	363.1	363.1	-	363.7	363.7
Other	143.5	-	143.5	123.3	-	123.3	135.9	-	135.9	134.3	-	134.3	141.7*	-	141.7*
Subtotal	1,238.8	842.2	2,081.0	1,280.2	826.5	2,106.7	1,262.5	809.5	2,072.0	1,295.5	813.2	2,108.7	1,354.2	841.0	2,195.2
Net Medicaid Enhancement Revenues	99.6	-	99.6	98.1	-	98.1	93.4	-	93.4	74.8	-	74.8	76.3	-	76.3
Recoveries	21.8	-	21.8	19.9	-	19.9	27.8	-	27.8	6.3	-	6.3	11.3	-	11.3
Subtotal	1,360.2	842.2	2,202.4	1,398.2	826.5	2,224.7	1,383.7	809.5	2,193.2	1,376.6	813.2	2,189.8	1,441.8	841.0	2,282.8
Executive Orders & Special Session Revenues	15.1	-	15.1	28.1	-	28.1	1.5	-	1.5	-	-	-	-	-	-
Total	<u>\$1,375.3</u>	<u>\$842.2</u>	<u>\$2,217.5</u>	<u>\$1,426.3</u>	<u>\$826.5</u>	<u>\$2,252.8</u>	<u>\$1,385.2</u>	<u>\$809.5</u>	<u>\$2,194.7</u>	<u>\$1,376.6</u>	<u>\$813.2</u>	<u>\$2,189.8</u>	<u>\$1,441.8</u>	<u>841.0</u>	<u>\$2,282.8</u>

\* Includes \$9.0 million of MtBE Settlements. See LITIGATION – *Aranosian Oil Co., et al. v. State*.

**GENERAL FUND AND EDUCATION TRUST FUND NET APPROPRIATIONS  
FISCAL YEARS 2009-2013  
(GAAP Basis – In Millions)**

<b>Category of Government</b>	<b><u>FY 2009</u></b>			<b><u>FY 2010</u></b>			<b><u>FY 2011</u></b>			<b><u>FY 2012</u></b>			<b>Unaudited <u>FY 2013</u></b>		
	<b><u>General</u></b>	<b><u>Education</u></b>	<b><u>Total</u></b>	<b><u>General</u></b>	<b><u>Education</u></b>	<b><u>Total</u></b>	<b><u>General</u></b>	<b><u>Education</u></b>	<b><u>Total</u></b>	<b><u>General</u></b>	<b><u>Education</u></b>	<b><u>Total</u></b>	<b><u>General</u></b>	<b><u>Education</u></b>	<b><u>Total</u></b>
General Government	\$311.4	\$0.0	\$311.4	\$300.5	\$0.0	\$300.5	\$248.3	\$0.0	\$248.3	\$248.1	-	\$248.1	\$240.1	-	\$240.1
Justice and Public Protection	233.7	-	233.7	211.8	-	211.8	208.0	-	208.0	200.7	-	200.7	197.8	-	197.8
Resource Protection and Development	39.3	-	39.3	36.3	-	36.3	31.1	-	31.1	28.6	-	28.6	26.5	-	26.5
Transportation	1.1	-	1.1	0.6	-	0.6	1.0	-	1.0	0.9	-	0.9	0.7	-	0.7
Health and Social Services	655.0	-	655.0	647.7	-	647.7	647.5	-	647.5	643.5	-	643.5	632.4	-	632.4
Education	<u>197.5</u>	<u>894.7</u>	<u>1,092.2</u>	<u>201.2</u>	<u>794.7</u>	<u>995.9</u>	<u>190.0</u>	<u>933.4</u>	<u>1,123.4</u>	<u>158.8</u>	<u>955.7</u>	<u>1,114.5</u>	<u>168.7</u>	<u>959.1</u>	<u>1,127.8</u>
Net Appropriations	<u>\$1,438.0</u>	<u>\$894.7</u>	<u>\$2,332.7</u>	<u>\$1,398.1</u>	<u>\$794.7</u>	<u>\$2,192.8</u>	<u>\$1,325.9</u>	<u>\$933.4</u>	<u>\$2,259.3</u>	<u>\$1,280.6</u>	<u>\$955.7</u>	<u>\$2,236.3</u>	<u>\$1,266.2</u>	<u>\$959.1</u>	<u>\$2,225.3</u>

The following table sets out the General Fund and Education Trust Fund undesignated fund balances and the amounts reserved for the Revenue Stabilization Account for each of the fiscal years 2009 through 2013. The information for fiscal years 2009 through 2012 is derived from the State's audited financial statements. The information for fiscal year 2013 is unaudited and subject to change.

**GENERAL FUND AND EDUCATION TRUST FUND BALANCES  
FISCAL YEARS 2009-2013  
(GAAP Basis - In Millions)**

	<u>FY 2009</u>			<u>FY 2010</u>			<u>FY 2011</u>			<u>FY 2012</u>			<u>Unaudited FY 2013</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>
Undesignated Fund Balance, July 1	\$ 17.2	\$ 0.0	\$ 17.2	\$ 0.0	\$ 0.0	\$ 0.0	\$ 65.7	\$ 0.0	\$ 65.7	\$ 17.7	\$ 0.0	\$ 17.7	\$ 13.8	\$ 0.0	\$ 13.8
Additions:															
Unrestricted Revenue	1,360.2	842.2	2,202.41	1,398.2	826.5	2,224.7	1,383.7	809.5	2,193.2	1,376.6	813.2	2,189.8	1,441.8	841.0	2,282.8
Executive Orders and Special Session Revenues	15.1	-	15.1	28.1	-	28.1	1.5	-	1.5	-	-	-	-	-	-
Total Additions	<u>1,375.3</u>	<u>842.2</u>	<u>2,217.5</u>	<u>1,426.3</u>	<u>826.5</u>	<u>2,252.8</u>	<u>1,385.2</u>	<u>809.5</u>	<u>2,194.7</u>	<u>1,376.6</u>	<u>813.2</u>	<u>2,189.8</u>	<u>1,441.8</u>	<u>841.0</u>	<u>2,282.8</u>
Deductions:															
Appropriations Net of Estimated Revenues	(1,509.2)	(897.7)	(2,406.9)	(1,440.4)	(796.8)	(2,237.2)	(1,595.5)	(938.3)	(2,533.8)	(1,320.1)	(956.4)	(2,276.5)	(1,325.5)	(961.4)	(2,286.9)
Special Session Reductions	-	-	-	-	-	-	172.5	-	172.5	-	-	-	-	-	-
Less: Lapses	<u>71.2</u>	<u>3.0</u>	<u>74.2</u>	<u>42.3</u>	<u>2.1</u>	<u>44.4</u>	<u>97.1</u>	<u>4.8</u>	<u>101.9</u>	<u>39.5</u>	<u>0.7</u>	<u>40.2</u>	<u>59.3</u>	<u>2.3</u>	<u>61.6</u>
Total Net Appropriations	<u>(1,438.0)</u>	<u>(894.7)</u>	<u>(2,332.7)</u>	<u>(1,398.1)</u>	<u>(794.7)</u>	<u>(2,192.8)</u>	<u>(1,325.9)</u>	<u>(933.5)</u>	<u>(2,259.4)</u>	<u>(1,280.6)</u>	<u>(955.7)</u>	<u>(2,236.3)</u>	<u>(1,266.2)</u>	<u>(959.1)</u>	<u>(2,225.3)</u>
GAAP and Other Adjustments	<u>20.5</u>	<u>(0.4)</u>	<u>20.1</u>	<u>(7.0)</u>	<u>(0.3)</u>	<u>(7.3)</u>	<u>14.6</u>	<u>-</u>	<u>14.6</u>	<u>40.1</u>	<u>2.5</u>	<u>42.6</u>	<u>5.6</u>	<u>(1.2)</u>	<u>4.4</u>
Current Year Balance	(42.2)	(52.9)	(95.1)	21.2	31.5	52.7	73.9	(124.0)	(50.1)	136.1	(140.0)	(3.9)	181.2	(119.3)	61.9
Transfers (to)/from:															
Revenue Stabilization Account	79.7	-	79.7	-	-	-	-	-	-	-	-	-	-	-	-
Liquor Commission	-	-	-	6.5	-	6.5	2.1	-	2.1	-	-	-	-	-	-
Highway Fund	(1.8)	-	(1.8)	6.5	-	6.5	-	-	-	-	-	-	-	-	-
Education Trust Fund	<u>(52.9)</u>	<u>52.9</u>	<u>-</u>	<u>31.5</u>	<u>(31.5)</u>	<u>-</u>	<u>(124.0)</u>	<u>124.0</u>	<u>-</u>	<u>(140.0)</u>	<u>140.0</u>	<u>-</u>	<u>(119.3)</u>	<u>119.3</u>	<u>-</u>
Undesignated Fund Balance, June 30	-	0.0	0.0	65.7	(0.0)	65.7	17.7	(0.0)	17.7	13.8	-	13.8	75.7*	-	75.7*
Reserved for Revenue Stabilization Account	<u>9.3</u>	<u>-</u>	<u>9.3</u>	<u>9.3</u>	<u>-</u>	<u>9.3</u>	<u>9.3</u>	<u>-</u>	<u>9.3</u>	<u>9.3</u>	<u>-</u>	<u>9.3</u>	<u>9.3</u>	<u>-</u>	<u>9.3</u>
Total Equity	\$ 9.3	\$ 0.0	\$ 9.3	\$ 75.0	\$ (0.0)	\$ 75.0	\$ 27.0	\$ (0.0)	\$ 27.0	\$ 23.1	\$ -	\$ 23.1	\$ 85.0	\$ -	\$ 85.0

\* The State expects that before issuing the 2013 audited financial statements, the preliminary unaudited unassigned balance will be adjusted downward as a result of \$5.6 million in credits that the State granted to hospitals in settlement of disputes over MET paid by the hospitals in previous tax years. Other adjustments are also possible, but the final net impact is not yet known. See STATE REVENUES - Medicaid Enhancement Tax (MET) Revenues

## **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”). On June 30, 2011 the office was discontinued. The OES was responsible for coordinating with State agencies to ensure all conditions of the American Recovery and Reinvestment Act of 2009 (“ARRA”) were met.

In fiscal year 2010, the State received \$105.6 million in ARRA funding on Medicaid claims paid from July 1, 2009 through June 30, 2010. The State received approximately \$84.2 million from ARRA funding in fiscal year 2011. Medicaid reimbursement rates for the fiscal years 2010 and 2011 were 61.24% and 59.59%, respectively.

ARRA provided significant State funding through a provision known as the State Fiscal Stabilization Fund. The State’s allocation totaled \$200.8 million. As required by federal law, the State budgeted 81.8 percent (\$164 million) of its allocation for education. With approval from the Federal Department of Education, the State utilized \$160,156,434 for primary and secondary education funding and \$4,087,521 for higher education funding in its fiscal year 2010. ARRA provided that a portion of the State Fiscal Stabilization Fund could be used by states for public safety and other government services. The State allocated this flexible portion to fund other State government services of \$34 million in fiscal year 2009 and \$2.0 million over fiscal years 2010 and 2011.

Under the federal Education Jobs Fund (Public Law 111-226), the State was awarded \$41,593,639 (including a supplemental award), which was distributed to each Local Education Agency (LEA) proportional to each LEA’s share of the State’s primary elementary and secondary aid distribution. Approximately fifty percent was distributed as part of State’s primary aid for the 2010-2011 and 2011-2012 school years, thus avoiding potential funding cuts to LEAs. To provide additional financial support, the balance was allocated as one time additional aid. LEAs had the option to use this additional federal aid in either the 2010-2011 or 2011-2012 school years.

In July 2010, Network New Hampshire Now (NNHN), a collaboration of public and private partners from across the State led by the University of New Hampshire, received a \$44.5 million grant of economic stimulus funds for critically needed broadband expansion across the State. The \$44.5 million grant was matched with \$22 million in private cash and in-kind funding. NNHN is expanding broadband in all 10 counties in the State and includes a wireless public safety network, connectivity for an intelligent transportation system, and last mile “fiber to the home” in two communities. The largest component is a middle mile fiber network that connects and supports the entire program, including connecting dozens of community anchor institutions, such as healthcare providers, community colleges, schools and libraries. The State does not expect a budget impact under this program.

During fiscal year 2011 the State received additional direct program allocations through the ARRA for specific program purposes that are being administered through various State agencies. The unaudited schedule of Federal Awards for the year ended June 30, 2013 reflects total ARRA expenditures of approximately \$30 million. Remaining balances of awarded funds are anticipated to be expended fully by calendar 2015.

Summary of Awards: these amounts cannot be used to offset amounts previously funded with State dollars. All ARRA amounts (other than enhanced Medicaid match dollars) are included.

Office of Economic Stimulus.....	\$200.8 million
Department of Transportation.....	\$139.6 million
Department of Education .....	\$135.5 million
Department of Environmental Services .....	\$ 64.5 million
Office of Energy and Planning.....	\$ 70.2 million
Department of Health and Human Services .....	\$ 25.9 million
Department of Justice.....	\$ 8 million
Department of Labor.....	\$ 8 million
Department of the Adjutant General .....	\$ 5 million
Community Development Finance Authority .....	\$ 2.4 million
Department of Employment Security.....	\$ 1.6 million
Public Utilities Commission .....	\$784 thousand
Department of Cultural Resources .....	\$293 thousand
Department of Administrative Services .....	\$218 thousand

### Operating Budget Fiscal Years 2014 and 2015

*General and Education Trust Funds.* Chapters 143 and 144 of the Laws of 2013, the operating budget for fiscal years 2014 and 2015, were signed by the Governor and became law on June 28, 2013. The adopted budget assumes a \$56.9 million surplus at June 30, 2013 to be carried forward as general fund revenue into fiscal year 2014. However, preliminary results for the year ended June 30, 2013, indicate that fiscal year 2013 closed with a \$75.7 million surplus, which is \$18.8 million more than previously assumed. However, the State expects that before issuing the 2013 audited financial statements, the surplus balance will be adjusted downward as a result of \$5.6 million in credits granted by the State to certain hospitals as part of settlements of disputes over MET paid by the hospitals in previous years. (Other adjustments are also possible but the final net impact is not yet known.) Total net appropriations (including estimated lapses) for the General and Education Trust Funds for fiscal years 2014 and 2015 as set forth in Chapter 143 and 144 of the Laws of 2013 are \$2,287.2 million and \$2,319.3 million, respectively. Lapse estimates are \$50.0 million and \$51.9 million for fiscal years 2014 and 2015, respectively. Unaudited fiscal year 2013 results indicate lapses were \$61.1 million; however, the State cannot predict whether fiscal year 2014 or 2015 lapse estimates will be achieved. Total net General and Education Trust Fund appropriations are 3% greater than expenditures in the 2012-2013 biennium, amounting to an increase of \$145.4 million over the biennium. Noteworthy funding and program changes in the 2014-2015 budgeted appropriations include:

- Increasing State support for public higher education by \$66.4 million of general funds over the biennium. State funding for the Community College System was increased by \$19.1 million (from \$63.4 million in fiscal years 2012 and 2013 combined) to \$82.5 million in fiscal years 2014 and 2015 combined, and State support for the University System was increased by \$47.3 million (from \$105.7 million in fiscal years 2012 and 2013 combined) to \$153.0 million in fiscal years 2014 and 2015 combined.
- Restoring the use of revenue from the State's 529 college savings plan for distribution under a need-based scholarship program for New Hampshire students attending both public and private colleges within the State. During the 2012-2013 biennium, such revenue had been used to directly support the operations of the State's Community College and University Systems.
- Increasing support for the State's mental health system with the addition of \$25.5 million in total funds over the biennium to add or expand existing program capabilities. The funding for these services adds capacity in all levels of the service system, in line with the recommendations of the State's 10-Year Plan for mental health. This 10-Year Plan was developed in 2008 by the State and mental health providers and advocates and progress had stalled due to the national recession. Mental health dollars budgeted for the 2014-2015 biennium of \$382.7 million represent a total increase of \$34.7 million over the 2013-2013 biennium. A portion of that increase will provide services at existing levels.

- Increasing funding for uncompensated care payments to the State’s hospitals by \$52.4 million in total funds over the biennium. The amount budgeted for the 2014-2015 biennium, \$154.5 million, compares to \$102.1 million budgeted in the 2013-2013 biennium. Funding for uncompensated care payments was drastically reduced during the last biennium.
- Continuing the centralization of State human resources and other business functions under the Department of Administrative Services and continuing to move boards and commissions to one common licensing system, providing easier access to the public for information about licensed professionals.
- Doubling, from \$1 million to \$2 million, the research-and-development tax credit, to help businesses grow and continuing efforts to develop an online Business One Stop tool to make it easier for businesses to interact with State government and to reduce unnecessary duplication.
- Increasing general fund support for municipalities throughout the State over the biennium by increasing the Meals and Rooms Tax distribution to cities and towns by \$5 million, increasing State contribution to local education programs by \$3 million, and increasing funding for local water and sewer projects by over \$9 million.
- Shoring up the State’s public safety infrastructure, including funding the construction of a new women’s prison in the capital budget, restoring the Children In Need of Services program, hiring additional state troopers, and replacing the loss of federal funds for Drug Task Force teams with State general funds.

*Highway Funds.* As set forth in Chapters 143 and 144 of the Laws of 2013, total net operating appropriations (including estimated lapses) for the Highway Fund for fiscal years 2014 and 2015 are \$251.4 million and \$255.9 million, respectively (not including capital appropriations). These total net operating Highway Fund appropriations are 4.4% less than estimated expenditures in fiscal years 2012 and 2013, amounting to a reduction of \$23.2 million over the biennium. This reduction, however, is primarily attributed to a change from budgeting certain federal and other reimbursements from unrestricted revenue and appropriations to restricted revenue and appropriations. This change reduced unrestricted Highway Fund revenue and appropriations but not total revenue and appropriations in the Highway Fund. The adopted budget also accelerates the Turnpike System’s payments to the Highway Fund from the sale of a portion of I-95 in fiscal year 2010 paying off the remaining balance of approximately \$30 million in fiscal years 2014 and 2015.

The table below sets forth the payments made and scheduled to be made by the Turnpike System to the Highway Funds in the fiscal years since the I-95 sale. The final payment of \$14 million is expected to be made on July 1, 2015. It is likely that additional revenues will be needed to support Highway Fund expenditures in future years.

<u>Fiscal Year</u>	<u>Amount</u>
2010	\$30 million
2011	20 million
2012	26 million
2013	26 million
2014	15 million
2015	14 million

**Fiscal Year 2014 Revenue Performance four months ended October 31, 2013 (unaudited)**

Unrestricted revenue for the General and Education Trust Funds received during the first four months of fiscal year 2014 totaled \$540.9 million, which was above plan by \$24.9 million, or 4.8%, and above the prior year by \$26.2 million, or 5.1%. Some of the stronger revenue categories contributing to these favorable results include the following taxes:

- Business Taxes - \$5.9 million, or 4.0%, above plan and \$7.2 million, or 4.9%, above prior year.
- Real Estate Transfer Tax - \$4.4 million, or 12.3%, above plan and \$6.1 million, or 17.9%, above prior year.
- Tobacco Tax - \$3.7 million, or 4.2%, above plan and as compared to prior year, \$16.6 million, or 22.3%, above due to advance purchases made in July in anticipation of the 8/1/13 tax rate increase.
- Meals & Rooms Tax - \$3.4 million, or 3.3%, above plan and \$4.8 million, or 4.8%, above prior year.

Transfers from the Liquor Commission are also ahead of plan by \$3.8 million, or 8.0%, and above prior year by \$4.5 million, or 9.6%.

The performance of the Communications Tax as compared to prior year is below by \$4.0 million, or 17.2%. In addition, unrestricted Board and Care revenue is below prior year by \$9.3 million as this revenue category is now budgeted as restricted funds as part of the 2014-2015 operating budget.

*[Remainder of page intentionally left blank.]*



The following table presents a comparison of General Fund and Education Trust Fund unrestricted revenues for fiscal years 2013 through 2015. The information for fiscal year 2013 is unaudited and subject to change. The information for fiscal year 2014 is based on Chapters 143 and 144, Laws of 2013, the Operating Budget for the 2014-2015 biennium, in effect as of the date of this Information Statement.

**GENERAL FUND AND EDUCATION TRUST FUND UNRESTRICTED REVENUES**  
**ACTUAL AND BUDGET**  
**FISCAL YEARS 2013-2015**  
**(GAAP Basis - In Millions)**

<u>Revenue Category</u>	<u>Actual Unaudited Fiscal Year 2013</u>			<u>Operating Budget Fiscal Year 2014</u>			<u>Operating Budget Fiscal Year 2015</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>
Business Profits Tax	\$ 267.1	\$ 56.7	\$ 323.8	\$ 276.2	\$ 59.9	\$ 336.1	\$ 280.9	\$ 59.6	\$ 340.5
Business Enterprise Tax	<u>78.3</u>	<u>149.7</u>	<u>228.0</u>	<u>74.9</u>	<u>150.1</u>	<u>225.0</u>	<u>75.1</u>	<u>152.6</u>	<u>227.7</u>
Subtotal	345.4	206.4	551.8	351.1	210.0	561.1	356.0	212.2	568.2
Meals and Rooms Tax	241.2	7.2	248.4	243.4	7.8	251.2	247.4	7.8	255.2
Tobacco Tax	124.2	81.7	205.9	127.5	87.2	214.7	121.9	84.2	206.1
Liquor Sales and Distribution	132.3	-	132.3	133.1	-	133.1	136.0	-	136.0
Interest & Dividends Tax	93.0	-	93.0	96.1	-	96.1	98.0	-	98.0
Insurance Tax	95.4	-	95.4	86.9	-	86.9	109.5	-	109.5
Communications Tax	57.4	-	57.4	62.5	-	62.5	62.5	-	62.5
Real Estate Transfer Tax	62.3	31.1	93.4	64.9	32.0	96.9	64.8	31.9	96.7
Securities Revenue	38.1	-	38.1	37.6	-	37.6	37.6	-	37.6
Transfers from Lottery Commission	-	74.3	74.3	-	75.3	75.3	-	77.3	77.3
Transfers from Racing & Charitable Gaming Commission	-	3.4	3.4	-	3.4	3.4	-	3.4	3.4
Tobacco Settlement	23.2	40.0	63.2	4.9	40.0	44.9	4.4	40.0	44.4
Utility Property Tax	-	33.2	33.2	-	34.5	34.5	-	35.4	35.4
State Property Tax	-	363.7	363.7	-	363.6	363.6	-	363.6	363.6
Other	<u>141.7</u>	<u>-</u>	<u>141.7</u>	<u>102.2</u>	<u>-</u>	<u>102.2</u>	<u>113.8</u>	<u>6.7</u>	<u>120.5</u>
Subtotal	1,354.2	841.0	2,195.2	1,310.2	853.8	2,164.0	1,351.9	862.5	2,214.4
Net Medicaid Enhancement									
Revenues	76.3	-	76.3	72.2	-	72.2	73.7	-	73.7
Recoveries	<u>11.3</u>	<u>-</u>	<u>11.3</u>	<u>5.4</u>	<u>-</u>	<u>5.4</u>	<u>5.4</u>	<u>-</u>	<u>5.4</u>
Subtotal	<u>1,441.8</u>	<u>841.0</u>	<u>2,282.8</u>	<u>1,387.8</u>	<u>853.8</u>	<u>2,241.6</u>	<u>1,431.0</u>	<u>862.5</u>	<u>2,293.5</u>
Executive Orders & Special Session Revenues	-	-	-	-	-	-	-	-	-
Total	<u>\$1,441.8</u>	<u>\$841.0</u>	<u>\$2,282.8</u>	<u>\$1,387.8</u>	<u>\$853.8</u>	<u>\$2,241.6</u>	<u>\$1,431.0</u>	<u>\$862.5</u>	<u>\$2,293.5</u>

The following table compares on a cash basis, for the four months ended October 31, 2013, General Fund and Education Trust Fund unrestricted revenues for the fiscal years 2013 and 2014 and a comparison to the revenue estimates from the fiscal year 2014 Operating Budget. 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, unaudited and subject to change. Further, because information in this table reflects cash receipts only, final audited numbers may differ to reflect appropriate accruals.

**GENERAL AND EDUCATION TRUST FUNDS UNRESTRICTED REVENUES  
FOR THE FOUR MONTHS ENDED OCTOBER 31, 2013  
(Cash Basis - In Millions)**

Revenue Category	Unaudited	Unaudited		FY 2014 vs Plan		FY 2014 vs FY 2013	
	FY 13 <u>Actual</u>	FY 14 <u>Actual</u>	FY 14 <u>Plan</u>	<u>Variance</u>	<u>% Change</u>	<u>Variance</u>	<u>% Change</u>
Business Profits Tax	\$ 85.9	\$ 89.2	\$ 88.4	\$ 0.8	0.9%	\$3.3	3.8%
Business Enterprise Tax	60.1	64.0	58.9	5.1	8.7	3.9	6.5
Subtotal	146.0	153.2	147.3	5.9	4.0	7.2	4.9
Meals & Rooms Tax	100.9	105.7	102.3	3.4	3.3	4.8	4.8
Tobacco Tax	74.3	90.9	87.2	3.7	4.2	16.6	22.3
Transfer from Liquor Commission	46.7	51.2	47.4	3.8	8.0	4.5	9.6
Interest & Dividends Tax	18.0	18.5	18.2	0.3	1.6	0.5	2.8
Insurance Tax	5.9	6.0	4.4	1.6	36.4	0.1	1.7
Communications Tax	23.3	19.3	20.9	(1.6)	-7.7	(4.0)	-17.2
Real Estate Transfer Tax	34.0	40.1	35.7	4.4	12.3	6.1	17.9
Securities Revenue	1.6	1.8	1.8	-	0.0	0.2	12.5
Transfers from Lottery Commission	18.2	18.5	18.4	0.1	0.5	0.3	1.6
Transfers from Racing & Charitable Gaming Commission	0.7	0.7	0.7	-	0.0		0.0
Tobacco Settlement	-	0.2	-	0.2	-	0.2	-
Utility Property Tax	7.5	8.7	8.2	0.5	6.1	1.2	16.0
State Property Tax	-	-	-	-	-	-	-
Other	<u>36.6</u>	<u>25.0</u>	<u>22.2</u>	<u>2.8</u>	<u>12.6</u>	<u>(11.6)</u>	<u>-31.7</u>
Subtotal	513.7	539.8	514.7	25.1	4.9%	26.1	5.1%
Net Medicaid Enhancement							
Revenues	-	-	-	-	-	-	-
Recoveries	<u>1.0</u>	<u>1.1</u>	<u>1.3</u>	<u>(0.2)</u>	<u>-15.4%</u>	<u>0.1</u>	<u>10.0%</u>
Total	<u>\$514.7</u>	<u>\$540.9</u>	<u>\$516.0</u>	<u>\$24.9</u>	<u>4.8%</u>	<u>\$26.2</u>	<u>5.1%</u>

The following table presents a comparison of General Fund and Education Trust Fund appropriations net of estimated revenues for fiscal years 2013 through 2015. The information for fiscal year 2013 is unaudited and subject to change. The information for fiscal years 2014 and 2015 is based on Chapters 143 and 144, Laws of 2013, the Operating Budget for the 2014-2015 biennium, in effect as of the date of this Information Statement.

**GENERAL FUND AND EDUCATION TRUST FUND APPROPRIATIONS NET OF ESTIMATED REVENUES  
ACTUAL AND BUDGET  
FISCAL YEARS 2013-2015  
(In Millions)**

<b>Category</b>	<b>Actual Unaudited Fiscal Year 2013*</b>			<b>Operating Budget Fiscal Year 2014*</b>			<b>Operating Budget Fiscal Year 2015*</b>		
	<b>General</b>	<b>Education</b>	<b>Total</b>	<b>General</b>	<b>Education</b>	<b>Total</b>	<b>General</b>	<b>Education</b>	<b>Total</b>
General Government	\$ 240.1	-	\$ 240.1	\$ 254.6	-	\$ 254.6	\$ 267.4	-	\$ 267.4
Justice and Public Protection	197.8	-	197.8	218.9	-	218.9	225.4	-	225.4
Resource Protection and Development	26.5	-	26.5	33.8	-	33.8	33.4	-	33.4
Transportation	0.7	-	0.7	1.0	-	1.0	1.0	-	1.0
Health and Social Services	632.4	-	632.4	677.9	-	677.9	667.3	-	667.3
Education	<u>168.7</u>	<u>959.1</u>	<u>1,127.8</u>	<u>203.7</u>	<u>959.3</u>	<u>1,163.0</u>	<u>218.3</u>	<u>961.7</u>	<u>1,180.0</u>
Total	<u>\$1,266.2</u>	<u>\$959.1</u>	<u>\$2,225.3</u>	<u>\$1,389.9</u>	<u>\$959.3</u>	<u>\$2,349.2</u>	<u>\$1,412.8</u>	<u>\$961.7</u>	<u>\$2,374.5</u>
Less:									
Appropriation Adjustments				(27.4)	-	(27.4)	(2.4)	-	(2.4)
Lapses				<u>(50.0)</u>	<u>-</u>	<u>(50.0)</u>	<u>(51.9)</u>	<u>-</u>	<u>(51.9)</u>
Total Net Appropriations				<u>\$1,312.5</u>	<u>\$959.3</u>	<u>\$1,312.5</u>	<u>\$1,358.5</u>	<u>\$961.7</u>	<u>\$2,320.2</u>

\* Appropriation adjustments and lapses are not known by category of government until fiscal year end. Accordingly, the actual unaudited fiscal year 2013 appropriations by category are net of adjustments and lapses, while the budgeted appropriations by category for fiscal years 2014 and 2015 are not. Total net appropriations budgeted for fiscal years 2014 and 2015 are shown below the budgeted appropriations by category.

The following table sets out the General Fund and Education Trust Fund undesignated fund balances and the amounts designated for the Revenue Stabilization Account for fiscal years 2013 through 2015. (Information for fiscal year 2012 can be found in the table on page 31.) The information for fiscal year 2013 is unaudited and subject to change. The information for fiscal years 2014 and 2015 is based on Chapters 143 and 144, Laws of 2013, the Operating Budget for the 2014-2015 biennium and does not reflect audited results from fiscal year 2013.

**GENERAL FUND AND EDUCATION TRUST FUND BALANCES**  
**FISCAL YEARS 2013 – 2015**  
**(GAAP Basis - In Millions)**

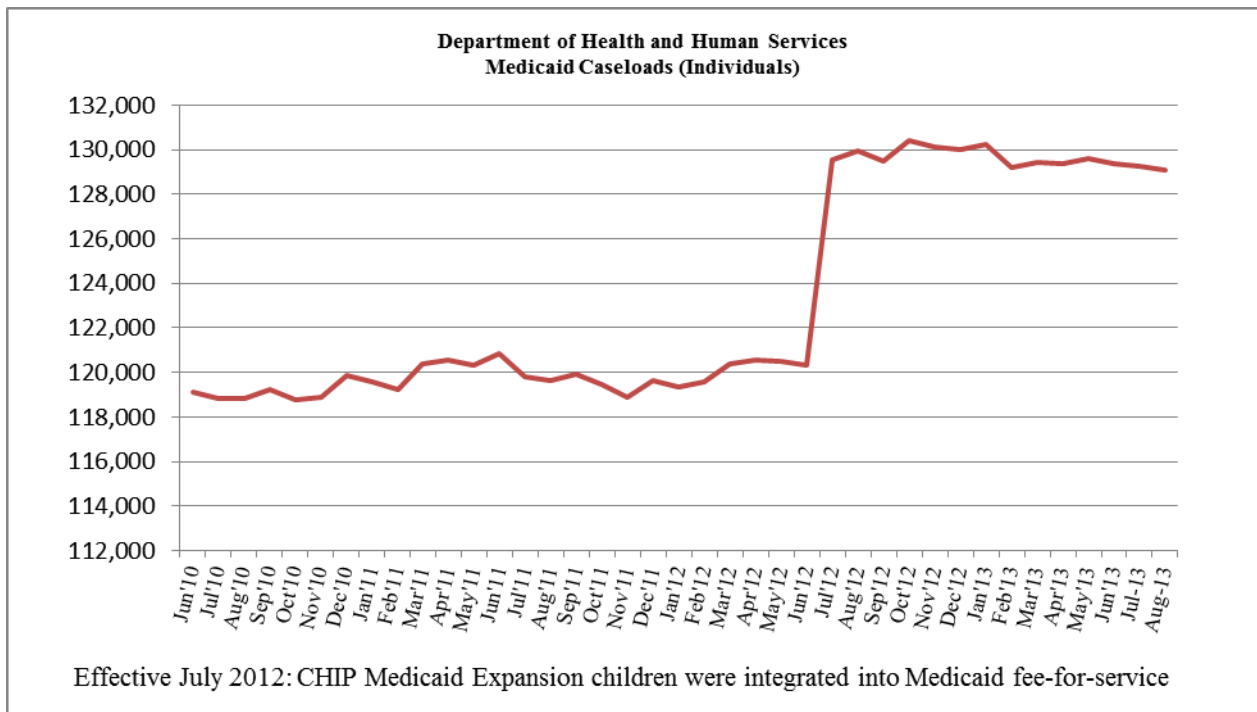
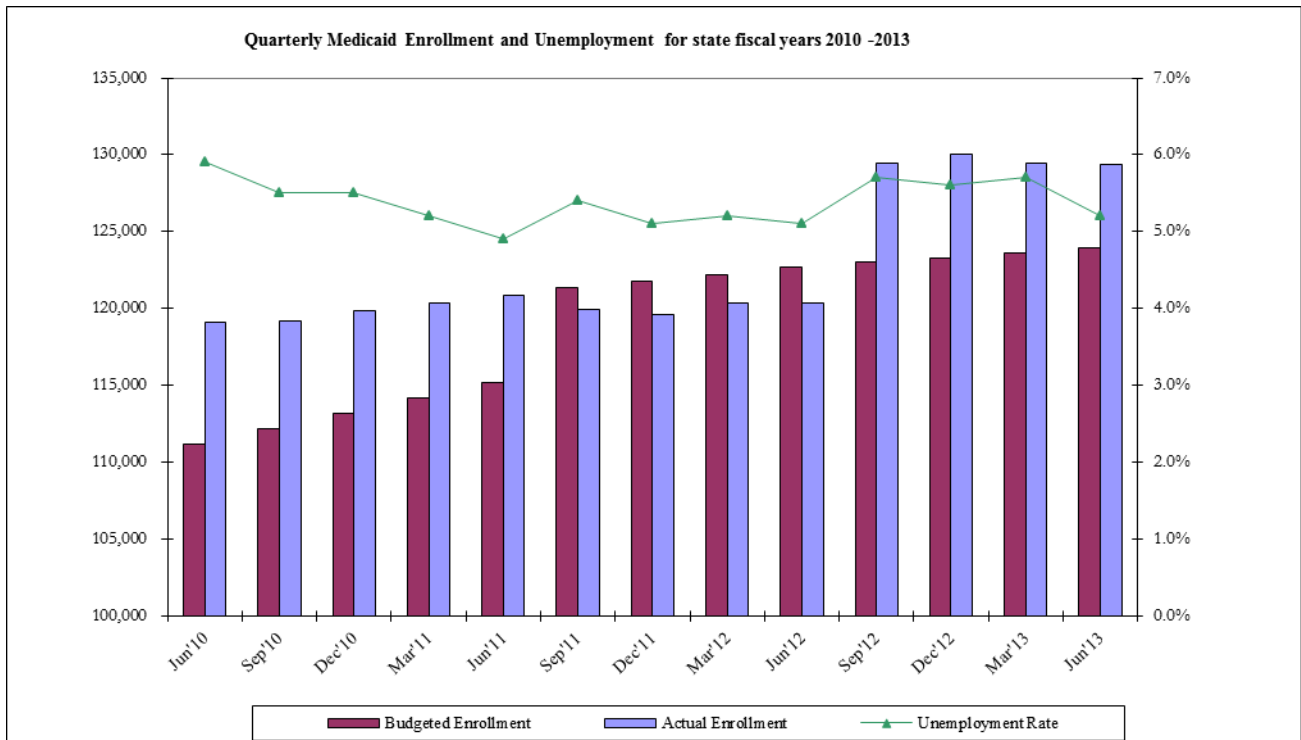
	<u>Actual Unaudited Fiscal Year 2013</u>			<u>Operating Budget Fiscal Year 2014</u>			<u>Operating Budget Fiscal Year 2015</u>		
	<u>General</u>	<u>Education</u>	<u>Total</u>	<u>General</u>	<u>Education</u>	<u>Total</u>	<u>General</u>	<u>Education</u>	<u>Total</u>
<b>Undesignated Fund Balance, July 1</b>	\$ 13.8	\$ 0.0	\$ 13.8	\$ 56.9	\$ 0.0	\$ 56.9	\$ 26.7	\$ 0.0	\$ 26.7
<b>Additions:</b>									
Unrestricted Revenue	1,441.8	841.0	2,282.8	1,387.8	853.8	2,241.6	1,431.0	862.5	2,293.5
Executive Orders & Special Session Revenues	-	-	-	-	-	-	-	-	-
Total Additions	<u>1,441.8</u>	<u>841.0</u>	<u>2,282.8</u>	<u>1,387.8</u>	<u>853.8</u>	<u>2,241.6</u>	<u>1,431.0</u>	<u>862.5</u>	<u>2,293.5</u>
<b>Deductions:</b>									
Appropriations Net of Estimated Revenues	<u>(1,325.5)</u>	<u>(961.4)</u>	<u>(2,286.9)</u>	<u>(1,389.9)</u>	<u>(959.3)</u>	<u>(2,349.2)</u>	<u>(1,412.8)</u>	<u>(961.7)</u>	<u>(2,374.5)</u>
Appropriation Adjustments	-	-	-	27.4	-	27.4	2.4	-	2.4
Less Lapses	59.3	2.3	61.6	50.0	-	50.0	51.9	-	51.9
Total Net Appropriations	<u>(1,266.2)</u>	<u>(959.1)</u>	<u>(2,225.3)</u>	<u>(1,312.5)</u>	<u>(959.3)</u>	<u>(2,271.8)</u>	<u>(1,358.5)</u>	<u>(961.7)</u>	<u>(2,320.2)</u>
<b>GAAP and Other Adjustments</b>	5.6	(1.2)	4.4	-	-	-	-	-	-
<b>Current Year Balance</b>	<u>181.2</u>	<u>(119.3)</u>	<u>61.9</u>	<u>75.3</u>	<u>(105.5)</u>	<u>(30.2)</u>	<u>72.5</u>	<u>(99.2)</u>	<u>(26.7)</u>
<b>Fund Balance Transfers (To)/From:</b>									
Rainy Day Fund	-	-	-	-	-	-	-	-	-
Liquor Commission	-	-	-	-	-	-	-	-	-
Highway Fund	-	-	-	-	-	-	-	-	-
Education Trust Fund	<u>(119.3)</u>	<u>119.3</u>	<u>-</u>	<u>(105.5)</u>	<u>105.5</u>	<u>-</u>	<u>(99.2)</u>	<u>99.2</u>	<u>-</u>
<b>Undesignated Fund Balance, June 30,</b>	<u>75.7</u>	<u>-</u>	<u>75.7</u>	<u>26.7</u>	<u>-</u>	<u>26.7</u>	<u>0.0</u>	<u>-</u>	<u>0.0</u>
<b>Reserved for Rainy Day Fund</b>	<u>9.3</u>	<u>-</u>	<u>9.3</u>	<u>9.3</u>	<u>-</u>	<u>9.3</u>	<u>9.3</u>	<u>-</u>	<u>9.3</u>
<b>Total Equity</b>	<u>\$ 85.0</u>	<u>-</u>	<u>\$ 85.0</u>	<u>\$ 36.0</u>	<u>-</u>	<u>\$ 36.0</u>	<u>\$ 9.3</u>	<u>-</u>	<u>\$ 9.3</u>

## MEDICAID PROGRAM

*Background.* Established in 1965, Medicaid is a joint federal-state program providing health care to eligible needy persons. Each state operates its Medicaid program within broad federal guidelines, in accordance with a customized State Plan approved by the federal Centers for Medicare & Medicaid Services (CMS) reflecting that state's priorities in designing program eligibility and benefits. The federal government mandates some benefits and eligibility categories while states have a choice of which additional optional eligibility categories and benefits to offer, although the Patient Protection and Affordable Care Act of March 2010 has eliminated states' ability to reduce eligibility categories. The federal government and the states share responsibility for financing Medicaid. The federal government matches state Medicaid spending at rates that vary by state per capita income.

*Overview of New Hampshire Medicaid.* Administered by the New Hampshire Department of Health and Human Services (DHHS), the New Hampshire Medicaid program (New Hampshire Medicaid) is a complex network that provides health care and psychosocial support coverage to an average of 129,666 persons per month during fiscal year 2013. New Hampshire Medicaid covered all or part of the health care costs of low-income children, pregnant women, parents with children, elders, and people with disabilities for medical and hospital services, nursing facility care, in-home support services and more. New Hampshire Medicaid expended a total of \$1.79 billion in fiscal year 2013, or 34.4% of all State expenditures (State, federal, and other funds combined). Of total Medicaid spending, 85.5% was attributable to Medicaid provider payments, 9.2% to Disproportionate Share to Hospitals (DSH) payments for uncompensated care, and 5.3% to administrative costs. Half (50%) of Medicaid spending during this period was covered by the federal government through matching funds.

*New Hampshire Medicaid Financial Summary.* Economic forces and State and federal regulations limit options for controlling Medicaid spending. Total provider payment expenditures are a function of enrollment volume, provider rates, and service utilization. Analysis of the relationship between the New Hampshire economy and Medicaid enrollment shows a strong association between rising unemployment and increases in Medicaid enrollment. With rising unemployment, falling income, and decreased availability of job-based insurance, more people turn to Medicaid for health care coverage. In the State, unemployment rates rose from 3.4% in December 2007 to a peak of 7.1% in February 2010. The most recent unemployment rate available for New Hampshire for the month of August 2013 is 5.0%. State Medicaid enrollment tracked unemployment, increasing by 3.9% in fiscal year 2008 then rising an additional 10.1% in fiscal year 2009. The subsequent growth rate in Medicaid enrollment tracked again to a decline in the unemployment rate, from a year-over-year rate of 8.9% for fiscal year 2010 to a more moderate rate of -0.7% for the most recent 12-month period ending in August 2013 and has leveled off at 129,063 covered persons. The data demonstrate that enrollment stabilizes as the unemployment rate decreases, but enrollment doesn't necessarily decrease as the jobless rate decreases. The current enrollment count of 129,063 includes the July 1, 2012 transition to the Medicaid fee-for-service program of children previously served under the Children's Health Insurance Program (CHIP).



New Hampshire Medicaid deploys a robust array of financial and utilization management and quality improvement strategies to contain costs and improve member health. The 2010 annual report, *New Hampshire Medicaid Provider Reimbursement Rate Benchmarks for Key Services*,<sup>1</sup> found that in almost every case the State’s Medicaid provider payment rates to be significantly lower than other states’ Medicare and commercial insurance rates. The State’s Medicaid provider payment rates also tend to be lower, with a couple of exceptions, than the rates of the other Medicaid programs in New England.

<sup>1</sup> Available at: <http://www.dhhs.nh.gov/ombp/documents/medicaidrates2010.pdf>

DHHS' Office of Medicaid Business and Policy (OMB) has continuously monitored private sector managed care practices as well as other state Medicaid innovations for local application. To the extent that Medicaid program constraints and internal resources allow, New Hampshire Medicaid has further attempted to maximize cost efficiencies by adapting numerous managed care strategies – a robust Pharmacy Benefit Management Program (PBM), utilization management (e.g., prior authorization, service limits, concurrent inpatient review, discharge planning and care management), State-wide distribution of incontinence supplies, and volume-based purchasing for vision care and eyeglass frames/lenses – to the current fee-for-service model.

The following tables set forth monthly expenditures for Medicaid covered medical services for fiscal years 2012 through 2014. Included in these expenditures are the acute care, primary care, and preventive care services delivered by hospitals, physicians, and specialty care providers. Not included in these figures are Medicaid long-term care expenditures, primarily consisting of nursing home costs.

**Medicaid Provider Payments (Unaudited) - Fiscal Year 2012  
(Provider Payments, Outpatient Hospital, Prescription Drugs)**

	<b>Budgeted</b>	<b>Expended</b>	<b>Under/(Over) Budget</b>
Jul-11	\$38,938,103	\$34,383,910	\$4,554,193
Aug-11	31,150,483	28,247,272	2,903,211
Sep-11	38,938,103	40,217,563	(1,279,459)
Oct-11	31,150,483	28,037,106	3,113,377
Nov-11	31,150,483	31,346,777	(196,294)
Dec-11	38,938,103	37,718,138	1,219,965
Jan-12	31,150,483	32,891,266	(1,740,783)
Feb-12	33,599,613	42,293,214	(8,693,601)
Mar-12	43,262,423	51,501,383	(8,238,960)
Apr-12	37,693,272	30,521,853	7,171,419
May-12	37,693,272	32,909,700	4,783,572
Jun-12	<u>50,496,440</u>	<u>39,557,587</u>	<u>10,938,853</u>
<b>Total</b>	<b><u>\$444,161,262</u></b>	<b><u>\$429,625,768</u></b>	<b><u>\$14,535,493</u></b>

**Medicaid Provider Payments (Unaudited) - Fiscal Year 2013  
(Provider Payments, Outpatient Hospital, Prescription Drugs)**

	<b>Budgeted</b>	<b>Expended</b>	<b>Under/(Over) Budget</b>
Jul-12	\$33,504,813	\$28,414,183	\$5,090,630
Aug-12	41,881,016	41,991,758	(110,741)
Sep-12	33,504,813	28,853,109	4,651,704
Oct-12	33,504,813	33,899,882	(395,069)
Nov-12	41,881,016	38,286,866	3,594,151
Dec-12	34,745,011	37,862,968	(3,117,957)
Jan-13	34,745,011	31,912,309	2,832,702
Feb-13	36,842,516	35,321,867	1,520,649
Mar-13	46,053,145	45,281,899	771,245
Apr-13	36,842,516	27,641,834	9,200,682
May-13	46,053,145	33,836,653	12,216,492
Jun-13	<u>36,842,516</u>	<u>41,544,784</u>	<u>(4,702,268)</u>
<b>Total</b>	<b><u>\$456,400,332</u></b>	<b><u>\$424,848,112</u></b>	<b><u>\$31,552,220</u></b>

**Medicaid Provider Payments (Unaudited) - Fiscal Year 2014  
(Provider Payments, Outpatient Hospital, Prescription Drugs)**

	<b>Budgeted</b>	<b>Expended</b>	<b>Under/(Over) Budget</b>
Jul-13	\$34,256,263	\$29,803,207	\$4,453,057
Aug-13	42,820,329	49,438,554	(6,618,224)
Sep-13	34,256,263	40,280,037	(6,023,774)
Oct-13	34,256,263	33,593,181	663,083
Nov-13	42,820,329	N/A	N/A
Dec-13	34,256,263	N/A	N/A
Jan-14	34,256,263	N/A	N/A
Feb-14	34,256,263	N/A	N/A
Mar-14	42,820,329	N/A	N/A
Apr-14	34,256,263	N/A	N/A
May-14	42,820,329	N/A	N/A
Jun-14	<u>34,256,263</u>	N/A	N/A
<b>Total</b>	<b><u>\$445,331,425</u></b>	N/A	N/A

*Medicaid Managed Care Model and Implementation.* Significant changes were made to New Hampshire Medicaid during the 2011 legislative session. Notably, Chapter 125, Laws of 2011 directed the current fee-for-service program be converted to a formal managed care model effective July 2012 with Medicaid and Children’s Health Insurance Program (CHIP) combined into one Medicaid managed care program. The estimated budgeted cost savings for the biennium was \$16 million for the current fee-for-service program and an additional \$4.7 million for the transition of the CHIP program into the combined Medicaid managed care program. DHHS issued a Request for Proposals for Medicaid Care Management Services in October 2011 and the Governor and Executive Council approved contracts with three managed care organizations on May 9, 2012. The State Plan Amendment (SPA) for this initiative (12-006) was submitted to CMS on March 30, 2012 and was approved on August 24, 2012. Although the start-up of the managed care program was delayed and scheduled for December 2013, the State has been able to absorb the planned savings of \$16 million, primarily because the Medicaid program has had minimal growth in enrollment and expenditures over the biennium.

The budgeted cost savings for fiscal years 2014 and 2015 are \$5.8 million and \$41.6 million respectively. The contracts and associated rates for the Medicaid Managed Care Model were approved by the federal Centers for Medicare and Medicaid Services on September 18, 2013. Medicaid Care Management (MCM) program commenced open enrollment on September 11, 2013 for Medicaid recipients to select one of the three Health Plans that will coordinate their care starting December 1, 2013. To date, implementation is proceeding as expected.

See LITIGATION – *Wallace et al. v. State of NH DHHS* for information regarding recently filed litigation challenging the applicability of managed care services for certain developmentally disabled persons.

*Medicaid Management Information System (MMIS)* The State has replaced the automated system that processes Medicaid claims. The new MMIS system went live April 1, 2013 with the New Hampshire MMIS Health Enterprise System, administered under contract with the Xerox Corporation as the fiscal agent. State and contractor staff continue to identify and resolve implementation issues. For example, the number and dollar amount of denied and suspended claims has increased significantly with the new MMIS system and the causes of this have been and continue to be addressed by the fiscal agent and DHHS staff. The implementation plan included making estimated contingency payments to providers during the “black out” period between the “old” and “new” systems to provide a buffer during the transition period. Additional estimated payments were selectively made to certain providers to cover claims processing delays once the system went live April 1st. Estimated contingency payments totaled approximately \$56 million. These estimated contingency payments have been and will continue to be recouped as offsets during claims processing in future weekly payment cycles. As of November 15, 2013, the State had recouped \$36.8 million and approximately \$28.9 million of estimated contingency payments remained outstanding.

*New Hampshire’s Disproportionate Share Hospital (DSH) Program.* The DSH Program was significantly redesigned in fiscal year 2011, due to new federal DSH regulations and requirements of Chapter 144:212, Laws of



2009. Hospitals received payments based on the amount of uncompensated care provided to patients with no form of insurance coverage, regardless of the amount of Medicaid Enhancement Tax (MET) the individual hospital paid to the State. Previously, hospitals often received in DSH payments the amount paid in MET. No changes were made to the State's definition of net patient services revenue or to the MET rate of 5.5% of that revenue.

In 2007, the Office of Inspector General (OIG) audited the New Hampshire DSH program and found that DSH payments made in federal fiscal year 2004 did not comply with hospital-specific disproportionate share hospital limits using Medicare cost principles of reimbursement. The OIG auditors recommended that the State refund \$35 million to the federal government. In December 2011, the State entered into an agreement with the U.S. Department of Health and Human Services, Centers for Medicare and Medicaid Services, to repay the \$35 million over eight quarterly installments:

<u>Quarter ending</u>	<u>Negative grant</u>
March 31, 2012	\$ 4,501,746
June 30, 2012	4,503,322
September 30, 2012	4,493,015
December 31, 2012	4,481,859
March 31, 2013	4,470,218
June 30, 2013	4,458,819
September 30, 2013	4,448,390
December 31, 2013	4,437,231
TOTAL	<u><u>\$35,794,600</u></u>

Each installment to date has been paid on schedule and one installment remains. The State absorbed the lost revenues attributable to the DSH disallowance in fiscal years 2012 and 2013 through other savings achieved in the overall Medicaid budget. DHHS requested funding in its 2014 agency budget request for the final payments due in that time period; however, it was not budgeted. Therefore, DHHS will absorb the lost revenues for the two installments that occur in fiscal year 2014, as it did in previous fiscal years.

Since the 2010 redesign of the DSH program, implemented to comply with federal regulations noted above, the Legislature has reduced funding available for the DSH program. Pursuant to NHRSA 167:64, DSH funds were made available only to critical access hospitals up to 100% of each hospital's uncompensated care in the 2012-2013 biennium. For fiscal year 2014, in recognition of the amount of uncompensated care provided by all hospitals in New Hampshire, the Legislature increased DSH funding by \$20 million in state funds, and limited payments made to critical access hospitals to 75% of uncompensated care. This funding level is expected to allow total DSH payments to both critical access and non-critical access hospitals of approximately \$100 million in fiscal year 2014, which amount also includes expected additional federal funds.

The 2012-2013 operating budget also made significant reductions to New Hampshire's Uncompensated Care Payment Program. The budget funded payments to the State's critical access hospitals, but discontinued payments made to the rehabilitation specialty hospitals and the larger, non-critical access hospitals. Below is a table depicting aggregate Uncompensated Care Payments, including both federal and State funding sources since 2009.

<u>State Fiscal Year</u>	<u>Uncompensated Care Payments</u>
2009 paid	\$178,040,743
2010 paid	195,457,290
2011 paid	207,698,608
2012 paid	48,735,473
2013 paid	53,389,190
2014 projected	100,809,604

Particularly following the changes made to the DSH Program in fiscal year 2011, some of the hospitals have become increasingly concerned about their MET liability compared to the DSH payment received. The DSH

Program also sustained deep cuts pursuant to the 2012-2013 operating budget. With the reduction in DSH payments for the non-critical access hospitals, hospitals are seeking ways to offset their MET liability or to eliminate the tax entirely. This is being carried out through various means, including challenges to previous interpretations of net patient service revenue, prior year tax credits, constitutional challenges, and litigation against DHHS. As noted above, many hospitals applied for refunds and/or credits of MET payments made in previous years totaling approximately \$89 million, which refunds/credits may necessitate adjustment to uncompensated care payments made to hospitals. The State cannot now predict the outcome of this matter or the amount, if any, of any refunds or adjustments that might be required. See “STATE FINANCES-State Revenues”

*New Hampshire Hospital (NHH) DSH:* Section 1902 (a)(13)(A)(iv) of the Social Security Act, which was established in 1981, allows States to make Medicaid payment adjustments for hospitals that serve a disproportionate share of low-income patients with special needs. Section 1923 (g) of the Act provides specific guidance regarding hospital-specific DSH payments and states that DSH payments for uncompensated costs shall not exceed the costs of furnishing hospital services to “individuals who are either eligible for medical assistance under the State plan or have no health insurance (or other source of third party coverage) for services provided during the year.” New Hampshire Hospital receives approximately \$18 million per year from the DSH program.

In 2008, CMS issued final rules defining “uninsured” to be more restrictive than the service-specific definition previously employed and applied the definition on an individual-specific basis rather than a service-specific basis. This results in fewer patients qualifying as uninsured since, for example, patients who exceed annual or life-time maximums on certain services and were previously defined as uninsured, would under the new rule not qualify for DSH. After publication of the 2008 DSH final rule, numerous States, including New Hampshire, members of Congress, and related stakeholders expressed their concern that the 2008 DSH final rule definition of the uninsured deviated from prior guidance and would have a significant financial impact on States and hospitals. Under the more restrictive definition, NHH DSH revenue would drop to approximately \$7 million per year, or \$11 million less than was previously received.

As a result, in January 2012, CMS issued a proposed rule designed to mitigate some of the unintended consequences of the uninsured definition put forth in the 2008 DSH final rule and to provide additional clarity on which costs can be considered uninsured costs for purposes of determining the hospital-specific limit. Under the proposed rule, NHH DSH revenue would be retained at approximately \$18 million per year. CMS has yet to issue a final rule on this issue. A state audit of NHH for fiscal year 2011 questioned \$8.4 million related to DSH cost recoupment because of this uncertainty. The State believes it appropriately recouped all costs. Accordingly, no accruals have been made.

For financial reporting purposes, for fiscal years 2012 and 2013, NHH has recorded its estimated DSH revenue at the mid-range of what would be allowed under the former rule and what would be allowed under the current, more restrictive rule. As of June 30, 2013, a final rule by CMS to retain the more restrictive definition of “uninsured” could result in a cumulative repayment of federal funds of \$15.7 million. A final rule by CMS to reinstate the former definition of “uninsured” could result in additional federal revenue of \$8.2 million.

*Litigation.* Various aspects of New Hampshire Medicaid are the subject of litigation. Such litigation, if decided in a manner unfavorable to the State, could subject the State to substantial financial judgments. See LITIGATION with respect to the matters under that caption which reference DHHS or New Hampshire Medicaid, in particular, *Dartmouth Hitchcock, et al, v. Toumpas*.

*Future Outlook.* Recent federal activity has presented new opportunities and challenges for states. The Medicare Modernization Act of 2003, the Deficit Reduction Act of 2005, and the Patient Protection and Affordable Care Act of 2010 (PPACA) imposed new requirements for states along with options in the areas of benefits, cost sharing, and long-term care. DHHS had previously estimated the impact of the Medicaid reforms in PPACA, including various costs and savings arising from, among others, adult Medicaid expansion, changes in CHIP federal funding and increases to primary care rates. In these earlier preliminary estimates, DHHS had estimated that in calendar year 2014 PPACA could add almost 30,000 new Medicaid enrollees which could increase to over 62,000 by calendar year 2019. Federal funding for many PPACA reforms begins at 100% and reduces to 90% over time. Accordingly, DHHS had estimated that PPACA would initially decrease New Hampshire Medicaid costs by approximately \$3 million in calendar year 2014 and would eventually increase costs by \$8 million in calendar year

2019, as compared to program costs absent these reforms. Additionally, federal CHIP funding is authorized at 88%, an increase from 65%, until 2019, offsetting state general fund requirements by \$10-15 million each year.

*Medicaid Expansion.* In June 2012, the United States Supreme Court held that the Medicaid expansion as envisioned by the PPACA was optional for states, not mandatory. However, all other provisions of PPACA remain in effect. While the initial Medicaid expansion is currently scheduled to take effect on January 1, 2014, the State believes a decision to opt out of this aspect of PPACA could be made at any time and as described below, a special session of the Legislature began on November 7 to address this issue. In order to provide detailed information regarding this issue, the State engaged an outside consultant, the Lewin Group, to analyze the various implications of expanding or not expanding Medicaid, including estimates of the number of potentially eligible citizens, the costs of their coverage over time and impacts to the State economy, the State budget and the commercial insurance market in New Hampshire.

In addition, because PPACA also calls for the gradual termination of the Disproportionate Share Hospital (DSH) program, the Lewin Group analysis explored the impact of Medicaid Expansion on the Uncompensated Care Program. The Lewin reports can be found online at [www.dhhs.nh.gov/ombp/publications.htm](http://www.dhhs.nh.gov/ombp/publications.htm). The Lewin Group illustrated numerous policy and program options that New Hampshire could consider if it expands Medicaid; such options impact the possible size and cost of the expansion. The Lewin Group projected that Medicaid expansion would cost the State an additional \$85.5 million for the period 2014 to 2020, as compared to estimated savings of \$65.8 million if no expansion occurs. In addition, the Lewin Group examined the likely impact Medicaid expansion would have on other State programs and determined that during this same period, the State could realize savings of approximately \$67.1 million, which would result in a net cost to the State of approximately \$18.3 million. The Lewin Group report also estimated the federal cost of Medicaid expansion in New Hampshire to be \$2.5 billion for the period 2014 to 2020. Under current law, the increased costs are to be borne 100% by the federal government for 2014 and 2015 and decreasing thereafter to a 90% share by 2020. The current projected cost of Medicaid expansion in fiscal year 2014 is \$107 million, which represents only six months of the year, and \$212 million for all of fiscal year 2015. In January 2012 the federal government released guidance on the 10 essential health benefits that must be offered to the Medicaid expansion population. The substance use disorder treatment benefit is the only benefit among the 10 items that NH Medicaid does not currently cover. The Lewin Group estimates that while additional costs will be incurred to provide the substance use disorder benefit, depending on the level of services provided under that benefit, net savings could be realized after 3 years of benefit offering. If the expansion becomes effective in 2014, the savings from the substance use disorder benefit are realized at the similar timeframe that the federal funds participation rate drops from 100% toward the 90% rate, offsetting the general fund requirement that begins in state fiscal year 2017. However, the Lewin Group report is based upon many assumptions and variables and there can be no assurance that actual costs and savings, if any, will occur as set forth in their reports.

The legislature appointed a Commission to Study the Expansion of Medicaid to study the potential costs and benefits of expanding Medicaid eligibility to 138% in New Hampshire. That Commission issued a final report of its findings on October 15, 2013. The report can be viewed in its entirety at <http://www.dhhs.nh.gov/sme/>. The majority of the Commission recommended expansion of New Hampshire's current Medicaid program. On October 16, 2013, the Governor and Council by proclamation summoned the legislature to convene a Special Session on November 7, 2013 and ending on November 21, 2013, with an agenda limited to the issue of a New Hampshire plan to expand Medicaid. However, while the House passed legislation expanding the Medicaid program, the Senate did not and no expansion was approved. There is currently no expectation of revisiting the topic in calendar year 2013. It is possible that the topic will be considered in future legislative sessions.

## 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.

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. 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.

Two lawsuits challenged the constitutionality of the State's education funding law in 2005. The first was *City of Nashua v. State*, Docket No. 05-E-257, and the second was *Londonderry School District, et al. v. State*, Docket No. 05-E-406. In 2006, the Superior Court issued orders in both cases declaring the law 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 timely appeals of these orders with the New Hampshire Supreme Court on April 7, 2006. On September 8, 2006, the Supreme Court held that the State failed to define an adequate education and stayed 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 2007, the Legislature passed 2007 New Hampshire Laws Chapter 270, defining an adequate education. 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.

Senate Bill 180 ("SB 180"), enacted into law as 2009 New Hampshire Laws Chapter 198, provided 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 established 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.

2011 New Hampshire Laws Chapter 258 ("HB 337") amended the formula for the calculation and distribution of adequate education funds for fiscal year 2012. HB 337, following the basic formula of SB 180 from 2009, established a base cost per pupil with additional funds provided based on each school's student population. HB 337 repealed fiscal capacity disparity aid, instead establishing stabilization grants for certain school districts ensuring that no school district receives less than it would have received for the fiscal year 2011 total education grant. HB 337 also provides an additional \$2,000 per year grant for charter public school students. The Statewide Education Property Tax remains in place raising approximately \$363 million annually.

*Recent Legislative Action.* On March 16, 2011 the House of Representatives achieved the required three-fifths vote for Constitutional Amendment Concurrent Resolution 12. If adopted, the amendment would provide the General Court with the authority to define standards for public education, establish standards of accountability, mitigate local disparities in educational opportunity and fiscal capacity, and have full discretion to determine the amount of state funding for education. A three-fifths vote of the Senate, also required for the resolution, was not achieved in 2011. This matter was retained for further consideration during the 2012 legislative session. The Senate achieved a three-fifths vote on an amended version of the resolution. The House did not concur with the amendments, but agreed to a committee of conference which was named by the Speaker on March 14, 2012.

## 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 and federal highway grant anticipation (“GARVEE”) 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. 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 long-term debt of the State outstanding as of June 30, 2013.

**Debt Statement as of June 30, 2013**  
(In Thousands)

<u>General Obligation Bonds:</u>	
General Improvement	\$676,902
Highway	92,839
University System of New Hampshire	193,483
Total Direct General Obligation Debt	<u>\$ 963,224</u>
 <u>Revenue Bonds:</u>	
Turnpike System <sup>(1)</sup>	422,845
GARVEE <sup>(2)</sup>	178,250
Total Revenue Bond Debt	<u>\$ 601,095</u>
 <u>Contingent (Guaranteed) Debt:</u>	
Water Pollution and Waste Disposal Bonds issued by Political Subdivisions	1,450
Business Finance Authority	55,600
Local School District School Bonds	32,669
Total Contingent Debt	<u>\$ 89,719</u>
Total Debt	<u>\$1,654,038</u>
 <u>Less: Self-Supporting and Contingent Debt:</u>	
General Fund Self-Supporting Debt <sup>(3)</sup>	46,498
Turnpike System Revenue Bonds	422,845
Highway Fund	92,839
GARVEE	178,250
Water Pollution and Waste Disposal Bonds issued by Political Subdivisions	1,450
Business Finance Authority	55,600
Local School District School Bonds	32,669
Liquor Commission	12,347
School Building Aid	113,830
Fish & Game	2,916
Total Self-Supporting and Contingent Debt	<u>\$ 959,244</u>
Total Net General Fund Debt <sup>(4)</sup>	<u>\$ 694,794</u>

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

<sup>(1)</sup> 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.

<sup>(2)</sup> Federal Highway Grant Anticipation (GARVEE) Bonds. These bonds are special limited obligations of the State payable from federal grant funding.

<sup>(3)</sup> Includes bonds paid from General Fund restricted revenues (primarily user fees, criminal penalty assessments and lease revenues statutorily earmarked to fund debt service payments on specific projects). School building aid debt service is funded from a portion of the meals and rooms tax revenue.

<sup>(4)</sup> 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 revenue.

In addition to the debt presented above, at June 30, 2013, the State had short and long-term capital leases outstanding of \$585,000 and \$2,229,000, respectively, 82% 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)**

	<b>June 30,</b>				
	<u><b>2009</b></u>	<u><b>2010</b></u>	<u><b>2011</b></u>	<u><b>2012</b></u>	<u><b>2013</b></u>
Direct General Obligation Debt	\$768,160	\$823,074	\$938,998	\$960,313	\$963,224
Contingent (Guaranteed) Debt	74,048	100,362	110,657	100,874	90,219
Less: Self-Supporting Debt	<u>(237,926)</u>	<u>(298,393)</u>	<u>(396,227)</u>	<u>(375,895)</u>	<u>(358,649)</u>
Total Net General Fund Debt	<u>\$604,282</u>	<u>\$625,043</u>	<u>\$653,428</u>	<u>\$685,292</u>	<u>\$694,794</u>
Per Capita Debt <sup>(1)</sup> :					
Direct General Obligation Bonds	\$580	\$625	\$713	\$724	\$729
Net General Fund Debt	456	475	497	520	526
Ratio of Debt to Personal Income <sup>(1)</sup>					
Direct General Obligation Bonds	1.35%	1.42%	1.62%	1.55%	1.5%
Net General Fund Debt	1.07	1.08	1.13	1.11	1.1
Ratio of Debt to Estimated Full Value:					
Direct General Obligation Bonds	0.48%	0.51%	0.60%	0.63%	0.63%
Net General Fund Debt	0.38	0.39	0.42	0.45	0.45
General Fund Unrestricted Revenues	\$1,375,300	\$1,426,310	\$1,385,200	\$1,376,600	1,441,600
Debt Service Expenditures <sup>(2)</sup>	90,314	93,471	61,598	94,361	97,965
Debt Service as a Percent of General Fund Unrestricted Revenues	6.57%	6.59%	4.44%	6.85%	6.8%
Population (in thousands)	1,316	1,317	1,318	1,327	1,321
Total Personal Income (in millions)	\$55,827	\$57,898	\$60,480	\$62,076	\$64,885
Estimated Full Value (in thousands)	\$160,571,630	\$156,933,999	\$154,348,551	\$151,695,430	\$151,695,430

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

<sup>(2)</sup> Debt service on Net General Fund Debt. Does not include interest paid on revenue or bond anticipation notes.

**Rate of Debt Retirement<sup>(1)</sup>  
as of June 30, 2013**

	<u><b>General Obligation Debt</b></u>	<u><b>Net General Fund Debt</b></u>
5 years.....	42%	44%
10 years.....	76	77
15 years.....	95	94
20 years.....	100	100

<sup>(1)</sup> 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. The following table compares the amount of issuances and retirements of long-term 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)**

	<b>Fiscal Year Ended June 30,</b>				
	<u><b>2009</b></u>	<u><b>2010</b></u>	<u><b>2011</b></u>	<u><b>2012</b></u>	<u><b>2013</b></u>
Beginning Debt	\$688,598	\$ 768,160	\$ 823,074	\$ 938,998	\$ 960,313
Bonds Issued	<u>179,380</u>	<u>282,600</u>	<u>195,035</u>	<u>103,520</u>	<u>91,445</u>
Total Net Debt	<u>867,978</u>	<u>1,050,760</u>	<u>1,018,109</u>	<u>1,042,518</u>	<u>1,051,758</u>
Less: Bonds Paid	70,648	74,296	30,746	82,205	88,543
Defeasance	<u>29,170</u>	<u>153,390</u>	<u>48,365</u>	-	-
Ending Debt	<u>\$768,160</u>	<u>\$ 823,074</u>	<u>\$ 938,998</u>	<u>\$ 960,313</u>	<u>\$ 963,224</u>

The State issued its \$1,445,000 General Obligation Capital improvement Bond, 2012 Series A (the “2012 Series A Bond”) on September 26, 2012. The 2012 Series A Bond was issued to the New Hampshire Municipal Bond Bank (the “Bond Bank”) to finance various capital projects of the State.

The State issued its \$110,180,000 Turnpike System Revenue Bonds, 2012 Series C (the “2012 Turnpike Series C Bonds”) on August 30, 2012. The 2012 Turnpike Series C Bonds were issued to finance various capital projects of the New Hampshire Turnpike System.

The State sold its \$65,355,000 Turnpike System Revenue Bonds, 2012 Refunding Series B (Delayed Delivery) (the “2012 Refunding Series B Bonds”) on February 23, 2012. The 2012 Refunding Series B Bonds were issued on November 5, 2012 to refund a portion of the outstanding Turnpike System Revenue Bonds, 2003 Refunding Series in order to provide debt service savings to the New Hampshire Turnpike System.

The State issued its \$90,000,000 General Obligation Capital Improvement Bonds, 2012 Series B (the “2012 Series B Bonds”) on November 28, 2012. The 2012 Series B Bonds were issued to finance various capital projects of the State.

The State issued its \$5,165,000 General Obligation Capital improvement Bond, 2013 Series A (the “2013 Series A Bond”) on August 15, 2013. The 2013 Series A Bond was issued to the Bond Bank to finance various capital projects of the State

### Schedule of Debt Service Payments

The following table sets forth the projected principal and interest requirements of all general obligation bonds of the State outstanding at June 30, 2013. The amounts shown for interest include the gross interest payable by the State with respect to its outstanding general obligation “Build America Bonds,” which were outstanding in the amount of \$135 million with expected subsidy payments of \$23.5 million over the remaining life of the bonds as of June 30, 2013. Other than one minor withheld amount, which has since been rectified, to date the State has received interest subsidy payments from the federal government equal to 35% of the actual interest payable on such “Build America Bonds.” Federal sequestration has cut a percentage of these direct pay subsidies for fiscal years 2013 and 2014. See STATE FINANCES – *State Revenues – Federal Sequestration*.

**Direct General Obligation Debt  
as of June 30, 2013<sup>(1)</sup>  
(In Thousands)**

<u>Fiscal Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014 .....	\$ 87,719	\$ 44,445	\$ 132,164
2015 .....	83,766	45,533	129,299
2016 .....	82,046	39,017	121,063
2017 .....	81,244	33,196	114,440
2018 .....	79,775	27,002	106,777
2019 .....	78,290	23,026	101,316
2020 .....	74,135	19,445	93,580
2021 .....	62,005	16,167	78,172
2022 .....	56,420	13,756	70,176
2023 .....	47,160	11,311	58,471
2024 .....	44,990	9,188	54,178
2025 .....	41,740	7,327	49,067
2026 .....	32,230	5,850	38,080
2027 .....	29,225	4,500	33,725
2028 .....	26,225	3,269	29,494
2029 .....	19,045	2,142	21,187
2030 .....	18,300	1,282	19,582
2031 .....	10,265	584	10,849
2032 .....	3,600	209	3,809
2033 .....	5,045	77	5,122
Total	<u>\$963,224</u>	<u>\$307,327</u>	<u>\$1,270,551</u>

<sup>(1)</sup> 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.

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.

In November 2010, the State entered into a line of credit with a bank for the State's commercial paper program. The State did not borrow under this program and the State terminated the program in February 2013. On March 28, 2012 the State issued a \$50 million interfund note as a cash flow borrowing from its Clean Water State Revolving Fund. This borrowing was paid back with interest from operating cash on June 27, 2012. The State has not subsequently issued any short term interfund notes of any kind. As of June 30, 2013, the State had no short term notes outstanding.

See "STATE FINANCES – Proprietary (Enterprise) Funds" and "*Unemployment Trust Fund*" for a discussion of repayable advances that the State has been approved for under Section 1201 of the Social Security Act.

## Authorized But Unissued Debt

As of June 30, 2013 the State had statutorily authorized but unissued direct general obligation debt in the total principal amount of \$118 million, under various laws. This amount does not include the State's Turnpike System and GARVEE 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 GARVEE bonds in an amount not to exceed \$195 million with the approval of the Governor and Council. Chapter 193 of the Laws of 2012 authorized an additional \$250 million of GARVEE bonds, for a total authorized amount of \$445 million. GARVEE bonds are 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 statute authorized GARVEE bonds 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. On November 18, 2010 the State issued GARVEE bonds in the amount of \$80 million for financing projects related to such highway widening. Another \$98 million of GARVEE bonds were issued on May 30, 2012 for the continued work on widening Interstate 93, specifically, three identified construction projects associated with I-93 exits 2 and 3 in Salem and Windham, respectively. Additionally, Chapter 231 of the Laws of 2010 authorized the issuance of \$45 million of GARVEE bonds for the purpose of financing a portion of the State's share of the replacement or repair of the Memorial Bridge and Sarah Mildred Long Bridge, both in Portsmouth, New Hampshire. The State currently anticipates sharing the costs of these two bridge projects equally with the State of Maine and has no plans to issue the \$45 million in GARVEE bonds for the bridge projects.

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, 2013</u>	<u>Remaining Guarantee Capacity as of June 30, 2013</u>
Local Water Pollution Control Bonds	\$50.0 million <sup>(1)(2)</sup>	\$48.4 million
Local School Bonds	95.0 million <sup>(1)(2)</sup>	48.4 million
Local Superfund Site Bonds	20.0 million <sup>(4)</sup>	20.0 million <sup>(3)</sup>
Local Landfill and Waste Site Bonds	10.0 million <sup>(1)(2)</sup>	10.0 million
Business Finance Authority Bonds, Loans	95.0 million <sup>(1)(4)</sup>	39.4 million <sup>(3)</sup>
Pease Development Authority	105.0 million <sup>(4)</sup>	48.9 million <sup>(3)</sup>
Housing Finance Authority Child Care Loans	0.3 million <sup>(1)(2)</sup>	0.3 million

<sup>(1)</sup> Revolving limit.

<sup>(2)</sup> Limit applies to total principal and interest.

<sup>(3)</sup> Plus interest.

<sup>(4)</sup> Limit applies to principal only.

### **Capital Budget and Bonds Authorized**

Capital budgets are adopted biennially during the odd-numbered legislative sessions in conjunction with the biennial operating budget schedule. Additionally, bond authorizations are periodically legislated outside the capital budget process. The following table sets out the State's capital budget appropriations and bonds authorized for the 2014 - 2015 biennium.

## Capital Appropriations and Bonds Authorized

	<b>Biennium Ending June 30, 2015</b>
Adjutant General	\$ 13,230,000
Administrative Services	7,513,695
Agriculture	235,000
Community-Technical College System	13,000,000
Corrections	38,630,000
Education	24,275,000
Environmental Services	8,336,340
Health & Human Services	27,673,842
Information Technology	2,855,000
Judicial Branch	3,419,604
Justice	559,010
Legislative Branch	1,000,000
Liquor Commission	29,990,000
Resources & Economic Development	8,208,000
Safety	12,754,313
Secretary of State	675,000
Transportation	42,695,113
Veteran's Home	1,650,000
University System of New Hampshire	<u>8,000,000</u>
Gross Appropriations	244,699,917
Less-Federal, Local & Other Funds	<u>51,177,565</u>
Net Bonds Authorized	<u>\$193,522,352</u>
<b>Funding of Bonds</b>	
Highway Funded	\$ 18,277,500
Other Funded	50,301,852
General Funded	<u>124,943,000</u>
Net Bonds Authorized	<u>\$193,522,352</u>

Historically, the school building aid program has been funded from current revenues, however, payments for school building aid made in fiscal years 2009, 2010, and 2011 were bonded per enabling legislation arising outside of the 2008-2009 capital budget and the 2010-2011 capital budget. Specifically, Chapter 1 of the Laws of 2008 Special Session authorized up to \$40 million of the 2009 building aid payments to be funded through bond proceeds. In December 2009, \$40 million in bonds were issued to cover this payment. Subsequently, Chapter 144 of the Laws of 2009 authorized bonding school building aid for fiscal years 2010 and 2011 in the amounts of \$44.9 million and \$46.3 million, respectively. In March 2010, \$44.9 million in bond anticipation notes were issued to fund the 2010 building aid payments. In August 2010, \$91.2 million in bonds were issued to repay the \$44.9 million in notes outstanding and to fund the final building aid bond authorization of \$46.3 million to fund the 2011 aid payments. 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. 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.

Chapter 1 of the Laws of 2008 Special Legislative Session appropriated and authorized bonding of \$10.0 million for the renovation of the Pease Community College System campus, which has been funded primarily through bond proceeds. 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.

As of June 30, 2013, \$10 million had been expended and general obligation bonds issued for this renovation project. On March 26, 2013, the Community College System and Juliet Marine Systems, Inc. ("Juliet Marine Systems") signed a purchase and sale agreement for the sale of the former Stratham campus to Juliet Marine Systems for \$2,750,000. On May 15, 2013, the Governor and Executive Council approved the agreement and authorized the sale. On August 14, 2013, the Governor and Council approved an amendment to the purchase and sale agreement extending the due diligence period to December 31, 2013. To date, this transaction has not closed.

### **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, 2013.

*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 \$422.8 million of such bonds were outstanding as of June 30, 2013.

*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 27 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 by General Fund revenues. Approximately \$193.5 million of such bonds were outstanding June 30, 2013. 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, 2013, \$1.6 million of principal and interest was guaranteed under this program.

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

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

*State Guaranteed Local School Bonds.* The Governor with the advice and consent of the Council may agree to award an unconditional State guarantee for the payment of not more than \$95 million of the principal and interest on bonds or notes issued by school districts for school projects of not less than \$100,000 involving construction, enlargement or alteration of school buildings. The supervision of the guarantee program is the responsibility of the New Hampshire School Building Authority, consisting of the State Treasurer, the State Commissioner of Education and three members appointed by the Governor and Council. Guarantees may be awarded on either a split issue basis, where the payment of not in excess of 75% of the aggregate principal amount of bonds issued for a project and interest thereon may be guaranteed, or on a declining balance basis, where a specified percentage of the principal of and interest on each bond or note issued is guaranteed. The full faith and credit of the State are pledged to such guarantees. As of June 30, 2013, \$46.6 million of principal and interest was guaranteed under this program. Effective July 1, 2008, Chapter 49 of the Laws of 2008 reduced the State's total statutory guaranteed debt limit for this purpose to \$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 in order to aid school districts in taking advantage of the newly enacted federal Qualified School Construction Bond program. On September 23, 2009, the Governor and Council approved State guarantees for two school districts totaling \$17.7 million. One school district with \$15 million of that approved guarantee chose to issue bonds through the New Hampshire Municipal Bond Bank and did not use the State guarantee; therefore \$15 million of the \$17.7 million approved guarantee lapsed. The second school district with the remaining \$2.7 million issued its debt using the State guarantee on June 29, 2010. On May 12, 2010, the Governor and Council approved State guarantees for seven school districts totaling \$36.6 million in principal. The statute provides that interest is also guaranteed under this program. Five school districts issued \$35.1 million of the total \$51.4 million guarantee on June 29, 2010.

*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, 2013, all previously outstanding bonds guaranteed under this program had been paid.

*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 \$20 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, 2013.

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; \$1.0 million of such guaranteed revenue bonds are currently outstanding.

The Authority may also recommend that the Governor and Council award state guarantees of certain indebtedness of businesses, but the total principal amount of indebtedness guaranteed, when combined with the outstanding principal amount of State guaranteed bonds of the Authority, may not exceed \$95 million at any time. As of June 30, 2013, \$35.6 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, 2013, the Pease International Tradeport had 4.7 million square feet of new or renovated office/R&D/manufacturing space with over 245 companies employing more than 8,000 people. As of June 30, 2013, 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, 2013 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. The PDA recently renewed the \$2.5 million state guaranteed line of credit, which will mature not later than June 30, 2018. 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 PDA. The PDA 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 which has since been paid off.

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. Finally, 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, 2013, 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. There are no specific plans for debt issuance at this time.

## STATE RETIREMENT SYSTEM

### Overview

The State maintains a defined benefit pension plan, which is administered by the New Hampshire Retirement System ("NHRS" or "System"). The System administers one cost-sharing multiple-employer pension plan (the "Pension Plan") and four separate cost-sharing multiple-employer postemployment medical subsidy healthcare plans (the "Medical Subsidy Plans" and collectively, with the Pension Plan, the "Plans"). The Pension Plan covers effectively all State employees and all public primary and secondary teachers, law enforcement and fire service employees. Full-time employment is required to join the Plan. In addition, New Hampshire political subdivisions may elect to join the NHRS to cover their other employees. At June 30, 2013, there were approximately 48,688 active, 1,261 inactive vested, 7,273 inactive non-vested, and 29,729 retired members of the System. The System provides service, disability, death and vested deferred pension retirement benefits to its members and their beneficiaries.

The State and participating political subdivisions appropriate funding for the Plans based on percentage rates for each member's annual earnable compensation. These rates include a "normal contribution" rate and an "accrued liability contribution" rate and are based on biennial actuarial valuations. The Plan's unfunded liabilities are currently amortized over a 30-year period beginning July 1, 2009. The thirty year amortization period began with the actuarial valuation performed as of June 30, 2007 as required by law, however because of the lag between valuation results and effective date of corresponding employer rates, the actual amortization of the liability began on July 1, 2009. The System also provides postemployment health benefit plans through the Medical Subsidy Plans. The Medical Subsidy Plans are effectively functioning on a pay-as-you-go basis. Medical subsidy payments are made by the System from a 401(h) subtrust on behalf of a closed group of eligible participants. 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 eligible retirees. The balance of the insurance premium is paid by either the retiree or the former employer, depending on the employer's policy.

Additional information pertaining to the Pension Plan is contained in the State's audited financial statements for the year ended June 30, 2012 at note 10, which financial statements are incorporated by reference in this Information Statement and included as Exhibit A hereto. The System's audited financial statements are also included in the State's Comprehensive Annual Financial Report for the year ended June 30, 2012 (the "2012 CAFR"), which report is also incorporated herein by reference and may be accessed at <http://admin.state.nh.us/accounting/>. The 2012 CAFR has also been filed with the Municipal Securities Rulemaking Board through its Electronic Municipal Market Access ("EMMA") system, which may be accessed at <http://emma.msrb.org>.



The System issues publicly available financial reports that may be obtained by requesting them in writing at 54 Regional Drive, Concord, NH 03301-8507 or from their web site at [www.nhrs.org](http://www.nhrs.org). Currently available reports include the System's Comprehensive Annual Financial Report for the year ended June 30, 2012 (the "2012 System CAFR"), which may be accessed at [www.nhrs.org/Investments/Reports.aspx](http://www.nhrs.org/Investments/Reports.aspx) and the Actuarial Valuation Report as of June 30, 2012 (the "2012 Actuarial Valuation"), which may be accessed at [www.nhrs.org/Investments/Valuations.aspx](http://www.nhrs.org/Investments/Valuations.aspx). The 2012 System CAFR and the 2012 Actuarial Valuation are incorporated herein by reference. Similar reports for prior years are also available from the System at the addresses set forth above or at [www.nhrs.org](http://www.nhrs.org). At its November 12, 2013 meeting, the Board received from its actuaries an executive summary of the 2013 actuarial valuation that the Board expects to receive, along with the 2013 System CAFR, at its December 10, 2013 meeting. The 2013 actuarial valuation is likely to be approved by the Board at its January 2014 meeting. The executive summary can be found starting on page 10 of the materials for the November 2013 Board meeting at <http://nhrs.org/Events/MeetingDetails.aspx?id=78>.

The Board of Trustees (the "Board") accepted the 2011 Actuarial Valuation on July 10, 2012, and certified the employer contribution rates for the 2014-2015 biennium on September 11, 2012. By law, the Board was required to certify those rates by October 1, 2012. See *Results of Actuarial Valuations* below.

In March 2011, the System received an actuarial experience study (the "2005-2010 Experience Study") of the System for the period July 1, 2005 through June 30, 2010. The 2005-2010 Experience Study is incorporated herein by reference and may be accessed at [www.nhrs.org/Investments/Valuations.aspx](http://www.nhrs.org/Investments/Valuations.aspx). See "2005-2010 Experience Study" below for a description of the recommendations and the impact of the recommendations on the aggregate estimates of the Plans and contributions due from the State and participants.

On March 18, 2011, the NHRS Independent Investment Committee voted to recommend to the NHRS Board of Trustees that the assumed investment rate of return be lowered from 8.5% to 7.75%. While not binding on the Board, the actuary recommended in the 2005-2010 Experience Study that the assumed investment rate of return be reduced to within a range of 7.5% to 8.0% for the biennial valuation to be performed as of June 30, 2011 which was used to set contribution rates for fiscal years 2014 and 2015. On May 10, 2011, the Board of Trustees voted to adopt actuarial assumptions to be used by the actuary when performing the actuarial valuation as of June 30, 2011, which was used to set the employer contribution rates for fiscal years 2014 and 2015. In addition to the demographic and economic assumptions recommended by the System's actuary, the most significant assumption changes adopted by the Board lowered the assumed rate of return from 8.5% to 7.75% and lowered the wage growth assumption from 4.5% to 3.75%. Effective with the 2011 valuation, these revised assumptions will continue to be factored in to rate setting until the next five year experience study, for the period from 2010 through 2015, is conducted. See "2005-2010 Experience Study" below for information regarding the impact of these changes. Pursuant to Chapter 224:188, Laws of 2011, on August 4, 2011, the Board of Trustees recertified the employer rates for fiscal years 2012 and 2013, effective August 1, 2011. In the recertification, as required by law, the Board took into consideration all the pension changes from Chapter 224 Laws of 2011 and used the actuarial assumptions adopted by the Board when originally setting the fiscal year 2012 and 2013 rates (8.5% assumed rate of return and 4.5% assumed wage growth) in September 2010.

Effective July 1, 2011, the membership of the NHRS Board of Trustees was substantially changed. Under prior law, the 14 member Board included two active members from each of the four member groups, one senator, one representative, two public members appointed by the Governor and Council, an employer member from the New Hampshire municipal association and the State Treasurer. The new 13 member Board is now made up of one active member from each of the four member groups, four public members appointed by the Governor and Council, the State Treasurer and four employer members one each from the municipal association, school boards association, association of counties and a member to represent management of the State.

## **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 and prior to July 1, 2011 equaled 5% of payroll for State and political subdivision employees and teachers and 9.3% for police and firefighters. Effective for all State employees hired after June 30, 2009, the member rate is 7%. Effective July 1, 2011, the statutory member contributions equal 7% for all State and political subdivision employees and teachers, 11.55% for police members

and 11.80% for fire service members. See LITIGATION - *Professional Firefighters, et al v. State of New Hampshire*. 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 contributions 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 NHRS interpreted the effective date for the increase in member rates to be applicable to paychecks issued on or after July 1, 2011. All employers, with the exception of the State, collected and remitted the higher member contributions for paychecks dated on or after July 1, 2011. The State interpreted the law to be effective for service rendered on or after July 1, 2011. Therefore State employees did not pay the higher member contribution rate until the paycheck dated July 29, 2011. The member contributions not remitted by the State in July 2011 approximate \$825,000. State administrative rules authorize the Board of Trustees to suspend requirements when a member will be harmed through no fault of the member and further states the party determined to be at fault will reimburse the NHRS. Under this authority, the Board of Trustees voted at its October 11, 2011 meeting to waive the pending contribution adjustment to its State members so that full service credit can be provided to those members. Further, the Board of Trustees proceeded to act under its administrative and statutory authority to adjust for the \$825,000 as reflected in the 2011 Actuarial Valuation, accepted by the Board July 10, 2012.

On June 29, 2011, the Professional Firefighters of New Hampshire, New Hampshire Police Association, National Education Association – New Hampshire and State Employees Association of New Hampshire filed a Motion for a Temporary Restraining Order against the State in Merrimack County Superior Court seeking status quo on member contribution rates and recertification of fiscal year 2012 and 2013 employer contribution rates until such time as the Court could rule on the Petition for Declaratory and Injunctive Relief filed by the same petitioners on the same day. While the NHRS is not a named party in the suit, it would certainly be impacted by a final decision and the petitioners and the State have included the NHRS on correspondence and court orders as the case progresses. The Court declined to issue an immediate injunction but set a hearing for September 12, 2011. That hearing was continued until November 17, 2011. On January 6, 2012, the Court issued an Order dismissing both claims but offered the petitioners 30 days to amend their complaint to allow them to identify individual members who were vested as defined by the Court and consequently suffered a substantial impairment of a vested contract right due to the increase in member contribution rates. On February 24, 2012, the petitioners filed an amended complaint. On March 22, 2012, the State filed a renewed Motion to Dismiss to which the petitioners responded with an Objection on April 2, 2012, citing the New Hampshire Supreme Court's March 30, 2012, *Cloutier v. State* decision. In early July 2012, counsel for the parties filed a joint motion for interlocutory appeal in an attempt to expedite the issues under appeal to the New Hampshire Supreme Court. On July 27, 2012, the Superior Court approved the interlocutory appeal and the parties then filed a joint statement to the Supreme Court for its consideration. On September 26, 2012, the Supreme Court declined to accept the case, thereby returning it to the Superior Court for final disposition before being appealed to the New Hampshire Supreme Court. A scheduling conference was held in Superior Court on January 17, 2013. All cross motions and memos of law in support of the Parties' Motions for Summary Judgment were filed by April 30, 2013. Objections were filed by the end of May. Oral argument on the cross motions for summary judgment was held July 1, 2013. At the Judge's request, on July 3, 2013 the parties filed joint stipulations as to historical changes in member contribution rates as well as the hire dates of the Petitioners; whether such hire dates occurred before or after such rate changes; and whether there was an accompanying increase in benefits if there was an increase in contributions. The Petitioners also file a voluntary nonsuit without prejudice and that the State agreed to toll the statute of limitations regarding the Petitioners' claim for attorney fees. On September 9, 2013 the Court issued an Order finding that it was unconstitutional to increase the level of contributions required from those Petitioners who were vested by virtue of the fact they had 10 years of creditable service as of the legislative enactment on July 1, 2011. On October 8, 2013, the State filed a notice of appeal with the Supreme Court. See LITIGATION – *Professional Firefighters, et al v. State of New Hampshire*.

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 Medical Subsidy Plans consists of four groups: 1) State employees, 2) political subdivision employees, 3) teachers, and 4) police officers and firefighters. The State funds 100% of the employer cost for the Plans for all State employees and, prior to fiscal year 2010, 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 funded 30% of the employer cost for these three employee classes in fiscal year 2010 and 25% of the employer cost for such employees in fiscal year

2011. Pursuant to Chapter 224, Laws of 2011, effective July 1, 2011, the State no longer shares in the funding of local employer contributions, with the exception of \$3.5 million that was paid in fiscal year 2012.

The reduced percentage contribution for the State's share of local employers in fiscal years 2010 and 2011 reduced the State's aggregate contributions to the Plans in those years by \$8.59 million and \$18.73 million, respectively. The budget adopted for fiscal years 2012 and 2013 removed State funding for local employer contributions with the exception of \$3.5 million in fiscal year 2012 noted above. With the significant legislative changes made to pension eligibility coupled with increased member contributions, the State paid approximately \$63.2 million less in fiscal year 2012 and \$65.6 million less in fiscal year 2013 than would have been the case with no change in law and resumption of 35% State sharing of local employer contributions. The budget adopted for fiscal years 2014 and 2015 did not include any State funding for local employer contributions. See *Total Employer Contributions to NHRS* tables below.

Chapter 224, Laws of 2011 includes many changes to eligibility and pension benefits, primarily for new members and members that are not vested as of January 1, 2012. These changes are intended to reduce the future pension liability and include, but are not limited to:

- Increasing the retirement age for employees and teachers from 60 to 65.
- Increasing the minimum retirement age for police and fire from 45 with 20 years of service to 50 with 25 years of service.
- Average final compensation (AFC) used to calculate pension benefits will be calculated using the highest five years' salary rather than the current highest three years' salary. In addition, compensation in excess of base pay in the final years of service will not be included. Caps have been defined for maximum retirement benefits.

Chapter 224:188, Laws of 2011 also required the Board of Trustees to recertify the employer rates for fiscal years 2012 and 2013 taking into consideration all the recent legislative changes and using the actuarial assumptions used by the Board when originally setting the fiscal year 2012 and 2013 rates (8.5% assumed rate of return and 4.5% assumed wage growth). The Board voted on June 14, 2011 that if rates for fiscal years 2012 and 2013 were to be recertified, it would use the new actuarial assumptions that it recently adopted to set the rates for fiscal years 2014 and 2015 (7.75% assumed rate of return and 3.75% assumed wage growth). The Board voted in a Special Meeting on June 28, 2011 to seek an injunction to bar this section of law from taking effect, believing it unconstitutional for the legislature to require the Board to use certain actuarial assumptions. A Petition for Injunctive Relief was filed with the Merrimack County Superior Court on July 12, 2011. The Court denied the request and effective August 1, 2011, the Board recertified employer rates for fiscal years 2012 and 2013 as mandated by Chapter 244:188, Laws of 2011. In late September 2011, the Board decided not to pursue the recertification lawsuit following the assent of the New Hampshire Attorney General's office to file a particular type of withdrawal – referred to as neither party docket markings.

The State's Annual Required Contribution ("ARC") shown below represents both Pension Plan and Medical Subsidy Plans contributions currently required by statute for both State employees and the State's share of employer contributions for local government employees. The contribution amounts are determined as a percentage of the payroll for eligible employees. Accordingly, the actual dollar amount of contributions in any year will vary from estimates to the extent the actual payroll varies. The amounts shown in the table below for fiscal year 2013 are unaudited and subject to change. The amounts for 2014 are estimates made by the NHRS based on 2013 actual experience. The actual contribution by the State and local participants will likely differ from the amounts shown.

**Total Employer Contributions to NHRS (Pension and Medical Subsidy)**  
**(in millions)**  
**State Share**

<b>Fiscal Year</b>	<b>Total Employer</b>	<b>% of ARC</b>	<b>For State Employees</b>	<b>On Behalf of Local</b>	<b>Total</b>	<b>State Share % of Total</b>	<b>Local Share</b>	<b>Local Share % of Total</b>
2014(est) <sup>1</sup>	\$383.7	100%	\$80.8	\$0.0	\$80.8	21%	\$302.9	79%
2013(unaud)	299.5	100%	66.0	0.0	66.0	22%	233.5	78%
2012	303.5	100%	70.2	3.5	73.7	24%	229.8	76%
2011	307.5	100%	73.6	44.3	117.9	38%	189.6	62%
2010	302.2	100%	74.5	51.5	126.0	42%	176.2	58%
2009	261.5	75%	60.5	51.0	111.5	43%	150.0	57%
2008	249.9	75%	56.6	50.2	106.8	43%	143.1	57%
2007	178.6	100%	42.0	36.1	78.1	44%	100.5	56%
2006	170.8	100%	39.1	33.6	72.7	43%	98.1	57%
2005	133.1	100%	34.1	25.6	59.7	45%	73.4	55%

<sup>1</sup> The amounts shown for fiscal year 2014 are estimates made by NHRS based on 2013 actual experience.

As discussed below under “Medical Subsidy Plans,” starting in fiscal year 2007, changes were made to the way the Medical Subsidy Plans were 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) Medical Subsidy Plans 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 Medical Subsidy Plans. 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 Medical Subsidy Plans 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, have been 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.

The state law that established a Special Account to fund or partially fund additional benefits, such as cost of living adjustments and any other additional benefits that may be approved by the Legislature from time to time was repealed during the fiscal year 2012 legislative session by Chapter 261. The Special Account was credited annually with all of the earnings on an actuarial basis of the Special Account assets plus, under prior law, the earnings on the remaining assets of the Pension Plan in excess of the assumed rate of return plus ½ of 1%. However, legislation was enacted in fiscal year 2007 that restricted any funds from being credited to the Special Account until the funded ratio of the consolidated retirement system as of June 30<sup>th</sup> of any given year was equal to or greater than 85%. Upon achievement of the 85% funded ratio, only returns in excess of ten and one-half percent would be allocated to the Special Account. As required by Chapter 224, Laws of 2011 any amounts in the Special Account as of June 30, 2011 were transferred to the main pension trust, except for a holdback of approximately \$20 million to fund legislatively approved temporary supplemental benefit allowances (TSA) for political subdivision employees receiving medical subsidy benefits due July 1, 2012. As stated above, the Special Account was repealed by Chapter 261, Laws of 2012, and all remaining funds transferred back to the main pension trust after the July 1, 2012 TSA was paid.

## 2005-2010 Experience Study

On March 8, 2011 the Board of Trustees accepted the 2005-2010 Experience Study for the period July 1, 2005 through June 30, 2010. The 2005-2010 Experience Study contains related information regarding the System and can be accessed in its entirety at [http://nhrs.org/documents/NHRS\\_5\\_Year\\_Experience\\_Study\\_March\\_2011.pdf](http://nhrs.org/documents/NHRS_5_Year_Experience_Study_March_2011.pdf). In addition to demographic and economic assumptions recommended by the System's actuary, significant recommendations included reducing the current 8.5% investment rate of return to within a range of 7.5% to 8.0% and reducing the current 4.5% assumed wage growth to within a range of 3.5% to 4.0%. The Board of Trustees voted on May 10, 2011 to adopt 7.75% as the assumed rate of return and 3.75% as the assumed wage growth for use in the 2011 Actuarial Valuation.

## Results of Actuarial Valuations

The NHRS has actuarial valuations performed biennially in each odd-numbered year, the results of which are used to determine the employer contribution rate for the next succeeding biennium. The actuarial valuation dated as of June 30, 2009 was used to determine the required contributions for fiscal years 2012 and 2013 and the final June 30, 2011 actuarial valuation was used to determine the required contributions for fiscal years 2014 and 2015. The June 30, 2013 valuation will be used to set rates for fiscal years 2016 and 2017. The 2011 Actuarial Valuation was issued in November 2011, revised in January 2012 and accepted by the Board of Trustees at their July 10, 2012 meeting.

An interim valuation as of June 30, 2012 was prepared and accepted by the Board of Trustees on January 8, 2013. This interim valuation is for informational purposes only and will not be used to set contribution rates. Overall, plan experience was unfavorable. The rate of return for the year ending June 30, 2012 was 3.22% on the actuarial value of assets, below the assumed rate of return of 7.75% resulting in a recognized loss of \$260 million (pension and medical subsidy combined). Total covered payroll decreased by 1.19% versus the assumed increase of 3.75%. The decrease in payroll results in an increased pension liability. If the 2012 valuation were to be used to set contribution rates, the experience would have increased the employer contribution rate by 0.80% of payroll (pension and medical subsidy combined) and decreased the pension funded ratio by 1.3%.

The June 30, 2013 valuation is a rate setting valuation and is expected to be made available to the Board of Trustees at its December 10, 2013 meeting and is expected to be approved by the Board at its January 14, 2014 meeting. At the November 12, 2013 Board meeting, the System's actuaries presented an executive summary of the 2013 actuarial valuation. The Board of Trustees is required by statute to set employer contribution rates based on the valuation no later than October 1, 2014.

Actuarial Valuations can be viewed in their entirety at [www.nhrs.org/Investments/Valuations.aspx](http://www.nhrs.org/Investments/Valuations.aspx). Based on the executive summary provided by the actuaries at the November 12, 2013 Board meeting, the net assets available to pay benefits at actuarial value was reported to be \$6,092.5 million. The market value of assets as of June 30, 2013 was approximately \$335.5 million more than the actuarial value. The total pension accrued liability at June 30, 2013 was \$10,708.8 million, resulting in an unfunded accrued pension liability at June 30, 2013 of \$4,638.1 million and a funded ratio of 56.7%. Effective July 1, 2007 the System's actuarial cost method changed from the open group aggregate cost method to the more widely used entry age normal cost method. The total liabilities since that date have been determined using the entry age normal actuarial cost method and a 30-year closed amortization of the unfunded accrued actuarial liability. Due to the fact that contributions for any particular fiscal year are determined by actuarial valuation performed up to four years prior to a particular year, the contributions that reflect the 30 year amortization began with fiscal year 2010.

The actuary for the Plans uses several actuarial assumptions including the investment return rate at 7.75% (and 3.75% for Medical Subsidy Plans for GASB reporting purposes) as of the 2011 Actuarial Valuation and the wage inflation rate at 3.75%. The actuary also uses so-called "smoothing," whereby the difference between the market value of assets and the actuarial value of assets is smoothed over the previous five years to offset the effects of volatility of market values in any single year. In addition, the NHRS uses a 20% "corridor" in order to prevent the smoothed value from varying too far from market. The use of the 20% corridor means that very large gains and losses (i.e., ones that would produce a smoothed value that is more than 20% higher or lower than the actual market value) will not be presumed to be completely transitory and will be reflected immediately in funding. The use of the

corridor in the 2009 actuarial valuations for the Plans lowered the actuarial value of assets that would have been established in its absence and thus raised the ARC in fiscal years 2012 and 2013.

The executive summary of the 2013 actuarial valuation indicates a June 30, 2013 unfunded accrued actuarial liability (“UAAL”) of \$4,638 million, less than the June 30, 2013 UAAL projected on page 23 of the 2012 Interim Valuation. Because the UAAL is being funded at a level percent of payroll over a closed period (26 years remaining at June 30, 2013), it is expected that the UAAL will continue to increase until 2020 even if all assumptions are met. During fiscal year 2013 the Plan experienced an investment loss of \$32.7 million, but a liability gain of \$101.0 million resulting in a net gain of \$68.3 million.

The NHRS medical subsidy UAAL decreased by approximately \$18.4 million as of June 30, 2013 as compared to the UAAL as of June 30, 2012. This liability is separate and in addition to the State OPEB liability discussed under “HEALTH CARE COVERAGE FOR RETIRED EMPLOYEES.”

Employer contribution rates depend on all of the actuarial assumptions used in determining the contribution rates. The following table sets forth a summary of certain assumptions used in the 2011 Actuarial Valuation, which contains detailed information regarding the System’s funding progress, employer contribution rates and actuarial information to be used for certain accounting reporting purposes. The assumptions for the investment rate of return and rate of payroll growth were changed following the acceptance of the five year experience study to 7.75% and 3.75%, respectively. These assumptions were used for the 2011 valuation and for all subsequent valuations until the next five year experience study, for the period from 2010 through 2015, is conducted. The assumptions for the investment rate of return and payroll growth used in the two prior valuations were 8.50% and 4.50%, respectively and were the assumptions used to determine the contributions required for fiscal years 2010 through 2013.

Pursuant to Chapter 224:188, Laws of 2011, on August 4, 2011, the Board of Trustees recertified the employer rates for fiscal years 2012 and 2013, effective August 1, 2011. In the recertification, as required by law, the Board took into consideration all the pension changes from Chapter 224 and used the actuarial assumptions adopted by the Board when originally setting the fiscal year 2012 and 2013 rates (8.5% assumed rate of return and 4.5% assumed wage growth) in September 2010.

**New Hampshire Retirement System  
Pension and Medical Subsidy Plans Assumptions**

	<b><u>Pension Plan</u></b>	<b><u>Medical Subsidy Plans</u></b>
<b>Actuarial Cost Method</b>	Entry age normal	Entry age normal
<b>Amortization Method</b>	Level percentage of payroll, closed	Level percentage of payroll, closed
<b>Equivalent single amortization period</b>	30 years From 7/1/2009	*
<b>Asset valuation method</b>	5-year smoothed market	5-year smoothed market
<b>Actuarial Assumptions:</b>		
<b>Investment rate of return*</b>	7.75%	3.75%
<b>Projected salary increases*</b>	4.15% to 24.55%	4.15% to 24.55%
<i>*Includes Price Inflation at</i>	3.0%	3.0%
<b>Rate of Payroll Growth</b>	3.75%	3.75%
<b>Valuation Health Care Trend Rate</b>	N/A	N/A-The Medical Subsidy Plans provides a specific dollar subsidy to be used for health care. The subsidy increased 8.0% for fiscal year 2007 by statute. Effective July 1, 2008, the annual increase will be 0.0%.

\* Because the Medical Subsidy Plan is effectively a pay-as-you-go benefit provided to a closed group of eligible participants, the contribution needed to fund the benefits on a pay-as-you-go basis are intended to meet or exceed the contribution that would be otherwise necessary to amortize the liability under a 30 year amortization period.

As discussed previously, Chapter 224, Laws of 2011, required the Board of Trustees to recertify the employer rates for fiscal years 2012 and 2013 applying changes adopted during the 2011 legislative session and using actuarial assumptions used by the Board when originally setting the rates in September 2010 for fiscal years 2012 and 2013. The Board recertified the employer rates effective August 1, 2011, and those recertified rates are shown below. The rates for fiscal years 2014 and 2015 were certified by the Board on September 11, 2012 following acceptance of the 2011 Actuarial Valuation on July 10, 2012, ahead of the October 1, 2012 statutory requirement. The rates for 2016 and 2017 are projected based on the executive summary presented by the System's actuaries on November 12, 2013.

**Combined Employer Contribution Rates for Pension Plan and Medical Subsidy Plans For  
Fiscal Years 2011-2015 Certified by Board, 2016-2017 Projected**

	<b><u>Certified</u></b>			<b><u>Projected</u></b>
	<b><u>2011</u></b>	<b><u>2012 and 2013</u></b>	<b><u>2014 and 2015</u></b>	<b><u>2016 and 2017</u></b>
Employees				
State	11.05%	10.08%	12.13%	12.50%
Political Subdivisions	9.16	8.80	10.77	11.17
Teachers	10.70	11.30	14.16	15.67
Police				
State	19.51	19.95	25.40	26.38
Political Subdivisions	19.51	19.95	25.30	26.38
Fire				
State	24.69	22.89	27.85	29.16
Political Subdivisions	24.69	22.89	27.74	29.16

The following tables provide a ten year history of funded ratios based on actuarial value of assets separated for the Pension Plan and the Medical Subsidy Plans. It is important to note that assets in the Special Account are not included in these asset values. However, fiscal year 2011 legislation authorized the transfer of all but funds needed to pay the temporary supplemental annuity payment due July 1, 2012 from the Special Account to the Pension Plan. Fiscal year 2012 legislation repealed the Special Account as of July 1, 2012. The purpose of the Special Account was to fund additional benefits, such as cost of living adjustments (COLAs).

**NEW HAMPSHIRE RETIREMENT SYSTEM  
TEN YEAR HISTORY OF PENSION PLAN FUNDING STATUS  
FISCAL YEARS 2004-2013  
(All Dollar Amounts in Thousands)**

<b>Actuarial Valuation Date (June 30)</b>	<b>Actuarial Value of Assets</b>	<b>Actuarial Accrued Liability (AAL)</b>	<b>Unfunded AAL (UAAL)</b>	<b>Funded Ratio</b>
2013	\$6,070,681	\$10,708,768	\$4,638,087	56.7%
2012	5,817,882	10,361,600	4,543,719	56.1
2011	5,740,516	9,998,251	4,257,735	57.4
2010	5,233,838	8,953,932	3,720,094	58.5
2009	4,937,320	8,475,052	3,537,732	58.3
2008	5,302,034	7,821,316	2,519,282	67.8
2007	4,862,256	7,259,715	2,397,459	67.0
2006	3,928,270	6,402,875	2,474,605	61.4
2005	3,610,800	5,991,026	2,380,226	60.3
2004	3,575,641	5,029,877	1,454,236	71.1

Note: Liabilities for fiscal years 2007-2012 were determined under the entry age normal actuarial cost method.

Liabilities for fiscal year 2006 and prior fiscal years were determined under the open group aggregate actuarial cost method. Comparisons between fiscal years 2007-2012 and prior years are not comparable.

Source: Information for fiscal year 2013 is derived from the System's unaudited CAFR, information for fiscal years 2007 through 2012 is derived from the System's fiscal years 2010 and 2012 CAFR; information for years prior to 2007 is derived from the System's actuarial valuation for each respective year.



**NEW HAMPSHIRE RETIREMENT SYSTEM  
TEN YEAR HISTORY OF MEDICAL SUBSIDY PLANS FUNDING STATUS  
FISCAL YEARS 2004-2013  
(All Dollar Amounts in Thousands)**

<b>Actuarial Valuation Date (June 30)</b>	<b>Actuarial Value of Assets</b>	<b>Actuarial Accrued Liability (AAL)</b>	<b>Unfunded AAL (UAAL)</b>	<b>Funded Ratio</b>
2013	\$21,823	\$731,872	\$710,049	3.0%
2012	24,317	752,759	728,442	3.2
2011	33,218	777,572	744,354	4.3
2010	57,818	1,033,863	976,045	5.6
2009	176,800	673,390	496,590	26.3
2008	175,187	669,874	494,687	26.2
2007	156,976	638,410	481,434	24.6
2006	445,860	986,502	540,642	45.2
2005	445,918	930,675	484,757	47.9
2004	441,936	731,021	289,085	60.5

Note: \$89.5 million of the asset change from fiscal year 2009 to fiscal year 2010 represents the transfer to the Special Account as part of the Plan's participation in the Voluntary Correction Program (VCP) with the IRS discussed below.

Note: Liabilities for fiscal year 2007-2012 were determined under the entry age normal actuarial cost method. Liabilities for fiscal year 2006 and prior fiscal years were determined under the open group aggregate actuarial cost method. Comparisons between fiscal years 2007-2012 and prior years are not comparable.

Source: Information for fiscal year 2013 is derived from the System's unaudited CAFR, information for fiscal years 2007 through 2012 is derived from the System's fiscal years 2010 and 2012 CAFR; information for years prior to 2007 is derived from the System's actuarial valuation for each respective year.

### **Recent Changes to Pension Obligation Reporting**

In June 2012, the Government Accounting Standards Board (GASB) issued GASB Statement No. 67 and 68, which sets forth new standards that will modify the accounting and financial reporting of the State's pension obligations. The new standard for governments that provide employee pension benefits will require the State to report in its statement of net position a net pension liability, defined as the difference between the total pension liability (the present value of projected benefit payments to employees based on their past service) and the assets (mostly investments reported at fair value) set aside in a trust and restricted to paying benefits to current employees, retirees and their beneficiaries. The new standard will require immediate recognition of more pension expense than is currently required. The rate used to discount projected benefit payments to their present value will be based on a single rate that reflects (a) the long-term expected rate of return on plan investments as long as the plan net position is projected under specified conditions to be sufficient to pay pensions of current employees and retirees and the pension plan assets are expected to be invested using a strategy to achieve that return and (b) a yield or index rate on tax-exempt 20-year AA-or-higher rated municipal bonds to the extent that the conditions for use of the long-term expected rate of return are not met. The new standard will be effective for the Plan's fiscal year 2014 and State's fiscal year 2015 financial statements.

### **Investments**

RSA 100-A:15, I, provides separate and specific authorities to the Board of Trustees and the Independent Investment Committee for the management of the funds of the Plans and charges them with exercising the judgment and care under the circumstances then prevailing, which persons of prudence, discretion and intelligence, acting in a like capacity and familiar with such matters, would use in the conduct of a pension plan of like character and with like aims of the Plans.

Fiscal year 2010 marked the first full reporting period for which the Independent Investment Committee conducted oversight and management of the investment program. Prior to January 1, 2009, the Board of Trustees served as the NHRS Investment Committee. On that date, the Independent Investment Committee assumed its responsibilities in accordance with the provisions of RSA 100-A:14-b. The Committee is responsible for investing in accordance with policies established by the Board; making recommendations to the Board regarding investment consultants, asset allocation, and other policy matters; selecting investment managers, agents, and custodial banks; and reviewing performance. The Committee, which meets monthly, is comprised of five members: three independent members appointed by the Governor and Executive Council, and two members of the Board of Trustees appointed by the Chair of the Board. All are expected to have significant experience in institutional investment or finance.

State law requires that the Independent Investment Committee provide a comprehensive annual investment report. The report for the fiscal year ended June 30, 2012 was unanimously approved and accepted by the NHRS Board of Trustees at its December 11, 2012 regular meeting and may be accessed at [http://nhrs.org/documents/NHRS\\_Annual\\_Investment\\_Report\\_FY2012.pdf](http://nhrs.org/documents/NHRS_Annual_Investment_Report_FY2012.pdf) or may be obtained, upon request, from the System at the address set forth above in “Overview.” The 2013 report was discussed at the November 22, 2013 meeting of the Independent Investment Committee for approval by the Board of Trustees at its December 10, 2013 meeting.

The target allocation and range for each asset class, as most recently adopted by the Board of Trustees on September 11, 2012, are as follows:

<u>Asset-Class</u>	<u>Target Allocation</u>	<u>Allocation Range</u>
Domestic Equity	30%	20 – 50%
Non-U.S. Equity	20	15 – 25
Fixed Income	25	20 – 30
Real Estate	10	0 – 15
Alternative Investments	15	0 – 20

Performance returns shown below are calculated on a net-of-fees time-weighted rate of return basis.

### Annualized Investment Returns

<b>Asset Class</b>	<b>Percent of Assets</b>	<b>Periods Ending June 30, 2013</b>			
		<b>1-Year</b>	<b>3-Years</b>	<b>5-Years</b>	<b>10-Years</b>
<b>Total Fund</b>	100.0%	14.5%	12.4%	5.6%	7.2%
<i>Total Fund Custom Index</i>		13.5%	12.1%	5.5%	7.4%
<b>Domestic Equity</b>	44.2%	23.2%	18.1%	6.5%	7.1%
<i>Domestic Equity Blended Benchmark</i> <sup>(1)</sup>		21.5%	18.6%	7.2%	7.8%
<b>Non-US Equity</b>	20.1%	13.8%	10.1%	0.6%	8.6%
<i>Non-US Equity Blended Benchmark</i> <sup>(1)</sup>		13.6%	8.0%	-0.8%	8.6%
<b>Fixed Income</b>	23.2%	2.8%	6.1%	7.3%	6.3%
<i>Fixed Income Blended Benchmark</i> <sup>(1)</sup>		0.2%	4.1%	5.5%	4.9%
<b>Real Estate</b>	9.0%	12.3%	12.5%	-0.1%	9.1%
<i>Real Estate Blended Benchmark</i> <sup>(1)</sup>		11.3%	13.7%	3.2%	8.8%
<b>Alternative Investments</b>	3.5%	8.7%	6.6%	-2.0%	0.6%
<i>Alternative Investments Blended Benchmark</i> <sup>(1)</sup>		21.1%	12.8%	10.0%	9.1%
<b>Cash</b>	0.0%	0.1%	0.1%	0.3%	1.9%
<i>90 Day Treasury Bills</i>		0.1%	0.1%	0.2%	1.6%

<sup>1</sup> In a dynamic market, strategies and objectives evolve over time. Consequently, these benchmarks are blended due to historical investment strategy decisions. Detailed descriptions of the benchmarks above are available by contacting NHRS.

### Ten Year History Actuarial Value vs. Market Value of Assets

The Actuarial (Funding) Value of Assets recognizes assumed investment income fully each year. Differences between actual and assumed investment income are phased in over a closed five-year period. During periods when investment performance exceeds the assumed rate, Funding Value of Assets will tend to be less than market value. During periods when investment performance is less than the assumed rate, Funding Value of Assets will tend to be greater than market value. The Funding Value of Assets is unbiased with respect to Market Value. At any time it may be either greater or less than Market Value. If assumed rates are exactly realized for four consecutive years, it will become equal to Market Value. Final Funding Value of Assets may not be less than 80% nor more than 120% of Market Value of Assets.

The table below presents a ten year history of actuarial rates of return and asset values to the market rates of return and asset values. The actuarial rate of return for each of the fiscal years prior to 2007 was calculated looking at the initial asset value, which is determined using a five year moving average method. Each year's initial value was then compared to the book value and market value for that year and the middle value was used to compute rates, provided that the middle value was not less than the five year average. For fiscal years after 2006, assets were valued on a market-related basis that recognizes each year's difference between actual and assumed investment return over a closed five year period.

The asset values presented below include all assets in the NHRS Plan Trust, including the Special Account assets that are available pursuant to RSA 100-A:16, II(h) to provide additional benefits such as cost-of-living adjustments. The Special Account assets are used in determining actuarial and market rates of return and the Special Account is appropriately credited with earnings. However, the Special Account assets are not used in calculating the funded ratios of the Pension and Medical Subsidy Plans because those assets are not available to pay the corresponding liabilities. Accordingly, Special Account assets are not included in the Ten-Year Funding Status tables found in the "Results of Actuarial Valuation" section.

**New Hampshire Retirement System  
Pension and Medical Subsidy  
Actuarial Value vs. Market Value  
Fiscal Years 2004 to 2013**

<u>Fiscal Year</u>	<u>Actuarial Rate of Return</u> (Per Actuarial Valuation Reports)	<u>Actuarial Value of Assets</u> (in thousands)	<u>Market Value Rate of Return</u> (NHRS CAFRs)	<u>Market Value of Assets</u> (in thousands)
2013	7.12%	\$6,092,504	14.5%	\$6,428,009
2012	3.22	5,846,570	0.9	5,774,343
2011	6.90	5,798,249	23.0	5,891,179
2010	6.48	5,569,341	12.9	4,898,339
2009	-3.87	5,353,453	-18.1	4,461,211
2008	9.52	5,701,579	-4.6	5,597,047
2007	12.85	5,272,358	16.0	5,967,916
2006	9.27	4,647,973	10.0	5,112,256
2005	1.25	4,322,614	10.1	4,728,590
2004	1.85	4,339,537	14.9	4,391,286

**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 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, the market value of net assets available for benefits have recovered to \$6.4 billion as of June 30, 2013. (It should be noted that future contributions to the System will be based upon the actuarial value of the System's assets, not market value, and such actuarial values will differ from market value.) The System's investments returned 12.9% for the year ended June 30, 2010. 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. For the twelve months ending June 30, 2011, the System's total fund investment return (at market) was 23%. The actuarial rate of return for the year ended June 30, 2011 was 6.9%, which resulted in recognition of an actuarial loss. For the twelve months ending June 30, 2012, the System's total fund investment return (at market) was 0.9%. The actuarial rate of return for the year ended June 30, 2012 was 3.22%, which resulted in recognition of an actuarial loss. For the twelve months ending June 30, 2013, the System's total fund investment return (at market) was 14.5%. For the four months ending October 31, 2013, the investment return for total marketable assets, approximately 90% of System assets, was 8.6%. 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. The System's net assets were valued at \$6.68 billion as of September 30, 2013.

**Medical Subsidy Plans**

The four Medical Subsidy Plans provide an offset or subsidy for retiree health premiums for a closed group of eligible participants. By law, all retirees must be provided the option to obtain retiree health benefits through their former employer's medical plan. However, the employer is not required to provide any funding for that benefit. For those eligible retirees who elect to receive health benefits through a former employer, the subsidy offsets the cost of the health benefits for the retiree, the employer or both. The State, as an employer, funds the vast majority of costs related to retiree health, therefore the medical subsidy from the Retirement System flows back to the State. (See HEALTH CARE COVERAGE FOR RETIRED EMPLOYEES). The Medical Subsidy Plans are effectively pay-as-you-go plans and will remain so. Under current law, the cash outflow necessary to make benefit payments will continue until all benefits are paid. Effective July 1, 2011, Chapter 224, Laws of 2011 caps the

maximum benefit payable and states that the subsidy amount not be increased, however all legislative provisions are subject to amendment or modification, within constitutional limits.

As required for its fiscal year 2007 implementation of GASB Statement No. 43, the System conducted an actuarial valuation dated June 30, 2007 of its Medical Subsidy Plans. As part of implementing GASB Statement No. 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 (VCP) (if approved, by the IRS a transfer of at least \$26.4 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 health benefit plans and reporting the \$295 million as Pension Plan 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 Medical Subsidy Plans administered by the System. In addition, correcting a \$17.7 million shortfall in the State Employee Group Medical Subsidy Plans that has been subsidized by contributions from the Political Subdivision Medical Subsidy Plans as more fully described in the next paragraph. All four of these items have been appropriately corrected.

On September 1, 2010, the System received a Compliance Statement from the Internal Revenue Service (IRS) in regards to its VCP filing of April 2, 2008. In that filing, the System identified plan document or operational failures that the System recommended needed to be corrected to ensure compliance with New Hampshire RSA 100-A and IRS regulations. The IRS Compliance Statement agreed with the corrective steps recommended by the System. Those failures and the corrective steps that have been taken are as follows:

- Correct a series of seven plan document failures where the System failed to timely adopt provisions to comply with certain requirements of the IRS code. The affected provisions covered minimum vesting standards, treatment of forfeitures, required minimum distributions, specified factors for actuarial equivalence, eligible rollover distributions, updated requirements for annual benefit limitations and updated requirements for annual addition limitations and definition of compensation. At its June 2011 meeting, the Board adopted policies correcting the plan document failure.
- From fiscal year 1990 through fiscal year 2000, \$26.4 million was transferred from Special Account pension assets to the System's 401(h) medical subtrust. Pursuant to RSA 100-A:16, II(h), the Special Account is established to provide funding for additional benefits such as cost-of living adjustments. The funding for the Special Account was provided from earnings over a target rate that exceeded the assumed rate of return. When the Medical Subsidy Plans were originally enacted, the intent was to ultimately fund the benefit from the Special Account using a series of transfers. Specific transfers were made to fund a health subsidy for certain pre-July 1, 1988 police officer and firefighter retirees. This transfer was not permissible under Internal Revenue Code Sections 401(h) and 420. The System has corrected this operational failure and that correction is reflected in the System's fiscal year 2010 financial statements. A total transfer of \$89.5 million is reflected in the fiscal year 2010 financial statements as a net asset transfer from the Police Officer and Firefighter 401(h) subtrust to the Special Account. The \$89.5 million transfer consists of the original \$26.4 million transfer plus interest of \$63.1 million from July 1, 1989 to June 30, 2010. The Special Account had a balance of \$239.1 million at June 30, 2010. Additional information pertaining to the Special Account can be found in Note 6 of the 2010 System CAFR. Pursuant to Chapter 224, Laws of 2011, effective June 30, 2011, all assets in the Special Account are transferred to the main account of the pension trust, except for a holdback of approximately \$20 million to fund legislatively approved temporary supplemental benefit allowances for political subdivision employees receiving medical subsidy benefits. These allowances have been paid and the remainder of the funds transferred to the main account of the pension trust. Legislation was passed in 2012 that repealed the Special Account effective July 1, 2012. Although State statutes provided that 25% of employer contributions be credited to the 401(h) subtrust, for the time period fiscal year 2001 through fiscal year 2007, 33 1/3% of employer contributions were actually credited to the 401(h) subtrust. Failure to follow the terms of the plan document (in this case the State statutes) was considered to be an "operational failure" under IRS Revenue Procedure 2006-27. This

operational failure was corrected in fiscal year 2007 through legislation that ratified the 33 1/3% contributed during fiscal years 2001-2007.

- The System will amend the plan documents to affirmatively state that effective as of July 1, 1989, the System will determine the amount of any benefit that is determined on the basis of actuarial assumptions by using the assumptions adopted by the Board of Trustees and also state that such benefits will not be subject to employer discretion. For benefits on or after July 1, 2007, the actuarial assumptions used will be those included in the proposed plan amendments. At its June 2011 meeting, the Board adopted policies correcting the plan document failure.
- The System received a favorable tax determination letter from the IRS dated March 9, 2011 in response to the Voluntary Correction Program filing from April 2008. To comply with GASB Statement No. 43, the System received opinions from its legal counsel about the statutory construction of the Medical Subsidy Plans. Counsel concluded the System administers four such 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 Subsidy Plans have been defined, accounted for and valued since inception. In the course of restructuring the accounting in accordance with GASB Statement No. 43, it became apparent that contributions to the Political Subdivision Employee Group plan have subsidized medical benefits paid for the State Employee Group by approximately \$17.5 million, including interest, since inception.

In fiscal year 2009, legislation was enacted that required the System, beginning July 1, 2009, to certify employer contribution rates, due and payable by the State, based upon a State Employee Medical Subsidy Plan balance of \$0.00. Furthermore, the legislation stated that the Board of Trustees could not certify State employer contributions rates in any subsequent fiscal year based on any payments made from the State Employee Medical Subsidy Plans prior to July 1, 2009.

Based on the 2009 legislation, and upon advice of legal counsel, the Board voted on September 14, 2010 to write off the State Employee Medical Subsidy Plans fund balance of \$17.5 million effective June 30, 2010 and to disclose that action in the fiscal year 2010 annual financial report. On that same date, the Board also voted to rescind its April 8, 2008 vote to seek repayment from the State.

As a result of these actions, the System has written off the State Employee Medical Subsidy Plans deficit as of June 30, 2010 of \$17.5 million and established a balance as of that same date of \$0.00. The fund balance for the Political Subdivision Employee Medical Subsidy Plans was also reduced by \$17.5 million to \$34 million as of June 30, 2010.

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 years 2008 through 2012 with unqualified auditor's opinions. Such financial statements and the report of the System's independent auditors with respect thereto can be found at <http://nhrs.org/investments/reports.aspx>. The 2013 financial statements are expected to be presented to the Board of Trustees at its December 10, 2013 meeting.

### **Legislative Activity**

The State has enacted various legislative changes in recent years in order to address certain issues pertaining to the System, including, among other matters, the level of benefits to be received by retirees and the contributions required to be made by employers and employees.

Certain of the legislative changes are being challenged in court, as described above, and it is possible that additional litigation will be brought in the future. The State cannot now predict the outcome of any of these matters.

The 2013 legislative session included, but was not limited to, legislation that:

- Requires NHRS-participating employers to report monthly to the retirement system information regarding NHRS retirees on their payroll, including hours worked and all compensation paid. The reporting requirement takes effect January 1, 2014, and is repealed effective January 1, 2019.
- Requires the retirement system to provide annual written notices to NHRS retirees regarding the statutory limitations on part-time employment with NHRS-participating employers.
- Allows individuals elected or appointed to the offices of town clerk and tax collector for the same employer to satisfy NHRS membership eligibility requirements by using both offices, even if the positions were not formally combined per RSA 41:45-a.
- Eliminates the application of gainful occupation reductions to the retirement allowances of Group II (Police, Fire) accidental disability beneficiaries who have years of service plus years of accidental disability retirement that total at least 20 years and who have attained the age of 45.

The 2012 legislative session included, but was not limited to, legislation that:

- Modifies the calculation of Average Final Compensation (AFC) for members not vested prior to January 1, 2012, by changing the “compensation over base pay” factor used in the AFC formula from a dollar average to a percentage average.
- Clarifies the date from which NHRS must begin calculating a 7-year average of Extra or Special Duty Pay (ESOP) for Group II (Police and Fire) members vested prior to January 1, 2012. This change excludes from the calculation any months prior to July 1, 2009, which is when ESDP began to be separately reported to NHRS.
- Clarifies the number of years of creditable service Group II (Police and Fire) members in service prior to July 1, 2011, but not vested prior to January 1, 2012, must have in order to qualify for the supplemental disability benefit available to eligible Accidental Disability retirees.
- Changes the annual effective date of changes to the member interest rate from a fiscal year to a calendar year.
- Clarifies the definition of “compensation over base pay” for members not vested prior to January 1, 2012.
- Clarifies that the maximum benefit limit for members hired before July 1, 2009, is 100 percent of Earnable Compensation and the maximum benefit limit for members hired after that date, and not vested by January 1, 2012, is the lesser of 85 percent of AFC or \$120,000 per year.
- Modifies the definition of “part-time” for NHRS retirees employed by NHRS-participating employers.
- Changes the date by which NHRS Trustees must approve the retirement system’s Comprehensive Annual Financial Report from December 1 to December 31 of each year.
- Repeals RSA 100-A:53, II; RSA 100-A:53-e, II; RSA 100-A:16, II(h); and RSA 100-A:16, II(j), relative to the Special Account.
- Repeals RSA 100-A:16, III-a, commonly known as the employer “spiking” assessment.

A detailed discussion of legislative activity for the 2010 and 2011 legislative sessions can be found in Note 5 of the 2011 System CAFR.

Additional legislative changes are proposed from time to time but to date no proposals have yet been enacted by both the House and the Senate. The State cannot now predict what changes, if any, may be enacted into law.

## 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 benefit component of 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.

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 retirement plan’s financial statements 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 in the State’s CAFR 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 State employees within the limits of the funds appropriated. Each year, the State works with its actuary to develop working rates, or premiums, that are projected to cover the cost of retiree health care for the calendar year. The State collects the working rates from the appropriate State agencies and other statutorily authorized groups, as well as from other sources, and deposits all revenues into the Fund. As required by RSA 21-I:30-b(I), the Fund also includes a reserve equal to 5% of the estimated claims and costs, plus an amount set by the State’s actuary to cover costs incurred but not reported (IBNR). The State maintains amounts that exceed the required reserve as surplus and, if appropriate, the State implements a working rate suspension in order to spend-down the surplus.

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 contributed \$65 per month and additional \$65 per month for spousal coverage. Starting on July 1, 2011, the premium contribution changed from this flat fee amount to twelve and half percent (12.5%) of the total monthly premium for each retiree, or twelve and half percent (12.5%) of the total monthly premium for a two-person plan if coverage includes a spouse. The premium contribution through December 31, 2013 is \$109.25 per covered person per month. Effective January 1, 2014, it will be \$114.14 per covered person per month.

Substantially all of the State’s Group I employees hired on or before June 30, 2003 may become eligible for these benefits at 60 years of age after attainment of ten years of State creditable service if they elect to receive pension payments on a periodic basis rather than as a lump sum. Group I employees hired on or after July 1, 2003 must attain 20 years of State creditable service and be 60 years of age (65 if hired on or after July 1, 2011) in order to be eligible for retiree health benefits. Group II employees are subject to somewhat different age and creditable service requirements, as are certain Group I employees with 30 years of creditable service. Group I and Group II employees, or surviving spouses if applicable, may also qualify for retiree health benefits as the result of job-related accidental disability or death or non-job related disability or death. Similar benefits for active employees are authorized by RSA 21-I:30 and are provided through the Employee and Retiree Benefit Risk Management Fund (the “Fund”), established in October 2003, which finances the State’s self-funded employee and retiree health benefit program (“State OPEB Plan”).

State retiree health benefits paid from the Fund, totaled \$70.9 million to cover 10,614 retirees and dependents in fiscal year 2013 on a pay-as-you-go (cash) basis. The State does not pre-fund OPEB costs. However, it does have authorization to establish a trust account in which resources are identified and accumulated for purposes of funding retiree health benefits. To date no funds have been paid into the trust.

In 2011, following a procurement process, the Department of Administrative Services retained The Segal Company (“Segal”) to assist, among other matters, in the determination and valuation of the State OPEB Plan



liability under GASB Statement No. 45. Segal 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. The current State OPEB Plan liability actuarial valuation as of December 31, 2012, dated September 27, 2013, is posted to the State's website at <http://admin.state.nh.us>. 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 State OPEB Plan cost, the amount contributed and the change in the net State OPEB Plan obligation as reported in the State's unaudited CAFR for fiscal year 2013 (dollar amounts in thousands):

Annual Required Contribution/OPEB Cost	\$132,331
Interest on net OPEB obligation	30,565
Adjustment to annual required contribution	(25,084)
Annual OPEB cost	137,812
Contributions made (pay-as-you-go)	(51,332)
Increase in Net OPEB Obligation	86,480
Net OPEB Obligation - Beginning of Year	679,219
Net OPEB Obligation - End of Year	<u>\$765,699</u>

The \$86.5 million increase in net State OPEB Plan obligation is reflected in the State's fiscal year 2013 government-wide financial statements as claims and compensated absences payable.

The ARC for fiscal year 2013 is \$132.3 million and the pay-as-you-go contributions made in fiscal year 2013 were \$51.3 million on an accrual basis. Those contributions do not include NHRS medical subsidy and other sources as presented in the table below. NHRS medical subsidy payments are not included because the related obligation is excluded from the calculation above. In addition, Retiree Drug Subsidies (RDS) subsidies are excluded pursuant to guidance promulgated by GASB Statement No. 45. Other small differences will exist because of timing between cash and accrual basis of accounting.

Retiree health costs budgeted for fiscal years 2014 and 2015 are projected to total \$68.4 million and \$69.5 million, respectively. Of such amounts, the General Fund will provide funding for \$33.4 million and \$34.5 million for fiscal year 2014 and 2015, respectively. The remaining funding will be provided by self-supporting agencies, NHRS medical subsidies and drug rebates and subsidies.

As of December 31, 2012, the most recent actuarial valuation date, the actuarial accrued liability ("AAL") for benefits was \$1,857 million, with no actuarial value of assets, resulting in UAAL of \$1,857 million, as compared with a UAAL as of December 31, 2010 of \$2,258 million. The decrease in the AAL and UAAL from the December 31, 2010 valuation is attributable to specific changes made to pricing of the prescription drug program, changes in plan design and premium contributions, and overall favorable health claim experience. The new valuation report was performed using updated data, a payroll growth assumption of 3.75% (down from 4.50%) and changes to mortality, disability, turnover and retirement rates consistent with changes made by NHRS based on its June 30, 2010 experience study. This amount does not include the State's share of the UAAL from the NHRS Medical Subsidy plans discussed below.

The next actuarial valuation is expected to be dated as of December 31, 2014. The State cannot now predict whether such valuation will result in an increase or decrease in the UAAL as compared to the most recent valuation.

As described above under "STATE RETIREMENT SYSTEM," the NHRS currently provides medical subsidy payments on behalf of a closed group of retirees. Funding for the medical subsidy payments is included as a percentage of the employer contribution rate and is applied to active employee payroll similar to employer pension contributions. The NHRS then makes subsidy payments to the medical subsidy plans on behalf of eligible State retirees to offset the cost of retiree health. The 2012 Actuarial Valuation includes valuation of the NHRS Medical Subsidy Plan as of June 30, 2012. At that date, the NHRS Medical Subsidy Plan was unfunded; amounts paid by the State to the NHRS Medical Subsidy Plan are paid back to the State by the NHRS in the form of subsidy payments.

The UAAL at June 30, 2012 for the State employee group was \$89.3 million. Additionally, based on current payroll data, approximately twenty percent of the Police and Fire Group of the NHRS Medical Subsidy Plan relates to State police. Accordingly, the State's portion of the UAAL of the Police and Fire Group at June 30, 2012 would approximate \$65.5 million. The 2012 Actuarial Valuation can be viewed in its entirety at [www.nhrs.org/documents/NHRS\\_June\\_30\\_2012\\_Pension\\_Valuation.pdf](http://www.nhrs.org/documents/NHRS_June_30_2012_Pension_Valuation.pdf).

The State's total UAAL for all groups related to retiree health at December 31, 2012 using the most current data available approximated \$2,011.8 million from the State OPEB plan and the NHRS Medical Subsidy Plans combined. Past and future estimated annual payments are shown below.

**State Retiree Health Funding Sources – Cash Basis  
(in millions)**

<u>Fiscal Year</u>	<u>General Fund</u>	<u>Self-Supporting Agencies</u>	<u>NHRS Medical Subsidy</u>	<u>Other Sources (i.e. Rebates, RDS Subsidy, Contrib.)</u>	<u>Total Revenue</u>	<u>Total Costs</u>
2014 (est.)	\$33.4	\$17.7	\$11.6	\$10.7	\$73.4	\$73.4
2013	35.0	18.2	13.5	13.8	80.5	80.5
2012	33.8	15.7	14.3	12.5	76.3	73.5
2011	30.3	13.7	14.2	12.4	70.6	75.9
2010	34.7	15.2	14.4	10.5	74.8	72.4

*Retiree Health Care Benefits for Employees Hired After July 1, 2013*

Chapter 144:33, Laws of 2013, created the Commission to Review Retiree Health Care Benefits (the "Benefits Review Commission") to review and recommend cost effective retiree health plan models for individuals hired after July 1, 2013 in light of PPACA. The Benefits Review Commission met on a weekly basis and its report was issued November 15, 2013. The Benefits Review Commission recommended additional research into a number of areas that might potentially limit the State's future OPEB liability. The Benefits Review Commission's report can be accessed at <http://www.admin.state.nh.us/>.

**STATE RETIREE HEALTH PLAN COMMISSION**

Effective July 1, 2007, the State Retiree Health Plan Commission was established pursuant to RSA 100-A:56 to determine the actuarial assumptions to be used in the valuation of liabilities relative to State employee health benefits. The Commission membership includes one representative appointed by the Speaker of the House, one Senator appointed by the Senate President, one member appointed by the Governor, the State Treasurer and the Commissioner of Administrative Services. The Commission's role is to determine the actuarial assumption to be used in the OPEB valuation of the State's OPEB liability and to ensure the OPEB Valuation Report is submitted to the Speaker of the House, Senate President, and Governor. The Commission is also charged by law to review the premium contributions for retirees as well as eligibility considerations such as length of service, annuity amount, and cost of retiree health benefits. In Fall 2013, the Commission fulfilled its duties relative to the 2012 OPEB Valuation Report and review of the retiree health benefit.

**JUDICIAL RETIREMENT PLAN**

The New Hampshire Judicial Retirement Plan (the "Judicial Plan") was established on January 1, 2005 pursuant to RSA 100-C:2. The Judicial 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. As of January 1, 2012, the date of the most recent actuarial valuation, there were 47 active participants and 57 retirees, beneficiaries and other persons due benefits.

In connection with the establishment of the plan, the State engaged a consultant to prepare an actuarial valuation as of January 1, 2005, based on the final plan provisions and reflecting an initial funding payment of \$42.8

million, which amount was provided from the proceeds of general obligation bonds issued by the State. The initial 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 the State's bonds. This valuation resulted in an unfunded actuarial liability as of January 1, 2005 of \$869,534. As of June 30, 2013, \$8,560,000 of the bonds issued by the State for this purpose remained outstanding. The bonds mature in fiscal year 2015 and the average annual debt service due on the bonds is approximately \$4.5 million.

Additional information pertaining to the Judicial Plan is contained in the State's audited financial statements for the year ended June 30, 2012 at note 10, which financial statements are incorporated by reference in this Information Statement and included as Exhibit A hereto. The Judicial Plan's audited financial statements are also included in the State's Comprehensive Annual Financial Report for the year ended June 30, 2012 (the "2012 CAFR"), which report is also incorporated herein by reference and may be accessed at <http://admin.state.nh.us/accounting/>. The 2012 CAFR has also been filed with the Municipal Securities Rulemaking Board through its Electronic Municipal Market Access ("EMMA") system, which may be accessed at [www.msrb.org](http://www.msrb.org).

The Judicial Plan issues publicly available financial reports that may be obtained upon written request addressed to Charles G. Douglas, III, Esq.; Douglas, Leonard & Garvey, P.C., 14 South Street, Concord, NH 03301. Currently available reports include the Judicial Plan's Financial Statements and Required Supplementary Information as of December 31, 2012 and 2011 (the "2012 Financial Statements"), and the most recent Actuarial Valuation Report dated as of January 1, 2012 (the "2012 Judicial Actuarial Valuation"). The 2012 Financial Statements and the 2012 Judicial Actuarial Valuation are incorporated herein by reference. Similar reports for prior years are also available from the Judicial Plan at the address set forth above.

Biennial actuarial valuations performed for the Judicial Plan as of January 1 of the years indicated have reported the following results:

**New Hampshire Judicial Retirement Plan  
Selected Actuarial Valuation Results**

<b>Valuation Date</b> <b>January 1</b>	<b>Actuarial Value of Assets</b>	<b>Unfunded Accrued Liability</b>	<b>Funded Ratio</b>	<b>State Contribution Rates for Fiscal Years</b>	
2006	\$44,980,407	\$2,173,046	98%	19.68%	FY 08-09
2008	50,600,791	4,330,338	92	27.42	FY 10-11
2010	44,013,949	15,811,816	74	41.00	FY 12-13
2012	41,547,067	29,758,435	58	64.50	FY 14-15

The State contributions expected to be paid in the 2014-2015 biennium total \$11.2 million, which is a \$5.5 million increase over the contributions made in the 2012-2013 biennium. Chapter 257, Laws of 2011, extended the amortization period for the unfunded accrued liability from 15 to 30 years. An actuarial valuation using January 1, 2012 data was issued in July 2012.

The market value of assets as of the January 1 valuation dates is shown below. The June 30, 2012 value is unaudited, preliminary and subject to change.

January 1, 2008	\$51,857,186
January 1, 2010	\$36,678,291
January 1, 2012	\$36,303,522
June 30, 2013 (unaudited)	\$39,992,854

The actuary for the Judicial Plan uses several actuarial assumptions in the 2012 Judicial Actuarial Valuation including the investment return rate at 7.0% and the wage inflation rate of zero for the next two years and 3.0% annually thereafter commencing in calendar year 2014. The actuary also uses so-called "smoothing," whereby the difference between the market value of assets and the actuarial value of assets is smoothed over the previous five

years to offset the effects of volatility of market values in any single year. In addition, the Judicial Plan uses a 20% “corridor” in order to prevent the smoothed value from varying too far from market, similar to the System’s methodology. The use of the corridor in the January 1, 2012 actuarial valuation for the Judicial Plan lowered the actuarial value of assets that would have been established in its absence and thus raised the ARC in fiscal years 2014 and 2015.

Employer contribution rates depend on all of the actuarial assumptions used in determining the contribution rates. The assumptions used in the 2012 Judicial Actuarial Valuation are set forth in Appendix B thereto. The following table sets forth a summary of certain assumptions used in the 2012 Judicial Actuarial Valuation.

**New Hampshire Judicial Retirement System  
Actuarial Assumptions**

<b>Actuarial Cost Method</b>	Entry age normal
<b>Amortization Method</b>	Level percentage of payroll, closed
<b>Equivalent single amortization period</b>	20 years From 01/01/2005 to 12/31/2009
<b>Equivalent single amortization period</b>	30 years From 01/01/2010 to present
<b>Asset valuation method</b>	5-year smoothed market
<b>Actuarial Assumptions:</b>	
<b>Investment rate of return</b>	7.0% as of 01/01/2012 8.0% prior to 01/01/2012
<b>Projected salary increases</b>	0% to 3.0%

See “LITIGATION - *Cloutier v. State and Judicial Retirement System*” below for information pertaining to litigation regarding the Judicial Plan. According to a September 24, 2012 actuarial report requested by the Judicial Plan, a final, unfavorable decision in *Cloutier v. State and Judicial Retirement System* is estimated to require either an additional \$3.367 million upfront contribution to the Judicial Plan to offset the impact of such decision or the annual employer (State) contribution will need to increase from the originally projected 64.5% for fiscal years 2014 and 2015 to approximately 76.4% of total salaries. Since the case concluded, only one judge has elected to participate under the old plan, accordingly, the impact will likely be less than the actuary calculated. All amounts are estimated and subject to change.

**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 New Hampshire Retirement System are not classified state employees and 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”). The Highway Patrol Officers were subsequently absorbed into the NHTA when the Department of Safety merged the Highway Enforcement Bureau with the Division of State Police. 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 Corrections Officers and the uniformed Corrections 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 were again represented by the SEA. In a subsequent election, the uniformed Corrections Officers again voted to be represented by the NEPBA and the uniformed Corrections Supervisors voted to remain with the SEA. Three other units formerly represented by the SEA voted to decertify the SEA and certify the NEPBA as their exclusive representative. Those units are Probation Parole Officers, Probation Parole Supervisors and Liquor Enforcement Officers.

In September, 2012, approximately 300 employees in the Department of Corrections who were represented by the NEPBA filed a modification petition requesting that they be allowed to vote to determine whether they should be represented by a new union, the Teamsters, or whether they would continue to be represented by their current union, the NEPBA. The PELRB granted this petition and the Corrections bargaining unit election resulted in the decertification of the NEPBA and the certification of the Teamsters as the exclusive representative of the uniformed Corrections Officers of the Department of Corrections. The next round of collective bargaining with the State’s three unions will begin during the month of October, 2012. Any agreements reached through these negotiations will be effective from July 1, 2013 through June 30, 2015.

The State began negotiations with these four unions in January of 2013 and continued to negotiate with all four unions and has successfully concluded negotiations with three of the unions – NEPBA, the Teamsters and the NHTA. New collective bargaining agreements, that will remain in effect through June 30, 2015, were ratified by each of the three unions. There are wage increases and changes that required additional appropriation by the legislature for all four unions based on tentative agreements reached at the time of the vote. The legislature approved funding for the tentative agreements. The State has also reached an agreement with the SEA and the ratified contract was signed on November 21, 2013. Negotiated wages and benefit cost increases on a statewide basis approximate \$38.4 million and the health care savings are projected to total \$10.3 million over the 2014-2015 biennium. All estimates were included in the adopted operating budget.

The next round of collective bargaining with the unions will begin during the month of October, 2014. Any agreements reached through these negotiations will be effective from July 1, 2015 through June 30, 2017.

## LITIGATION

The State and certain of its agencies and employees are defendants in numerous other lawsuits that 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, 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:

*Chase Home et al v. Division of Children, Youth and Families.* In November 2007, seven residential childcare providers, which had previously sued the State to enforce administrative awards of higher rates but had lost that suit on procedural grounds, initiated a new suit in Merrimack County Superior Court against the Division of Children, Youth and Families (“DCYF”). The claims included (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. Petitioners sought 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, 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. In May 2010, the Court ruled in favor of Petitioners and found that the State had breached its contracts and that there was sufficient money appropriated in the years in question to pay the petitioners. The damages were found to be \$3.5 million. Attorney's fees were denied as was a motion for reconsideration filed by the State. This matter was appealed by the State and the State's brief was filed on February 11, 2011. Oral argument was held on September 13, 2011. The Supreme Court issued a decision upholding the trial court's determination that there were valid contracts and holding DHHS liable for a judgment of \$3,553,479.55 regarding the claims related to fiscal years 2004 through 2006. Calculation of allowable interest will add approximately \$320,000 to the judgment. There are similar claims for some of the same providers pending in DHHS administrative appeals unit for fiscal years 2007 through 2010. The Department estimates the potential liability for the outstanding years is between \$2 and \$5 million (state portion only). DHHS has determined that it does not have an appropriation from which the judgment can be paid. On February 3, 2012, the judgment was submitted to the Legislature in accordance with RSA 491:8. The Legislature did not pass legislation to appropriate the funds to pay this judgment during the 2012 legislative session. However, \$2.7 million was accrued for this judgment and is reflected as a liability in the State's audited fiscal year 2012 financial statements. HB 486-FN was introduced and adopted in 2013 to appropriate the funds to pay the judgment. The judgment was paid. The claims for 2007-2010 remain pending at the administrative level.

*State of New Hampshire v. Phillip Morris USA, RJ Reynolds, Inc. and Lorillard Tobacco Company.* This matter is a petition for a declaratory order. Defendants are signatories to the Tobacco Master Settlement Agreement under which 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 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 Superior Court on June 22, 2007. The arbitration process for all states began on July 1, 2010, and is expected to last at least two years. The tobacco companies are seeking recovery of up to the entire annual payment of approximately \$50 million made to the State under the MSA. The tobacco companies have identified thirty-five states they claim failed to "diligent enforce" their obligations under the MSA, including New Hampshire. The arbitration will begin April 23, 2012 with a presentation of facts and issues common to all the individual state cases. Individual state hearings are scheduled to begin May 21, 2012 and will continue at least through 2012. New Hampshire's hearing, scheduled for November, 2012, was postponed. Since that time, some states, including New Hampshire, have joined in a settlement agreement which has been submitted to the New Hampshire Legislature and was approved in March 2013. The settlement resolves the diligent enforcement dispute with the settling states through 2015. Under the terms of the settlement, the tobacco companies accepted a reduction in their claim for a non-participating manufacturer (NPM) adjustment against the settling states. The settlement resulted in the release by the tobacco companies of approximately \$63.2 million to New Hampshire from the disputed payments account. In exchange, New Hampshire's 2013 annual tobacco payment was reduced by approximately \$42.4 million, and its annual payment will be reduced in 2014 through 2017 by approximately \$4 million, as payment for its share of the settlement agreement. An additional reduction in the State's annual payment is possible in 2014 and 2015 based upon a deficiency in escrow payments as determined by a comparison of escrow deposits and State excise tax paid. It is not possible to predict the outcome of the 2014-2015 payments at this time.

*Federal Audit Findings of State Implemented Federal Programs.* By letter dated July 22, 2008, 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 the Centers for Medicare and Medicaid Services (“CMS”) will take action with regard to disallowance of any federal financial participation. DHHS is currently working with CMS to resolve CMS’ concerns and reduce any potential disallowance.

By letter dated July 9, 2007, DHHS received a final report from 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 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 was disallowing \$35,325,468 in federal funds for FFY 2004. The notice also confirmed that the State could appeal the disallowance to the Federal Departmental Appeals Board (“DAB”) and elect to retain the funds pending appeal. DHHS filed a formal Notice of Appeal on December 18, 2009 with the DAB. DHHS submitted a request for discovery of documents on January 14, 2010, and discovery is ongoing. Both sides filed briefs with the DAB. DHHS elected to retain the funds pending the appeal. A decision in the appeal was temporarily stayed to provide the parties an opportunity to explore the possibility of resolution of the appeal through settlement. On or before May 16, 2011, the parties were required to report to the DAB as to the status of any settlement discussions before the DAB will consider issuing an additional stay. DHHS filed a motion for reconsideration, which was denied by the DAB on October 14, 2011. CMS will recover the disallowance from the State in eight quarterly installments over a two-year period, beginning with the quarter that commenced on January 1, 2012 and ending with the quarter ending December 31, 2013. The installments will be effectuated through reductions in the State’s quarterly Medicaid grant awards. No further substantive action is expected on this matter.

*Cloutier v. State and Judicial Retirement System.* In this matter, former Judge Cloutier challenges 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. Plaintiff argued that he was a permanent employee when the statutory change was made and therefore he had a vested right in the retirement benefits that existed prior to July 1, 2003. The parties agreed to submit the case on pleadings with an agreed-to statement of facts. Six more retired judges intervened as plaintiffs in the case. The parties filed cross motions for summary judgment. On September 14, 2010, the Superior Court granted summary judgment for Plaintiffs, and found that RSA 100-C is unconstitutional as applied to the judges who accepted their positions before the statutory change to the retirement system. The State appealed and it, the Board of Trustees for the Judicial Retirement Plan (the “Judicial Board”), and Plaintiffs filed their briefs. The case was argued before a substitute panel of the New Hampshire Supreme Court on August 26, 2011. The New Hampshire Supreme Court issued a decision, affirming in part, reversing in part, and remanding the case. The court held that RSA chapter 100-C impairs the obligations entered into under the prior retirement statutes, but remanded the issue of whether the contractual impairment is offset by any compensating benefits under RSA chapter 100-C. A status conference was held and expert reports were due in September, 2012. Briefs on the merits are due from all parties in November, 2012. The Petitioners and the Judicial Board disclosed expert reports in September, 2012, after which the parties agreed that additional time was necessary to review those reports and disclose any additional expert reports. The State obtained an expert witness who reviewed the expert reports. The Judicial Board disclosed a supplemental expert report in January 2013, and Petitioners disclosed a supplemental expert report in February 2013. The Court granted Plaintiffs’ motion for summary judgment finding that RSA 100-C substantially impaired Plaintiffs’ vested rights under the prior retirement statutes. The Court ruled that Plaintiffs could elect to receive future benefits under the prior retirement statutes but they would have to reimburse the Judicial Retirement Plan for the excess amount of benefits they had received to date under RSA 100-C. Five plaintiffs elected to continue receiving benefits under RSA 100-C, one plaintiff elected to receive benefits under the prior retirement statutes and one settled with the Judicial Retirement

Plan incorporating an election to return to the prior retirement system. The Court denied Plaintiffs' request for attorneys' fees, but awarded Plaintiffs \$18,812 in costs. Neither party appealed and this case is now concluded.

*American Federation of Teachers - New Hampshire, et al v. State, Retirement System and Lisa Shapiro, Individually.* In this matter, a group of 12 plaintiffs, seeking class certification for all of the other New Hampshire retirees, filed suit on August 7, 2009, challenging the changes to the retirement system made pursuant to 2008 N.H. Laws Chapter 300, that affect (1) earnable compensation; (2) COLA payments; and (3) medical subsidies. Plaintiffs also sought class certification for all other New Hampshire retirees eligible for State retirement benefits. In July 2010, Plaintiffs were allowed to amend their petition. The parties filed cross motions for summary judgment on December 5, 2010. In January 2011, the Superior Court issued an order indicating that it would defer ruling on the parties' summary judgment motions until the class certification process was complete. Plaintiffs withdrew their request for class certification, and the New Hampshire Superior Court approved an interlocutory appeal without ruling to the New Hampshire Supreme Court. The Supreme Court has declined to accept the interlocutory appeal. In July, the Superior Court issued an order holding that the Contracts Clause applies to employees who are vested in the retirement system (10 years), and the law is unconstitutional as to them. The Court found that the COLA benefit was not contractually protected, and found that aspect of the law constitutional. The Court also found that the modification to the special account (removing the funding for medical subsidies) was necessary to serve a substantial public interest, and therefore does not violate the Constitution. Plaintiffs filed a motion to reconsider which is pending with the Superior Court. It is not possible to predict the outcome of the case at this time.

*Woodland Management Associates, LLC and The Lyme Timber Co. v. State of New Hampshire.* This matter is an appeal pursuant to RSA 21-J:28-b, IV. Petitioners allege that the DRA 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. In May 2010, the Superior Court granted summary judgment on Count II in favor of the DRA, thereby denying Petitioners' request for a remand to the Commissioner. The parties litigated the impact of alleged concessions that were made at the hearing below through cross Motions in Limine. In September 2011, the Court granted the Motion in Limine, finding that the case was not narrowed by the statements made State employees. In February 2013, this case settled with Petitioners paying DRA \$1,350,000 to resolve all tax years in dispute. This matter is now concluded.

*Leighton, et al v. State of New Hampshire.* This matter challenges the constitutionality of RSA 77:39, the State's 10% tax on gambling winnings. Plaintiffs brought this as a class action, but the State objected to it being certified as a class action, and the court has not yet ruled on that issue. The parties filed a joint interlocutory transfer without ruling in the Supreme Court, which was denied on February 23, 2011. The case has returned to superior court and is scheduled for a structuring conference on April 11, 2011. The parties agreed that the case can be decided on cross-motions for summary judgment. The State agreed to settle Plaintiff Leighton's claims for \$260,300, but the remaining gambler plaintiff's (Willey's) claims remain. After the State settled Plaintiff Leighton's claims, a new lottery winner joined the case as a plaintiff. The parties filed cross motions for summary judgment. In October 2011, the trial court denied the Plaintiffs' motion for summary judgment. The court granted, in part, the State's cross-motion for summary judgment with respect to the plaintiffs' facial challenge to the statute and denied the State's motion, in part, finding that there was a question of fact as to whether Willey was a "professional gambler." Willey has since conceded that he is not a "professional gambler" under the legal test articulated by the court in its summary judgment order. Plaintiffs attempted to find a professional gambler to intervene in the case, but were unsuccessful. In June 2012, the declaratory judgment statute, RSA 491:22, was amended. Plaintiffs claim that the amendment provides them with standing to challenge the Gambling Winnings Tax as an occupation tax even if they are not professional gamblers. The parties agreed to continue the bench trial and file cross-motions for summary judgment. Plaintiffs filed a motion for summary judgment in September, 2012; the State's objection and cross-motion was filed in October, 2012. The court granted the State's motion for summary judgment, and Plaintiffs have appealed to the Supreme Court. Both parties filed briefs. Oral argument has not yet been scheduled. It is not possible to predict the outcome of the case at this time.

*Walker Digital, LLC v. Multi-State Lottery Assoc.* This matter, filed in the United States District Court of Delaware, alleges patent infringement against the Multi-State Lottery Association ("MUSL") regarding the Power Play and Megaplier games. MUSL believes the action is without merit, has responded to the lawsuit, and is taking



actions to defend itself in this matter. The New Hampshire Lottery Commission is not named as a party to this lawsuit but is a member of MUSL.

*K. Frisselle v. DCYF., et al.* This matter was initially filed against the DCYF, the Director of DCYF, and four other State employees by a pro se Plaintiff in superior court. Plaintiff alleged a number of injuries she suffered while in foster care, including an allegation of a failure to investigate an allegation of abuse and unsafe foster environment. Plaintiff retained counsel who filed an amended complaint alleging that Plaintiff suffered sexual abuse and assault during a placement with an Easter Seals foster home by the spouse of her foster parent. She alleges that DCYF was negligent, it breached a fiduciary duty owed to Plaintiff, and it was vicariously liable for the conduct of its employees and the foster parent and spouse. Plaintiff is seeking compensatory damages for past, present, and future physical and emotional harm. The parties are conducting discovery, and DCYF filed a Motion to Dismiss the fiduciary duty claim. The State's Motion to Dismiss was denied, and the parties are conducting discovery. The State has filed a motion for summary judgment. In December 2012, the parties settled this matter with the State paying \$100,000 and Easter Seals paying \$150,000. This matter is now concluded.

*Professional Firefighters, et al v. State of New Hampshire ("Fire Fighters I").* This matter is an action challenging 2011 New Hampshire Laws Chapter 224, Sections 172 and 188, also known as House Bill 2 ("HB2"). Section 172 modified the contribution rate of employee members of the New Hampshire Retirement System ("NHRS"). Section 188 required NHRS to recertify rates for employers based upon changes made to the retirement statute, RSA 100-A. NHRS issued recertified employer rates in August 2011. Petitioners allege the following claims: Section 188 violates Part I, Art. 36-a of the New Hampshire Constitution; Section 172 violates the Contract Clause of the New Hampshire Constitution and the United States Constitution; Section 172 violates Part I, Art. 12 of the New Hampshire Constitution (takings); Sections 172 and 188 violate Part I, Art. 12 of the New Hampshire Constitution (equal protection); Section 172 violates the takings clause of the United States Constitution; and Sections 172 and 188 violate Part II, Art. 5, of the New Hampshire Constitution. Petitioners also seek relief under 42 U.S.C. §1983 against the Commissioner of Administrative Services for alleged violations of Petitioners' rights under the Contract and Taking Clauses of the United States Constitution. A preliminary hearing was held on July 14, 2011, after which the Court allowed Petitioners to file an amended complaint. The State filed a Motion to Dismiss the amended complaint, and Petitioners objected. On January 6, 2012 (issued January 31, 2012), the Court ruled that the increase in member contributions is unconstitutional as to those members who are "vested" as that term is defined in the retirement statute (10 years in the retirement system). The Court dismissed the lawsuit, however, on the grounds that Petitioners did not allege they are "vested employees." The Court's dismissal was without prejudice and allowed Petitioners to file an amended petition by March 1, 2012. The Court also dismissed the request to enjoin the recertification of employer contribution rates, stating that members do not have standing to challenge the employer contribution rate. Petitioners filed a second amended petition on February 24, 2012, and the State filed a renewed motion to dismiss. The Superior Court denied the State's motion to dismiss, and granted the parties' joint motion for interlocutory appeal. The New Hampshire Supreme Court declined to accept the interlocutory appeal. The parties filed cross motions for summary judgment on the issue of whether the increase in the employee contribution is constitutional. In September, 2013, the Court granted summary judgment for Petitioners to the extent they are vested in the retirement system (ten years). The Court ruled that vested members have a contractual interest in their contribution rates, and legislative changes cannot substantially impair those rights. On October 8, 2013, the State filed a notice of appeal with the Supreme Court. It is not possible to predict the outcome of this case at this time.

*Professional Fire Fighters of New Hampshire, et al v. State of New Hampshire ("Fire Fighters II").* This suit challenges other portions of HB2 that affect the State Retirement System. Petitioners challenge Section 161 (definition of Earnable Compensation), Section 163 (definition of Average Final Compensation), Section 164 (Maximum Retirement Benefit), Section 166 (Age Multiplier to calculate benefit), and Section 186 (repeal of disability exception from the gainful occupation reduction provision) of HB2. Petitioners seek an order finding HB2 is unconstitutional under the Contracts and Takings Clauses of both the New Hampshire Constitution and the United States Constitution. Petitioners seek injunctive relief, payment of damages and attorneys' fees.. The issues raised in this lawsuit are similar to the issues raised in *Professional Fire Fighters I* (see *Professional Firefighters, et al v. State of New Hampshire* above). A hearing on the request for a preliminary injunction was held and the Superior Court granted the State's request for interlocutory appeal. The parties submitted a request for reconsideration after the New Hampshire Supreme Court declined to accept the interlocutory appeals in *Fire Fighters I* and *American Federation of Teachers*, which was denied. The trial court issued a preliminary order in May 2013, which held that employees have a

contractual interest in their retirement benefit when they become “permanent employees” (approximately 1 year into employment). The Court found there is a factual question on whether the changes to the law resulted in a “substantial impairment.” The case is stayed pending the outcome of the cross motions for summary judgment in *Professional Firefighters I*. It is not possible to predict the outcome of this matter at this time.

*Anderson v. Lagos*. In September 2012, the State and the NHRS were named in a third lawsuit related to HB2 that was filed in Merrimack County Superior Court. A group of four NHRS retirees sought declaratory relief and a temporary injunction against the HB2 provision, as amended by 2012 New Hampshire Laws Chapter 244, that generally limits an NHRS retiree from working more than 32 hours a week for NHRS participating employers. Petitioners challenge that provision on the basis that it results in an unconstitutional impairment of the retirees’ contract rights as of their respective retirement dates prior to the passage of HB2. A hearing was held on September 18, 2012, and the temporary injunction was not granted. Petitioners were allowed to submit a memorandum of law to which the State responded. A second hearing was held and the Superior Court denied the request for a temporary injunction. Cross motions for summary judgment were filed and, in August 2013, the Court granted the State’s motion and denied plaintiffs. The Court found that Petitioners were never vested with the rights of part-time or full-time police officers. Petitioners have appealed to the Supreme Court but no scheduling order has been issued. It is not possible to predict the outcome of the case at this time.

*Dartmouth Hitchcock, et al v. Toumpas*. In August 2011, 10 of New Hampshire’s 13 non-critical access hospitals and a “John Doe” individual Medicaid recipient filed a lawsuit in the Federal District Court for the District of New Hampshire against the Commissioner of the Department of Health and Human Services. The lawsuit challenges a number of legislative and agency actions since 2005 that have reduced the reimbursement rates for Medicaid in-patient and out-patient services and eliminated disproportionate share payments to non-critical access hospitals in the State budget for fiscal years 2012-2013. The claims are brought under the supremacy clause of the United States Constitution related to the Medicaid statute, 42 U.S.C. § 1396a(a)(30)(A) and 42 U.S.C. § 1396a(a)(13)(a), alleging that the changes are contrary to the intent of the Medicaid statute as the resulting payments are insufficient to ensure access to services to Medicaid clients, and further alleging that the changes cannot be implemented because the State did not give notice or do a state plan amendment regarding each change. A motion for preliminary injunction requesting that the Court enjoin each of the changes and require the State to revert to prior payments levels was filed at the same time. The response to the complaint and the motion for preliminary injunction were filed on September 23, 2011. The potential impact on the State’s General Fund could be in excess of \$100 million. It is not possible at this time to provide a more precise estimate of potential exposure for the State. Additional pleadings have been filed answering the complaint, moving to dismiss the 42 U.S.C. § 1396a(a)(30)(A) claims (Counts I-IV) and briefing the legal and evidentiary issues raised in the plaintiffs’ motion for preliminary injunction. On December 8, 2011 the court heard oral argument on the legal standing issues raised in the motion to dismiss and the preliminary injunction. There was a further evidentiary hearing on the motion for preliminary injunction held on January 10-12, 2012. On March 2, 2012, the Court issued a preliminary injunction ordering the State to provide notice of the current rates and its intention to continue those rates. The Court’s order also requires the State to allow for submission of comments for no less than 30 days. All other issues are still pending with the Court. The notice required by the preliminary injunction order was published, comments were received, and a notice of intent to continue to use the rates at the current level was published. The further briefing ordered by the Court regarding the ability to bring the access claims under the Supremacy clause in light of the 2012 United States Supreme Court decision in *Douglas v. Indep. Living Ctr. of So. Calif.* has been filed and supplements have been submitted regarding access reports and monitoring activity related to access between the State and CMS. On September 27, 2012, the Court issued an order denying, without prejudice, the motion to dismiss. The Court held a hearing on November 1, 2012, and invited the Secretary of the U.S. Department of Health and Human Services to provide information to the Court regarding whether CMS has primary jurisdiction in this matter. This hearing was continued to December 20, 2012. Prior to December 20, 2012 CMS approved several State Plan Amendments (SPAs), including 2010 SPAs that memorialized the 2008 rate reductions and several of the other issues raised by the plaintiffs. Given the SPA approvals, there was a verbal request to renew the motion to dismiss at the December 20, 2012 hearing. The plaintiffs argued that there was still an outstanding issue regarding use of the 2008 rates prior to the effective date of the SPA approvals and the court set a schedule for further briefing on that issue. Rather than submit any further briefing, the plaintiffs filed a motion to stay the action and at the same time filed a request to reconsider the SPA approval to CMS. In the meantime, on March 13, 2013, CMS approved the 2011 SPAs containing the remaining changes that relate to the reductions in DSH for the last biennium. Notice

of those approvals has been filed with the court. The court has not made a determination on the motion to stay at this time. It is not possible to predict the outcome of the case at this time.

*Dube, et al. v. Governor Margaret Wood Hassan* (formerly *United States Department of Justice's Investigation of the State's Mental Health Services Delivery System*). On April 7, 2011, the United States Department of Justice ("USDOJ") issued a letter finding that the State failed to comply with aspects of the Americans with Disabilities Act, 42 U.S.C. §§ 12131-12134 (Part A), by not providing services for individuals with mental illness that allow them to live in the most integrated community-based settings appropriate for their needs. The USDOJ's findings were based on an investigation it performed of New Hampshire's mental health services system over a four month period. On December 6, 2011, the State issued a formal response to the USDOJ findings. The response describes the basis for the State's disagreement with the USDOJ's findings, and asks the USDOJ to withdraw its findings. In a companion matter, on February 9, 2012, six State residents who have received mental health services from either New Hampshire Hospital or Glencliff Home filed a class action lawsuit in the U.S. District Court alleging New Hampshire has failed to provide adequate community-based mental health services. This case is *Ellsworth, et al. v. Governor John Lynch, et al.* USDOJ joined this lawsuit as a plaintiff. Motions and objections to class certification were filed in January 2013 and March 2013 and, in September 2013, the Court granted class certification. Trial is scheduled for June 2014. The name of this case has been changed to *Dube, et al. v. Governor Margaret Wood Hassan*. The State appealed this decision to the First Circuit Court of Appeals. Settlement discussions are on-going. As a result, the parties filed stays of both the District Court case and the First Circuit case for 60 days. It is not possible to predict the outcome of this matter at this time.

*Catholic Medical Center et al v. DRA*. Catholic Medical Center ("CMC"), Exeter Hospital, Northeast Rehabilitation Hospital ("Northeast Rehab") and St. Joseph's Hospital have filed three separate lawsuits challenging the constitutionality, both facially and as applied, of RSA 84-A, the Medicaid Enhancement Tax ("MET"). The hospitals claim the MET tax is unconstitutional under both state and federal law because: (1) it taxes hospitals for net patient services revenue (NPSR) but does not tax other medical entities for the same revenue; and (2) there is an alleged different rate of taxation assessed between the hospitals and rehabilitation hospitals. Each hospital seeks full reimbursement of the tax it paid in 2011. These respective amounts are: CMC - \$12,521,429; Exeter - \$10,269,562; Northeast Rehab - \$1,480,632; and St. Joseph's Hospital - \$8,693,811. Answers were filed. The CMC, Exeter, and St. Joseph's lawsuits have been consolidated, and the parties are working on drafting an agreed stipulation of facts, and have agreed on a briefing schedule. The parties to the CMC litigation settled the 2011 claims and agree that the remainder of the case will be only for fiscal year 2014 and beyond. The CMC parties have filed an agreed-to statements of facts and cross-motions for summary judgment. The hospitals' objection to the State's cross-motion was filed in October, 2013 and the State's reply is due in November. The amount at issue for fiscal year 2014 is approximately \$200 million. The Northeast Rehab case is still separate but the parties in that case have also agreed to an agreed stipulation of facts and will litigate the case through cross-motions for summary judgment. It is not possible to predict the outcome of these cases at this time.

*The Sunapee Difference, LLC v. State of New Hampshire*. Plaintiff sued the State for mandamus, breach of contract, promissory estoppel, breach of covenant of good faith and fair dealing and inverse condemnation arising out of Plaintiff's lease with the State to operate the Mt. Sunapee ski area. Plaintiff amended its complaint to add a claim for contract reformation. Specifically Plaintiff alleged that the State breached its promises to Plaintiff by failing to amend the leasehold description and/or by failing to amend the lease and operating agreement to permit expansion of the ski area. Plaintiff claimed over \$14 million in damages.

A hearing was held on the State's Motion to Dismiss on October 10, 2008. By an order dated November 17, 2008, the Court denied the State's Motion to Dismiss with regard to Plaintiff's claims of breach of contract, estoppel, breach of implied covenant of good faith and fair dealing, and inverse condemnation. On or about December 30, 2008, the State filed a Motion for Summary Judgment on all of Plaintiff's claims. On April 17, 2009, the Court issued an order granting the State's Motion for Summary Judgment in full, and entered judgment in favor of the State. Following a denial of Plaintiff's Motion for Reconsideration, Plaintiff filed an appeal with the New Hampshire Supreme Court. The Court issued an interim order on June 25, 2010 remanding the case back to the trial court for a ruling on whether Plaintiff has standing to bring the lawsuit. A hearing was held on the issue of whether the parties intended to release Plaintiff's claims when Plaintiff assigned the lease to a third party. The trial court issued an order ruling that Plaintiff has standing to seek reformation of the lease. The State has appealed that decision to the Supreme Court. Briefs were filed in June, 2012, with issues combined from the Plaintiff's 2009 and

2012 appeals. Oral argument on both the 2009 and 2012 appeals was held on September 13, 2012. In April 2013, the Supreme Court affirmed in part, reversed in part, vacated in part, and remanded the case to the Superior Court for trial on the issues of estoppels and reformation of contract. Trial is scheduled for April 2014. It is not possible to predict to outcome at this time.

*Geovanny Delamota v. William Wrenn, et al.* The plaintiff sued Corrections Commissioner William Wrenn and Corporal Dennis Dube alleging he was violently assaulted by another inmate in March 2010 and sustained injuries, including permanently impaired functioning. He alleges that the same inmate assaulted him the month before. He claims that the defendants were negligent and breached their duty to protect him from an obvious danger he had brought to their attention; that defendant Dube (and another subsequently named defendant, Sergeant Ann Morin) violated his Eighth and Fourteenth Amendment rights pursuant to 42 U.S.C. 1983 by being deliberately indifferent to his rights and safety; and he makes a claim of negligent policies and procedures against Commissioner Wrenn and the Department of Corrections. Defendants filed a motion for summary judgment on all counts. In response, Plaintiff dismissed his challenge to the State's policies. The Court also granted judgment to Defendants, in part, ending the 42 U.S.C. §1983 claims but allowing a negligence claim to proceed to trial. This case settled in November 2012 with the State paying \$210,000 to the plaintiff. This case is now concluded.

*Estate of Michele Walker, et al v. Administrative Office of the Courts, et al.* Plaintiffs have brought this wrongful death lawsuit in federal court alleging the decedent was subjected to severe and/or pervasive sexual harassment, creating a hostile work environment. As a result, Plaintiffs allege the decedent went on medical leave, she was denied reasonable accommodations to return to work, and was retaliated against by Defendants. Plaintiffs allege that Defendants continued to harass the decedent while she was on leave. Plaintiffs allege that as a result of the events described in the lawsuit, the decedent committed suicide on May 3, 2010. Plaintiffs seek damages arising out of claims of discrimination, sexual harassment, hostile work environment, retaliation and violations of the Americans with Disabilities Act. The State has filed an Answer and discovery is ongoing. Trial is scheduled for January 2013. On January 17, 2012, the State filed a motion to dismiss five of the eight counts based on the litigation bar contained in the workers' compensation law. The Court denied the State's motion. The parties settled this matter. Under the terms of the settlement, the State paid \$37,500. This case is now concluded.

*Gary Dube et al. v. State of New Hampshire.* Harbor Homes, Inc. ("Harbor Homes"), a provider of Medicaid-funded community mental health services, and four individuals who had been receiving services from Harbor Homes prior to June 30, 2011 sued the State and DHHS, challenging the State's decision to consolidate delivery of community mental health services in the approved community mental health program for Region 6. The core issue is whether the State rules requiring an interagency agreement with a community mental health program is a reasonable qualification in order to qualify as a community mental health provider of Medicaid-funded services. On January 25, 2012, the Court issued an order granting, in part, the State's Motion for Summary Judgment, but left open the plaintiffs' claim whether the State violated Harbor Homes' due process rights with respect to the Greater Nashua Mental Health Center's refusal to enter into a new interagency agreement upon expiration of the prior agreement. On August 2, 2012, the Court issued an order granting the State's motion for summary judgment on Plaintiff's due process claim. On August 31, 2012, the plaintiffs filed a motion for voluntary non-suit without prejudice of the remaining claims. That motion was granted and the plaintiffs filed an appeal of the issues decided in the two motions for summary judgment. Briefs were filed with the Supreme Court. Oral argument is scheduled for November, 2013. It is not possible to predict the outcome of this case at this time.

*Woods, et al. v. Commissioner of Department of Corrections.* Four, female, New Hampshire inmates filed a class action lawsuit, in state court, seeking declaratory and injunctive relief to remedy claimed violations of their constitutional, statutory and judicially decreed right to facilities, conditions of confinement, programs, and services that are on parity with those that the State of New Hampshire provides to male New Hampshire prison inmates. Plaintiffs claim that female inmates do not have access to vocational training, education, and other programs, services and facilities comparable to what is provided to male inmates, and claim that Defendant has therefore violated: (1) their rights under New Hampshire's Equal Rights Amendment, Part I, Article 2 of the State Constitution; (2) the Equal Protection Clause of the New Hampshire Constitution, Part I, Article 12; and (3) RSA 622:33-a, III; and (4) RSA 21-H:11. The State filed an answer on November 2, 2012. Petitioners filed a motion for class certification in February 2013. The State filed an objection in March 2013. Due to the fact that the Governor's capital budget request for fiscal years 2014-2015 contains a specific line item for funding the construction of a new women's prison, the parties have agreed to stay the case after the filing of the State's objection to the motion for

class certification. The budget for fiscal years 2014-2015 includes funds for construction of a new women's prison. The case continues to remain stayed. It is not possible to predict the outcome of this case at this time.

*Aranosian Oil Co., et al. v. State.* Several independent oil dealers brought a petition for declaratory judgment and equitable relief seeking to recover money they previously paid into the Oil Discharge and Disposal Fund ("ODD Fund") in the event the State prevails in the matter of *State v. Hess et al.* The petition argues that the fees paid into the ODD fund are unconstitutional, and also argues theories of unjust enrichment and equitable right of subrogation. The petition is identical to one brought previously by a number of the same plaintiffs, which was dismissed by the Superior Court on the issue of ripeness. While that case was appealed to the New Hampshire Supreme Court, the ripeness issue was not raised and the decision of the lower court was upheld. Because the case is still not ripe, the parties have agreed to, and the court has approved, a stay of this case until such time as it ripens. Petitioner filed a motion to lift the stay based upon a number of settlements in the MtBE case. The Superior Court lifted the stay and ordered discovery to commence. Trial is set for December 2013. It is not possible to predict the outcome of this case at this time.

*White Mountain Communications Co. v. New Hampshire Department of Administrative Services, et al.* This is a civil action initiated by a general contractor against the Department of Administrative Services ("DAS"), Department of Resources and Economic Development ("DRED") and two DAS employees, regarding a contract to construct of four mountaintop communication facilities. Plaintiff is alleging that the State breached its contract with Plaintiff by improperly terminating the construction contract in February of 2012 without just cause. Plaintiff has also made claims for unjust enrichment, fraud and breach of the implied covenant of good faith. Defendants filed cross claims against Plaintiff in this matter. Plaintiff and its surety made a combined demand of approximately \$1.3 million. However, Plaintiff disclosed an expert in the administrative appeal who estimated total damages to be approximately \$2.5 million. Additionally, Plaintiff has indicated that it will add direct claims against its surety in the next few weeks. Trial is currently scheduled for July 2014 but is expected to be continued in light of the new claims against the surety. It is not possible to predict the outcome of this case at this time.

*Law Warehouses, Inc. v. New Hampshire State Liquor Commission.* Law Warehouses Inc. ("LWI") has provided warehousing services to the New Hampshire State Liquor Commission ("NHSLC"). The parties' current contract ends on October 31, 2013. In March 2012, the NHSLC issued a Request for Proposals (RFP) requesting bids for a 20-year warehousing services contract to begin upon the expiration of its current contract with LWI. In June 2012, LWI and four other vendors submitted bids under the RFP. On November 20, 2012, following a thorough review of each bid, the NHSLC awarded the warehousing contract to Exel, Inc. ("Exel"). LWI finished third under the NHSLC's bid scoring system. LWI did not participate in the protest process outlined in the RFP, but instead, on February 27, 2013, filed a civil action requesting that the court preliminarily enjoin performance of the contract between the NHSLC and Exel and order that a new bidding process take place. LWI contends that the NHSLC improperly modified the RFP in favor of Exel's bid in violation of New Hampshire's competitive bidding laws. The NHSLC has filed a motion to dismiss for improper venue. The motion to dismiss was denied as was the preliminary injunction. Trial is scheduled for May 2014. In September, LWI filed a petition for original jurisdiction with the Supreme Court to which the State objected. No decision has been issued at this time. It is not possible to predict the outcome of this case at this time.

*XTL-NH, Inc. v. New Hampshire State Liquor Commission and Exel Inc.* In March 2012, the NHSLC issued an RFP requesting bids for a 20-year warehousing services contract. In June 2012, XTL-NH, Inc. ("XTL") and four other vendors submitted bids under the RFP. On November 20, 2012, following a thorough review of each bid, the NHSLC awarded the warehousing contract to Exel, Inc. ("Exel"). XTL finished second under the NHSLC's bid scoring system. XTL participated in the two-level protest process outlined in the RFP. On March 8, 2013, the NHSLC denied XTL's protest. On March 12, 2013, XTL filed a civil action requesting that the Court enjoin performance of the contract between NHSLC and Exel and order the NHSLC to award the contract to XTL. XTL contends that as the lowest responsible bidder, it is entitled to the contract. Further, XTL argues that NHSLC improperly modified the RFP to favor Exel's bid in violation of New Hampshire's competitive bidding laws. The injunction was denied. Trial is scheduled for August 2014. It is not possible to predict the outcome of this case at this time.

*TLT Construction Corp.* In late May 2012, the Bureau of Public Works (BPW) terminated TLT Construction Corp. (TLT) on a \$24 million contract for a construction project for the construction of the Pembroke

Regional Training Institute and Barracks of the N.H. Army National Guard. DOJ has retained Stan Martin from Duane Morris LLP as its outside counsel. TLT has filed administrative appeals of the termination with the Department of Administrative Services and the Department of Transportation, but those matters had been stayed pending negotiations to resolve the dispute. Stipulations of dismissals have been filed in the two administrative proceedings. Lawsuits were filed in superior court, but docket markings have been filed ending those matters. The State entered into a settlement agreement with TLT, pursuant to which the State paid approximately \$400,000. The State also entered into settlement agreements with various subcontractors pursuant to which the State paid a total of approximately \$1.5 million. Currently, the only remaining issue is resolving claims relating to various pieces of missing steel and pieces of steel that the State claims are defective. These remaining matters are expected to be resolved over the next six months.

*Wallace et al. v. State of NH DHHS.* In August 2013, 13 people who receive long-term services pursuant to Medicaid waivers through Area Agencies (the ten agencies throughout the State with which the State contracts to provide such services to individuals with disabilities), nine Area Agencies (providers of such services), and Community Support Network (an advocacy group that represents the interests of the other plaintiffs) initiated a lawsuit, against the State of New Hampshire and DHHS. Plaintiffs seek a declaration that RSA 126-A:5, XIX, which directs DHHS to implement a managed care system for delivery of Medicaid-funded services, is not intended to include long-term care services provided to developmentally disabled persons and those with acquired brain disorders. The case may have an impact on budget assumptions for savings in fiscal year 2015 or later years, although the impact of a decision for plaintiffs has not been calculated. No discovery has been exchanged and preliminary motions dispositive motions have been filed. It is not possible to predict the outcome of this case at this time.

## FINANCIAL STATEMENTS

*Fiscal Year 2009.* The State received an unqualified auditor's opinion on the financial statements for the fiscal year ended June 30, 2009. These statements were distributed on January 29, 2010 in compliance with an extension from legally mandated filing requirements, granted by the State's Legislative Fiscal Committee. The State's financial statements for the fiscal year ended June 30, 2009 and the report of the State's independent auditors with respect thereto have been filed with the Municipal Securities Rulemaking Board under Securities and Exchange Commission Rule 15c2-12. The audited financial statements can be viewed in their entirety at <http://admin.state.nh.us/accounting/reports.asp>.

On March 12, 2010, the State received a management letter from KPMG detailing concerns identified during the fiscal year 2009 audit. The management letter identified as material weaknesses completeness of accrual compilation, Highway Fund financial reporting procedures, preparation of accounts receivable estimates, tracking of county billings and collections and procedures for compilation of Schedule of Expenditures of Federal Awards. It also noted three significant deficiencies in the area of financial reporting from the Community College System and the Unemployment Compensation Fund and cash & investment reconciliations. The State has begun taking steps to address these weaknesses and deficiencies including revising reporting procedures and identifying methods to improve communication and coordination among financial reporting personnel.

*Fiscal Year 2010.* The State received an unqualified auditor's opinion on the financial statements for the fiscal year ended June 30, 2010. These statements were distributed on December 30, 2010 in compliance with legally mandated filing requirements. The State's financial statements for the fiscal year ended June 30, 2010 and the report of the State's independent auditors with respect thereto have been filed with the Municipal Securities Rulemaking Board under Securities and Exchange Commission Rule 15c2-12. The audited financial statements can be viewed in their entirety at [http://admin.state.nh.us/accounting/annual\\_financial\\_reports.asp](http://admin.state.nh.us/accounting/annual_financial_reports.asp).

On March 25, 2011, the State received a management letter from KPMG LLP ("KPMG"), the State's independent auditor, detailing concerns identified during the fiscal year 2010 audit. The management letter identified as material weaknesses: IT General Controls Failure; timely performance of bank and cash balance reconciliations; Turnpike financial accounting and reporting; reconciliation of DRA accounts; and preparation of tax accounts receivable estimates. It also noted four significant deficiencies in the areas of accounting for intergovernmental accounts, Highway Mainframe reconciliation, procedures for compilation of Schedule of Expenditures of Federal Awards and accounting and reporting of capital assets. The State has begun taking steps to

address these weaknesses and deficiencies including revising reporting procedures and identifying methods to improve communication and coordination among financial reporting personnel.

*Fiscal Year 2011.* The State received an unqualified auditor's opinion on the financial statements for the fiscal year ended June 30, 2011. These statements were distributed on February 29, 2012 in compliance with an extension from legally mandated filing requirements, granted by the State's Legislative Fiscal Committee. The State's financial statements for the fiscal year ended June 30, 2011 and the report of the State's independent auditors with respect thereto have been filed with the Municipal Securities Rulemaking Board under Securities and Exchange Commission Rule 15c2-12. The audited financial statements can be viewed in their entirety at [http://admin.state.nh.us/accounting/annual\\_financial\\_reports.asp](http://admin.state.nh.us/accounting/annual_financial_reports.asp).

In May 2012, the State received a management letter from KPMG detailing concerns identified during the fiscal year 2011 audit. The management letter identified as material an Information Technology General Controls Failure and a weakness in Accounting and Reporting of Capital Assets. It also noted other findings (not Material Weaknesses or Significant Deficiencies) concerning physical inventory adjustment procedures of the State Liquor Commission, and Internal Controls over Investment Transactions. The State has begun taking steps to address these weaknesses and deficiencies including strengthening procedures. The management letter is available at [http://www.gencourt.state.nh.us/LBA/AuditReports/ContractedAudits/StateMgtLtr\\_2011.pdf](http://www.gencourt.state.nh.us/LBA/AuditReports/ContractedAudits/StateMgtLtr_2011.pdf).

*Fiscal Year 2012.* The State received an unqualified auditor's opinion on the financial statements for the fiscal year ended June 30, 2012. These statements were distributed on December 31, 2012 in compliance with legally mandated filing requirements. The State's financial statements for the fiscal year ended June 30, 2012 and the report of the State's independent auditors with respect thereto have been filed with the Municipal Securities Rulemaking Board under Securities and Exchange Commission Rule 15c2-12. The audited financial statements can be viewed in their entirety at [http://admin.state.nh.us/accounting/annual\\_financial\\_reports.asp](http://admin.state.nh.us/accounting/annual_financial_reports.asp).

*Fiscal Year 2012 Review of Turnpike Capital Assets.* For several years, the annual audit of the Turnpike System has reported material weakness associated with challenges in accounting for and reporting capital assets. Management of the Department of Transportation, in an effort to resolve this reporting issue and in advance of a state-wide effort to build an integrated asset management system, purchased and installed a basic fixed asset tracking system and dedicated staff time to an exhaustive review of Turnpike System infrastructure assets. During this review, the Department identified two capital improvement projects for which substantial engineering was completed, but for which construction has yet to be funded. Legislative authority for these projects remains in current law. The result of the fiscal year 2012 audit for these projects was that the assets remain in Infrastructure and continue to be depreciated under the remaining useful life.

In April 2013, the State received a management letter from KPMG detailing concerns identified during the fiscal year 2012 audit. A material weakness related to accounting and reporting of capital assets by the Department of Transportation (DOT) was identified. DOT, with the concurrence of the State's Comptroller's Office, has implemented new procedures that are intended to address this matter. The management letter is available at <http://www.gencourt.state.nh.us/LBA/AuditReports/contractedaudits.aspx>.

*Fiscal Year 2013.* The State has issued a draft of the financial statements for the fiscal year ended June 30, 2013 to the Office of the Legislative Budget Assistant (LBA), which, by law, is responsible for the completion of the audit of the financial statements. The LBA has engaged KPMG to audit those financial statements and issue its report thereon. The State expects to distribute and publish a completed CAFR, incorporating those audited financial statements, by the legislatively required date of December 31, 2013 unless an extension of time is granted by the Fiscal Committee.

In performing the financial statement audit work for fiscal year 2013, the auditors have identified two areas of possible deficiency that will require more audit work to conclude on the significance of each.

- The State did not obtain a Service Organizations Controls Report (SOC-1) from the two service organizations that processed Medicaid claims during fiscal year 2013. This leads to potential exposure in processing Medicaid claims. If, after additional control work is conducted by the

auditors, they are unable to conclude that compensating controls are in place and can be relied upon, a material weakness in the State's management letter could result.

- The State's new payroll system requires additional substantive and control work be performed by the auditors. Because this is a new system for the State, it is possible that the auditors could conclude significant control deficiencies or a material weakness exists with the implementation of the statewide payroll system in fiscal year 2013.

KPMG has not been engaged to perform and has not performed, since the date of any report referenced herein, any procedures on the financial statements addressed in such reports. KPMG has also not performed any procedures relating to this Information Statement or with respect to the financial statements, relating to fiscal year 2011 or prior years.

### **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 contains 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.



**STATE OF NEW HAMPSHIRE**  
**AUDITED FINANCIAL STATEMENTS**  
**FOR FISCAL YEAR 2012**  
**(Included by Reference and Filed with the**  
**Municipal Securities Rulemaking Board)**