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

March 28, 2011

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STATE GOVERNMENT

Executive Branch

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

The executive branch is organized into a number of departments, each headed by a Commissioner. Major departments of the executive branch include: Health and Human Services, Transportation, Education (including departments for primary and secondary education, post-secondary education and the university system), Resources and Economic Development, Corrections, Environmental Services and Administrative Services. The agencies and authorities which have borrowing authority are discussed in more detail in the section entitled "STATE INDEBTEDNESS-Agencies, Authorities and Bonded 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, Probate Courts with 10 sites, 32 District Courts and 25 Family Division Courts. All justices and judges are appointed by the Governor and Council and may serve until seventy years of age.

STATE DEMOGRAPHIC AND ECONOMIC DATA

General

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

Population

New Hampshire experienced a steady increase in population between 1999 and 2009, primarily as a result of net migration from neighboring states. The State's population was 1,324,575 in July 2009 according to the U.S. Census Bureau. The table below shows New Hampshire's resident population and the change in its population relative to New England and the nation.

Population Trends
(In Thousands)

Year	New Hampshire	Change During Period	New England	Change During Period	United States	Change During Period
1999	1,222	1.3%	13,838	0.8%	279,040	1.1%
2000	1,240	1.5%	13,953	0.8%	282,172	1.1%
2001	1,257	1.3%	14,052	0.7%	285,082	1.0%
2002	1,271	1.1%	14,135	0.6%	287,804	0.9%
2003	1,282	0.8%	14,192	0.4%	290,326	0.9%
2004	1,293	0.8%	14,216	0.2%	293,046	0.9%
2005	1,301	0.7%	14,227	0.1%	295,753	0.9%
2006	1,312	0.8%	14,259	0.2%	298,593	1.0%
2007	1,317	0.4%	14,298	0.3%	301,580	1.0%
2008	1,322	0.3%	14,363	0.4%	304,375	0.9%
2009	1,325	0.2%	14,430	0.5%	307,007	0.9%
Percent Change:						
1999-2009		7.7%		4.1%		9.1%
2004-2009		2.4%		1.5%		4.5%

Source: U.S. Census Bureau.

Personal Income

The State's per capita personal income increased 37.2% between 1999 and 2009 (as contrasted with an increase of 39.9% in the per capita personal income for the United States and a 43.1% increase for the New England region). The State's per capita personal income ranked 10th in 2009 with $42,585 or 107.5% of the national average. The State's total personal income for 2009 is preliminarily estimated to be $56.4 billion. The following table sets forth information on personal income for New Hampshire, New England and the United States since 1999.

Comparisons of New Hampshire Personal Income to New England and United States, 1999-2009

	New Hampshire Total Personal Income (In Millions)	Per Capita Personal Income			Percent Change			New Hampshire Per Capita Personal Income Ranking[1]
		New Hampshire	New England	United States	New Hampshire	New England	United States	
1999	$37,926	$31,036	$33,581	$28,333	4.6%	4.5%	3.9%	6
2000	42,283	34,087	36,601	30,318	9.8	9.0	7.0	6
2001	43,699	34,768	37,966	31,145	2.0	3.7	2.7	7
2002	44,711	35,173	38,096	31,461	1.2	0.3	1.0	6
2003	45,828	35,751	38,771	32,271	1.6	1.8	2.6	6
2004	48,661	37,641	40,809	33,881	5.3	5.3	5.0	6
2005	50,028	38,441	42,345	35,424	2.1	3.8	4.6	10
2006	53,765	40,982	45,585	37,698	6.6	7.7	6.4	9
2007	56,368	42,789	48,212	39,458	4.4	5.8	4.7	9
2008	57,617	43,587	49,336	40,673	1.9	2.3	3.1	10
2009	56,408	42,585	48,049	39,626	(2.3)	(2.6)	(2.6)	13

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

Civilian Labor Force, Employment and Unemployment

Employment in New Hampshire grew faster than in the region from 1999 to 2009. 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
	1999	2009	1999-2009
New Hampshire	666	695	0.427%
Connecticut	1,696	1,734	0.222
Maine	641	647	0.093
Massachusetts	3,246	3,181	-0.202
Rhode Island	519	503	-0.313
Vermont	326	335	0.273
New England	7,093	7,096	0.004
United States	133,488	139,877	0.469

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

Over the past ten years, New Hampshire's unemployment rate was lower than the rate for New England and the United States, and was often the lowest in the nation. Monthly unemployment data for December, 2010, the latest available, show that New Hampshire's unemployment rate was below both the regional and the national level. The table below sets forth information on the civilian labor force, employment and unemployment statistics since 1999.

Labor Force Trends
New Hampshire Labor Force
(In Thousands)

Year	Civilian Labor Force	Employed	Unemployed	Unemployment Rate New Hampshire	Unemployment Rate New England	Unemployment Rate United States
1999	685	666	19	2.8	3.2	4.2
2000	694	676	19	2.7	2.8	4.0
2001	705	681	24	3.4	3.6	4.7
2002	712	680	32	4.5	4.8	5.8
2003	711	679	32	4.5	5.4	6.0
2004	716	688	28	3.9	4.9	5.5
2005	723	697	26	3.6	4.7	5.1
2006	733	707	26	3.5	4.5	4.6
2007	739	713	26	3.5	4.4	4.6
2008	743	714	29	3.9	5.4	5.8
2009	742	695	47	6.3	8.3	9.3
December, 2010(1)	743	703	39	5.3	8.0	9.1

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

Composition of Employment

The service sector was the largest employment sector in New Hampshire in 2009, accounting for 42.6% of nonagricultural employment, as compared to 38.1% in 1999. 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 44.5% of employment in 2009, up from 40.4% in 1999.

The second largest employment sector in New Hampshire during 2009 was wholesale and retail trade, accounting for 19.2% of total employment as compared to 15.4% nationally. In 1999, wholesale and retail trade accounted for 19.3% 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 10.8% of nonagricultural employment in 2009, down from 16.7% in 1999. For the United States as a whole, manufacturing accounted for 9.1% of nonagricultural employment in 2009, versus 13.4% in 1999. 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	
	1999	2009	1999	2009
Manufacturing	16.7%	10.8%	13.4%	9.1%
Durable Goods	12.5	8.2	8.4	5.6
Nondurable Goods	4.2	2.6	5.0	3.5
Nonmanufacturing	83.3	89.2	86.6	90.9
Construction & Mining	4.1	3.8	5.5	5.1
Wholesale and Retail Trade	19.3	19.2	16.2	15.4
Service Industries	38.1	42.6	40.4	44.5
Government	13.5	15.5	15.7	17.2
Finance, Insurance & Real Estate	5.6	5.8	5.4	5.5
Transportation & Public Utilities	2.7	2.3	3.4	3.2

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

Largest Employers

The following table lists the twenty largest private employers in the State and their approximate number of employees as of December 2009.

Largest Employers
(Excluding Federal, State and Local Governments)

	Company	Employees	Primary New Hampshire Site	Principal Product
1.	Wal-Mart Stores, Inc.	8,974	Bedford	Retail Department Stores
2.	Dartmouth Hitchcock Medical Center	8,025	Lebanon	Acute Care Hospital
3.	DeMoulas & Market Basket	6,000	Nashua	Supermarkets
4.	Hannaford Brothers-Shop 'N Save	4,776	Manchester	Supermarkets
5.	Fidelity Investments	4,600	Merrimack	Financial Services
6.	BAE Systems	4,500	Nashua	Communications
7.	Dartmouth College	4,399	Hanover	Private College
8.	Shaw's Supermarkets Inc.	4,243	Stratham	Supermarkets
9.	Liberty Mutual	4,243	Bedford	Financial Services
10.	Elliot Hospital	3,376	Manchester	Hospital
11.	Concord Hospital	3,300	Concord	Hospital
12.	Home Depot	2,600	Manchester	Hardware Store
13.	Wentworth-Douglas Hospital	2,262	Dover	Hospital
14.	Southern New Hampshire Medical Center	2,200	Nashua	Healthcare Providers
15.	St. Joseph Hospital	1,800	Nashua	Hospital
16.	Catholic Medical Center	1,700	Manchester	Healthcare Providers
17.	Pleasant View Retirement	1,699	Concord	Long-Term Care Provider
18.	Lowe's	1,650	Bedford	Hardware Store
19.	Sunbridge Healthcare NH Region	1,600	Exeter	Long Term Care Providers
20.	New Hampshire Motor Speedway	1,500	Loudon	Motorsports Facility

Source: *New Hampshire Business Review*, Book of Lists 2010.

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. See "SCHOOL FUNDING" below for a description of the State's current statutory system of financing operation of elementary and secondary public schools.

Housing

According to the U.S. Census 2009 American Community Survey 1-year estimates, housing units in the State numbered 600,087, of which 84% were occupied. The tenure of occupied housing units in the State was 73% owner occupied and 27% renter occupied. The median purchase price of all primary homes sold in 2010 from January to September was $215,000, an increase of 2.4% from 2009. The median price for primary non-condominium homes sold in 2010 from January to September was $224,900, an increase of 3.6% from 2009.

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 Purchase Price	Percent Change	Renter-Occupied Housing Unit Median Gross Rent[1]	Percent Change
2000	$152,500	11.7%	$697	4.8%
2001	174,500	14.4	738	5.9
2002	200,880	15.1	810	9.8
2003	229,400	14.2	854	5.4
2004	252,660	10.1	896	4.9
2005	270,000	6.9	901	0.6
2006	265,000	(1.9)	928	3.0
2007	269,900	1.8	946	1.9
2008	250,000	(7.4)	969	2.4
2009	217,000	(13.2)	969	0.0
2010[2]	224,900	3.6	980	1.1

Source: New Hampshire Housing Finance Authority.
[1] Includes utilities.
[2] January to September

The New Hampshire Housing Finance Authority issued an updated report in February, 2011 with respect to foreclosure activity in the State that included the following:

"There were 184 foreclosure deeds recorded in January of 2011, a decrease of 9% from the prior month, and a decrease of 48% from foreclosure deeds recorded in January 2010. This is the fourth month in a row with a decrease when compared to the same month in the prior year and the lowest monthly total since the summer of 2007. The decline in foreclosure deeds over the past five months is due at least in part to the moratoria on foreclosure proceedings announced by several large mortgage lenders at the end of September 2010. In addition, slow but steady improvement in New Hampshire's underlying economic conditions may be slowing the rate of foreclosures."

Building Activity

The pattern of building activity in New Hampshire in recent years, as evidenced by the issuance of residential building permits, has generally paralleled that of the New England region. There was growth in the 1992 to 2002 period in New Hampshire, New England, and the nation, while in 2003 the State experienced a 7.0% decrease in the number of permits. The number of permits and dollar value peaked in 2004 and declined in each subsequent year through 2009. In 2010 (preliminary numbers), building permits totaled 2,737, with a value of $489 million. This represents an increase of 19.9% in the number of permits, and an increase of 16.2% in dollar value, from 2009. 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)

New Hampshire	**2000**	**2006**	**2007**	**2008**	**2009**	**2010[1]**
Single Family	6,097	4,826	3,772	2,333	1,662	1,992
Multi-Family	583	851	789	901	625	745
Total	6,680	5,677	4,561	3,234	2,287	2,737
Value	$937	$1,037	$856	$593	$421	$489
New England						
Single Family	38,670	33,204	26,079	15,870	13,595	14,706
Multi-Family	6,665	13,578	11,453	8,584	5,868	5,885
Total	45,335	46,782	37,532	24,454	19,463	20,591
Value	$6,442	$8,091	$7,119	$4,705	$3,560	$3,861
United States						
Single Family	1,198,067	1,378,220	979,889	575,544	441,148	446,640
Multi-Family	394,200	460,683	418,526	329,805	141,815	151,393
Total	1,592,267	1,838,903	1,398,415	905,349	582,963	598,033
Value	$185,744	$291,314	$225,237	$141,623	$95,410	$101,008

Source: U.S. Census Bureau.
(1)Preliminary.

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, $150 million of its Turnpike System revenue bonds to finance additional capital improvements to the Turnpike System.

There are twenty-four public commercial airports in the State, two of which have scheduled air service (Manchester and Lebanon), eight private commercial airports and nine private non-commercial airports. Manchester-Boston Regional Airport, the State's largest commercial passenger and air cargo airport, undertook a 158,000 square foot new terminal construction project in 1992. Bonds guaranteed by the State were issued in June 1992 (and subsequently refunded and paid on January 1, 2002 with the proceeds of non-guaranteed airport revenue bonds of the City); the new terminal opened on January 1, 1994. Since that time, the airport has grown dramatically from 427,657 enplanements in fiscal year 1994 to 1,462,401 enplanements in fiscal year 2010. Due to a continued soft global economy, jet fuel price uncertainty and a dramatically changing aviation industry, the Airport experienced a more than 14% decrease in enplanements and passengers in fiscal year 2010 as compared with fiscal year 2009 enplanements. Manchester – Boston Regional Airport has undertaken a number of additional expansion, improvement and renovation projects, which were financed by the City of Manchester through the issuance of airport revenue bonds in October 1998, April 2000, June 2002, and July 2005; and a refunding of bonds in July 2008 and December 2009. These projects are expected to enhance the airport's capacity for increased passenger and freight traffic in the future. The 1998, 2000, 2002, 2005, 2008 and 2009 bonds are not guaranteed by the State.

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

The New Hampshire Rail Transit Authority was created pursuant to Chapter 360 of the Laws of 2007 for the purpose of establishing regular commuter rail or other passenger rail service between points within and adjacent to the State. See "STATE INDEBTEDNESS – Agencies, Authorities and Bonded or Guaranteed Indebtedness – New Hampshire Rail Transit Authority."

Education

New Hampshire provides a mix of public and private educational opportunities. The education function of the State is carried out through the State Board of Education, the Department of Education and the University System of New Hampshire. The State Board and the Department of Education provide curriculum guidance and administrative support to 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. See also "SCHOOL FUNDING" and "LITIGATION."

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

As the following table indicates, as of 2000, the educational level of New Hampshire residents over the age of 25 was higher than that of the nation as a whole.

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

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

STATE FINANCES

General

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

The Department of Administrative Services prepares the State's CAFR in accordance with U.S. generally accepted accounting principles ("GAAP"). The State has contracted with KPMG LLP to provide audit services since fiscal year 1997 and has a current audit contract through 2011. The audited financial statements for fiscal year 2010, together with the unqualified report thereon of KPMG LLP, are included herein by reference, copies of which were provided to the Municipal Securities Rulemaking Board as directed by SEC Rule 15c2-12. See "FINANCIAL STATEMENTS." The audited financial statements for fiscal year 2010 are also available as part of the State's fiscal year 2010 CAFR (pages 14 through 73 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*.

All dollar amounts referred to in this Information Statement for any period subsequent to June 30, 2010 are preliminary, unaudited and subject to change, whether or not expressly labeled as such.

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

For information relating to delays in the delivery of the audited financial statements for fiscal year 2006, and matters relating to management letters delivered to the State for fiscal years 2006 through 2010, 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 integrated financial system. Under this system accumulated total expenditures and encumbrances are compared with the amount of remaining available appropriations, prior to creating an expenditure (a charge against an appropriation which generates a payment) or an encumbrance (a charge against an appropriation pending payment). When the appropriated amount is fully expended or encumbered, no further obligations are incurred or paid until additional appropriations are made available.

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

Fund Types

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

Governmental Funds

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

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

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

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

Education 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.

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 has applied for and been approved for repayable advances from the Federal Unemployment Account to the State's Unemployment Trust Fund. These repayable advances are expected to be needed on an intermittent basis in both calendar years 2010 and 2011. The advances are necessary in order to continue the payment of unemployment compensation to eligible individuals.

For calendar year 2010, the advances were interest-free. There is discussion at the national level to extend the interest-free advances through calendar year 2011 and possibly 2012. Even if the interest-free borrowing is not extended through calendar year 2011, the State currently projects that no interest will be payable on amounts borrowed during calendar year 2011 due to the timing of advances and repayment of those advances. The criteria for interest-free borrowing or "cash flow" loans 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 expects to meet both criteria. If interest were to accrue, the State would be required to pay it from a source other than the Unemployment Trust Fund. In New Hampshire, the Administrative Contribution collected through RSA 282-A:87 (VI) would be expected to be the source for repayment of any interest accrued.

The State's unemployment compensation law changed in the 2009 legislative session. The amount of tax projected to be collected in future years is expected to be sufficient to maintain the solvency of the fund going forward.

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 INSURANCE FOR RETIRED EMPLOYEES."

Fiduciary Funds

Transactions related to assets held by the State in a trustee or agency capacity are accounted for in Fiduciary Funds. The State's Pension Funds are also included in this category.

Investment Policy

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

Budget and Appropriation Process

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

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

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

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

After final budget bills are approved by the Legislature, they are presented to the Governor to be signed into law or vetoed. The State Constitution does not provide for a line item veto of appropriation bills by the Governor. If the Governor vetoes a budget bill, it is returned to the Legislature for an override vote or further legislative action.

Once the budget bills become law, they represent the authorized appropriation spending for each State department during each of the next two fiscal years.

Financial Controls

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

Financial control procedures in the State are maintained by both the executive and legislative branches. In the executive branch, the Commissioner of the Department of Administrative Services is directed by statute to conduct a continuous study of the State's financial operations, needs and resources and to install and operate a system of governmental accounting.

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

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

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. An additional capital appropriation of $4.0 million has been included in the Governor's proposed capital budget for fiscal years 2012-2013 for the implementation of human resources, payroll, fixed assets, and strategic sourcing.

Revenue Stabilization Account

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

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

Pursuant to Chapter 177:53 of the Laws of 2005, the biennial transfer of surplus from the General Fund to the Revenue Stabilization Account, if any, was suspended for the biennium ending June 30, 2005. Chapter 35:1 of the Laws of 2006 directed that any undesignated General Fund surplus from the fiscal year ending June 30, 2005 in excess of $30.5 million be transferred to the Revenue Stabilization Account. During fiscal year 2006, $51.7 million was transferred to the Revenue Stabilization Account, for a balance of $69.0 million at June 30, 2006.

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

Chapter 143 of the Laws of 2009, the operating budget for fiscal years 2010-2011, assumed $69 million would be drawn from the Revenue Stabilization Account at June 30, 2009 leaving a balance of $20 million at June 30, 2009. The actual draw on the Revenue Stabilization Account at June 30, 2009 was $79.7 million leaving a balance of $9.3 million. The balance remained at $9.3 million at June 30, 2010. See "STATE FINANCES – Results of Operations-Fiscal Year 2009 and – Operating Budget Fiscal Years 2010 and 2011" below.

State Revenues

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

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

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

Meals and Rooms Tax. Effective July 1, 2009, a tax is imposed equal to 9% of hotel, motel and other public accommodation charges and 9% of charges for meals served in restaurants, cafes and other eating establishments. Prior to July 1, 2009, the meals and rooms tax rate was at 8%. Effective July 1, 2009, this tax was extended to cover campsites, 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 totaled $365,000 in fiscal year 2010 and is budgeted at $6.0 million in fiscal year 2011. In addition 3.15% of net meals and rooms tax collections is designated for travel and tourism development. Effective July 1, 1999, this tax was extended to cover rental cars, the receipts from which have been earmarked for the Education Trust Fund.

Beginning in fiscal year 1995 a portion of the revenue derived from the meals and rooms tax is distributed to the cities, towns and certain unincorporated subdivisions of the State, eventually increasing to 40% of such revenue annually. For fiscal years 1997 and thereafter, the amount to be distributed is the sum of the prior year's distribution plus an amount equal to 75% of any increase in the income received from the tax for the preceding fiscal year, not to exceed $5 million. Pursuant to Chapter 144 of the Laws of 2009 the meals and rooms tax distributions to cities and towns in each of fiscal years 2010 and 2011 are to be no more than the fiscal year 2009 distribution of $58.8 million. Because meals and rooms tax revenues did not increase in fiscal year 2009, the fiscal year 2010 distribution would have been equal to the fiscal year 2009 distribution, regardless of the limit imposed by Chapter 144. The following table shows for each fiscal year, the amount of meals and rooms tax distributed and the percentage of previous year's tax collections for fiscal years 2007 through 2011:

Fiscal Year	Amount Distributed	% of Previous Years Total Meals and Room Tax Collection
2007	$50,903,052	26.3%
2008	$55,513,020	27.4%
2009	$58,805,057	28.5%
2010	$58,805,057	28.9%
2011	$58,805,057	25.3%

Business Profits Tax. The business profits tax rate was increased to 8.5% for tax years ending on or after July 1, 2001. Previously, the rate had been 8% for tax years ending on or after July 1, 1999 and 7% prior to that time. The increases (1.5%) have been dedicated to the Education 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. 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.

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

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

Chapter 328 of the Laws of 2000 requires fifty percent of any current year's gross profits from liquor sales that exceed fiscal year 2001 actual gross profits be deposited into the alcohol abuse prevention and treatment fund established by RSA 176-A:1. This amount is limited to no more than 5 percent of the current year gross profits derived from the sale of liquor and other revenues. This law became effective July 1, 2001 and a General Fund appropriation of $3.3 million was recorded in fiscal year 2002. Chapter 319 of the Laws of 2003 suspended this allocation for the biennium ending June 30, 2005. Chapter 177 of the Laws of 2005 suspended this allocation for the biennium ending June 30, 2007. Chapter 263 of the Laws of 2007 suspended this allocation for the biennium ending June 30, 2009, and Chapter 144 of the Laws of 2009 suspended this allocation for the biennium ending June 30, 2011, providing that all gross revenue derived by the liquor commission from the sale of liquor, or from license fees, shall be deposited into the General Fund of the State.

Chapter 296 of the Laws of 2008 reduced the discounts offered to certain wine licensees. Chapter 144:254 of the Laws of 2009, which proposed a repeal of the reductions as stated in Chapter 296 was itself repealed, thereby maintaining the discount reductions offered in Chapter 296:31 and 32 of the Laws of 2008. Discounts for holders of off-premises retail licenses with annual purchases of less than $350,000 continue to receive the discount of 15% less than the regular retail price at New Hampshire Liquor and Wine Outlets and 20% less than the regular F.O.B. price at the warehouse. Holders of off-premises retail licenses with annual purchases exceeding $350,000 shall receive a discount of 15% less than the regular F.O.B. price at the warehouse.

Tobacco Tax. Effective July 6, 1999, the cigarette tax rate increased by 15 cents to a rate of 52 cents per package of 20 cigarettes. The increase was dedicated for the Education 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. The increase is estimated to generate an additional $35.2 million in fiscal year 2010 and $24 million in fiscal year 2011. Chapter 144:257 of the Laws of 2009 provides that the revenue produced in excess of $1.00 per pack shall be deposited in the Education Trust Fund.

Medicaid Enhancement Revenues. Effective July 1, 1993, the State lowered the Medicaid enhancement tax rate from 8% to 6%, and effective July 1, 2007, the State lowered such tax to 5.5%. Previously, the tax was assessed against the gross patient services revenue of hospitals operating in the State. "Gross patient services revenue" is defined as the amount that a hospital records at the hospital's established rates for patient services, regardless of whether full payment of such amounts is expected or paid. As of July 1, 2005, the tax is assessed against net patient services revenue, which means the gross charges of the hospital, less any deducted amount for bad debts, charity care and payor discounts. The revenue collected pursuant to the tax is placed in the Uncompensated Care Fund.

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

Insurance Tax. Prior to fiscal year 2008, the State imposed a tax on licensed insurance companies equal to 2% of net premiums written in the State (5% of taxable underwriting profit in the case of ocean marine insurance companies). Pursuant to Chapter 277 of the Laws of 2006, such tax was reduced to 1.75% effective July 1, 2007, 1.5% effective January 1, 2009, 1.25% effective January 1, 2010, and 1% effective January 1, 2011 for all lines of insurance except 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% and ocean marine insurance that will continue to be taxed on an underwriting profit basis. The purpose of the legislation is to stimulate economic growth by retaining current domestic insurers and recruiting other insurance companies to incorporate in the State. Effective for calendar year 2007, the new legislation also changed the collection of the tax from quarterly to annually on or before March 15 of each year. Under an insurance retaliatory statute, the State collects the greater of premium tax calculated by the effective New Hampshire premium tax rate or premium tax calculated by the effective tax rate of the state of which each insurer is domiciled. As of December 31, 2007, companies of twenty-seven states having a higher premium tax rate in their domiciliary states were licensed in the State. Premium tax on unlicensed companies ranges from 2% to 4% of premiums written.

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

Chapter 144 of the Laws of 2009 amends the interest and dividends tax to treat distributions from limited liability companies, partnerships and associations as dividends subject to the tax to the same extent that distributions to corporate shareholders are taxable as dividends. This change is effective for calendar tax years beginning on or after January 1, 2009. A distribution that is a return of capital is not subject to taxation. This change in the tax is estimated to generate an additional $15 million in each of fiscal years 2010 and 2011. 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. Approximately $2 million has been collected to date for this tax.

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

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

Real Estate Transfer Tax. The real estate transfer tax was first enacted in 1967. Chapter 17 of the Laws of 1999 increased the permanent tax rate assessed on the sale, granting, and transfer of real estate and any interest in real estate from $.50 per $100 to $.75 per $100, or fractional part thereof, of the price or consideration effective July 1, 1999. The increase has been dedicated to the Education 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. Chapter 158 of the Laws of 2001 removed the exception from the tax on transfer of real property for transfers of the title pursuant to a merger, consolidation or other reorganization qualifying as a tax-free reorganization. It also removed the exception of the transfer of title from one business entity to another, the ownership interest of which may be the same. These changes were effective for transfers occurring on or after July 1, 2001. Effective July 1, 2008, an additional $25 fee was legislated to be assessed for the recording of each deed, mortgage, mortgage discharge, or plan. This assessment is recorded with the LCHIP stamp. Chapter 144 of the Laws of 2009 requires that 50% of the revenue received from the $25 LCHIP stamp in fiscal year 2011 be credited to the General Fund.

Court Fines and Fees. The Unified Court System was established during the 1984-1985 biennium. All fines and fees collected by the various components of the court system are credited to the General Fund. Effective July 1, 2009, pursuant to Chapter 144 of the Laws of 2009, motor vehicle fines collected at the court are credited as unrestricted revenue to the Highway Fund, while fines collected through the plea by mail program are credited as restricted Highway Fund revenue.

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

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

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

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

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

Racing and Charitable Gaming Revenue. The operation of greyhound, harness and thoroughbred racing in the State is conducted under the supervision of the New Hampshire Racing and Charitable Gaming Commission as are Bingo and Lucky 7, games of chance. The State now imposes a tax ranging from 1% to 1.25% of the contributions plus one-quarter of the breakage of all harness and thoroughbred racing pari-mutuel pools. For greyhound racing pari-mutuel pools, the tax ranges from 1.25% to 1.5% of contributions plus one-quarter of the breakage.

Tax on Gambling Winnings. Effective July 1, 2009, a tax of 10% is imposed on gambling winnings of New Hampshire residents from anywhere derived and gambling winnings of nonresidents derived from New Hampshire entities. This new tax is estimated to generate $5.9 million in fiscal year 2010 and $7.9 million in fiscal year 2011. SB511, passed by both Houses, if not vetoed by the Governor, will be effective upon passage, exempts winnings from annuity payments on lottery winnings won before January 1, 1999 and is expected to reduce revenues by $1.1 million for fiscal year 2010 and $1.0 million for fiscal year 2011.

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

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

Lottery Receipts. The State conducts daily and weekly lotteries and instant games throughout the State through tickets sold by or on behalf of the Lottery Commission in State liquor stores, at horse and dog tracks and at authorized retail outlets in the State. In addition, the State together with the states of Maine and Vermont operates a tri-state lotto. Beginning November 1995, the State became a participant in the multistate Powerball lottery. Revenues are initially recorded in the Lottery Enterprise Fund and are netted with expenses and transferred monthly to the Education 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. See "Operating Budget Fiscal Years 2010 and 2011 – Highway and Turnpike Funds."

Fuel Tax. The State imposes a tax upon the sale of each gallon of motor fuel sold in the State at the rate of 18 cents per gallon for motor vehicle and marine fuels, 4 cents per gallon for aviation fuel, and 2 cents per gallon for aviation jet fuel. The proceeds from the aviation and aviation jet fuel tax are credited to the General Fund. The proceeds of the motor vehicle gasoline tax are credited to the Highway Fund and, while not pledged, are required to be used first for the payment of principal of and interest on bonds or notes of the State issued for highway purposes. Prior to July 1, 2007, 2.64 cents of the 18 cent motor vehicle fuel tax was allocated to a separate account in the Highway Fund, the Highway and Bridge Betterment Account. Effective July 1, 2007, the amount allocated to the separate Highway and Bridge Betterment Account was reduced to 1.76 cents. Effective July 1, 2009, the amount allocated to Highway and Bridge Betterment returned to 2.64 cents.

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

million in fiscal year 2011. Chapter 144:244 of the Laws of 2009, established new motor vehicle surcharges on the registration fees of all classes of vehicles to be credited to the Highway Fund. These surcharges are estimated to generate $40.9 million in fiscal year 2010 and $44.7 million in fiscal year 2011. The law repeals the surcharges effective July 1, 2011.

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

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

Expenditures

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

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

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

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

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

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

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

Results of Operations

Fiscal Year 2006

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

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

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

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

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

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

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

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

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

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

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

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

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

After the Rainy Day Fund transfer, the combined General and Education Trust Fund surplus at June 30, 2006 was $34.4 million. The surplus was primarily revenue driven as a result of greater than expected collections.

Strong performance from Business Taxes and the Interest and Dividends Tax more than offset the unfavorable results in the Real Estate Transfer tax.

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

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

The State's self-insurance fund ended fiscal year 2006 with a surplus of $4.7 million, net of the liability associated with pending insurance claims (commonly referred to as "incurred but not reported" or "IBNR") and reserves as required per RSA 21-I:30-b. The cash balance was $38 million prior to these requirements. The surplus is the result of managing rates with effective cost containment measures.

Fiscal Year 2007

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

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

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

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

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

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

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

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

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

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

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

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

Fiscal Year 2008

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

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

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

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

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

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

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

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

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

In addition to the executive orders discussed above, Chapter 1 of the 2008 Special Legislative Session mandated the Pease Development Authority repay the State $10 million loaned to the Authority in 1993 and 1994 for start up costs. The legislation requires the Authority repay the $10 million by December 1, 2008 and also increases the State guarantee limit on Authority related debt, in order to permit the Authority to finance the payment. The $10 million receivable from the Authority is included in the $17.2 million fiscal year 2008 surplus discussed above. The Authority paid $10 million to the State on November 26, 2008.

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

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

Fiscal Year 2009

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. See "Litigation".

- 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 Account 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 Room 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.

The following tables present a comparison of General Fund and Education Trust Fund unrestricted revenues and General Fund and Education Trust Fund net appropriations for fiscal years 2006 through 2010. The information is derived from the State's audited financial statements.

GENERAL FUND AND EDUCATION TRUST FUND UNRESTRICTED REVENUES
FISCAL YEARS 2006-2010
(GAAP Basis-In Millions)

	FY 2006			FY 2007			FY 2008			FY 2009			FY 2010		
Revenue Category	**General**	**Education**	**Total**	**General**	**Education**	**Total**	**General**	**Education**	**Total**	**General**	**Education**	**Total**	**General**	**Education**	**Total**
Business Profits Tax	$264.0	$56.6	$320.6	$287.4	$57.8	$345.2	$ 317.4	$68.0	$385.4	$ 251.9	$53.9	$305.8	$258.6	$57.6	$316.2
Business Enterprise Tax	75.2	150.4	225.6	79.3	174.2	253.5	77.7	155.0	232.7	61.9	123.4	185.3	71.7	122.2	193.9
Subtotal	339.2	207.0	546.2	366.7	232.0	598.7	395.1	223.0	618.1	313.8	177.3	491.7	330.3	179.8	510.1
Meals & Rooms Tax	193.8	7.1	200.9	202.6	7.2	209.8	206.7	7.6	214.3	203.6	6.1	209.7	228.3	4.2	232.5
Tobacco Tax	69.9	80.9	150.8	65.3	78.3	143.6	57.1	109.3	166.4	59.3	128.8	188.1	130.5	113.0	243.5
Liquor Sales and Distribution	120.6	-	120.6	124.7	-	124.7	133.1	-	133.1	146.0	-	146.0	120.7	-	120.7
Interest & Dividends Tax	80.5	-	80.5	108.1	-	108.1	118.7	-	118.7	97.1	-	97.1	84.9	-	84.9
Insurance Tax	90.5	-	90.5	97.9	-	97.9	95.9	-	95.9	94.2	-	94.2	86.8	-	86.8
Communications Tax	70.5	-	70.5	73.0	-	73.0	80.9	-	80.9	80.3	-	80.3	81.0	-	81.0
Real Estate Transfer Tax	106.2	52.5	158.7	91.7	45.7	137.4	77.7	38.6	116.3	53.5	27.7	81.2	56.0	28.8	84.8
Securities Revenue	30.1	-	30.1	33.0	-	33.0	34.7	-	34.7	34.7	-	34.7	34.2	-	34.2
Lottery Transfers	-	80.4	80.4	-	79.0	79.0	-	75.5	75.5	-	68.1	68.1	-	66.2	66.2
Pari-Mutuel Transfers	-	1.6	1.6	-	1.5	1.5	-	1.5	1.5	-	1.5	1.5	-	1.4	1.4
Tobacco Settlement	-	39.0	39.0	-	40.8	40.8	8.4	40.0	48.4	12.8	40.0	52.8	4.2	40.0	44.2
Utility Property Tax	-	20.9	20.9	-	21.8	21.8	-	24.2	24.2	-	29.0	29.0	-	29.9	29.9
State Property Tax	-	363.4	363.4	-	363.3	363.3	-	363.1	363.1	-	363.7	363.7	-	363.2	363.2
Other	130.1	-	130.1	159.4	-	159.4	162.4	-	162.4	158.6	-	158.6	151.4	-	151.4
Subtotal	1,231.4	852.8	2,084.2	1,322.4	869.6	2,192.0	1,370.7	882.8	2,253.5	1,253.9	842.2	2,096.1	1,308.3	826.5	2,143.8
Net Medicaid Enhancement Revenues	73.6	-	73.6	83.3	-	83.3	93.1	-	93.1	99.6	-	99.6	98.1	-	98.1
Recoveries	24.5	-	24.5	15.9	-	15.9	20.1	-	20.1	21.8	-	21.8	19.9	-	19.9
Subtotal	1,329.5	852.8	2,182.3	1,421.6	869.6	2,291.2	1,483.9	882.8	2,366.7	1,375.3	842.2	2,217.5	1,426.3	826.5	2,252.8
Other Medicaid Enhancement Revenues to Fund Net Appropriations	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total	$1,329.5	$852.8	$2,182.3	$1,421.6	$869.6	$2,291.2	$1,483.9	$882.8	$2,366.7	$1,375.3	$842.2	$2,217.5	$1,426.3	$826.5	$2,252.8

GENERAL FUND AND EDUCATION TRUST FUND NET APPROPRIATIONS
FISCAL YEARS 2006-2010
(GAAP Basis)
(In Millions)

	FY 2006			FY 2007			FY 2008			FY 2009			FY 2010		
Category of Government	**General**	**Education**	**Total**	**General**	**Education**	**Total**	**General**	**Education**	**Total**	**General**	**Education**	**Total**	**General**	**Education**	**Total**
General Government	$263.3	$0.0	$263.3	$276.1	$0.0	$276.1	$311.2	$0.0	$311.2	$311.4	$0.0	$311.4	$300.5	$0.0	$300.5
Justice and Public Protection	219.7	-	219.7	221.7	-	221.7	246.6	-	246.6	233.7	-	233.7	211.8	-	211.8
Resource Protection and Development	41.3	-	41.3	42.2	-	42.2	43.9	-	43.9	39.3	-	39.3	36.3	-	36.3
Transportation	6.0	-	6.0	2.6	-	2.6	1.1	-	1.1	1.1	-	1.1	0.6	-	0.6
Health and Social Services	604.8	-	604.8	626.5	-	626.5	675.6	-	675.6	655.0	-	655.0	647.7	-	647.7
Education	211.1	846.5	1,057.6	221.9	838.6	1,060.5	235.8	897.4	1,133.2	197.5	894.7	1,092.2	201.2	794.7	995.9
Net Appropriations	$1,346.2	$846.5	$2,192.7	$1,391.0	$838.6	$2,229.6	$1,514.2	$897.4	$2,411.6	$1,438.0	$894.7	$2,332.7	$1,398.1	$794.7	$2,192.8

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 2006 through 2010. The information is derived from the State's audited financial statements.

GENERAL FUND AND EDUCATION TRUST FUND BALANCES
FISCAL YEARS 2006–2010
(GAAP Basis - In Millions)

	FY 2006			**FY 2007**			**FY 2008**			**FY 2009**			**FY 2010**		
	General	**Education**	**Total**	**General**	**Education**	**Total**	**General**	**Education**	**Total**	**General**	**Education**	**Total**	**General**	**Education**	**Total**
Undesignated Fund Balance, July 1	$82.2	$0.0	$82.2	$26.0	$8.4	$34.4	$61.7	$0.0	$61.7	$17.2	$0.0	$17.2	$0.0	$0.0	$0.0
Additions:															
Unrestricted Revenue	1,329.5	852.8	2,182.3	1,421.6	869.6	2,291.2	1,483.9	882.8	2,366.7	1,375.3	842.2	2,217.5	1,398.2	826.5	2,224.7
Executive Orders and Special Session Revenues	-	-	-	-	-	-	-	-	-	-	-	-	28.1	-	28.1
Total Additions	1,329.5	852.8	2,182.3	1,421.6	869.6	2,291.2	1,483.9	882.8	2,366.7	1,375.3	842.2	2,217.5	1,426.3	826.5	2,252.8
Deductions:															
Appropriations Net of Estimated Revenues	(1,380.2)	(841.9)	(2,222.1)	(1,432.6)	(843.1)	(2,275.7)	(1,575.8)	(897.1)	(2,472.9)	(1,509.2)	(897.7)	(2,406.9)	(1,440.4)	(796.8)	(2,237.2)
Less: Lapses	34.0	(4.6)	29.4	41.6	4.5	46.1	61.6	(0.3)	61.3	71.2	3.0	74.2	42.3	2.1	44.4
Total Net Appropriations	(1,346.2)	(846.5)	(2,192.7)	(1,391.0)	(838.6)	(2,229.6)	(1,514.2)	(897.4)	(2,411.6)	(1,438.0)	(894.7)	(2,332.7)	(1,398.1)	(794.7)	(2,192.8)
GAAP and Other Adjustments	12.2	2.1	14.3	(15.5)	1.2	(14.3)	7.9	(0.7)	7.2	20.5	(0.4)	20.1	(7.0)	(0.3)	(7.3)
Current Year Balance	(4.5)	8.4	3.9	15.1	32.2	47.3	(22.4)	(15.3)	(37.7)	(42.2)	(52.9)	(95.1)	21.2	31.5	52.7
Transfers (to)/from:															
Revenue Stabilization Account	(51.7)	-	(51.7)	(20.0)	-	(20.0)	-	-	-	79.7		79.7	-	-	-
Liquor Commission	-	-	-	-	-	-	-	-	-	-	-	-	6.5	-	6.5
Highway Fund	-	-	-	-	-	-	(6.8)	-	(6.8)	(1.8)	-	(1.8)	6.5	-	6.5
Education Trust Fund	-	-	-	40.6	(40.6)	-	(15.3)	15.3	-	(52.9)	52.9	-	31.5	(31.5)	-
Undesignated Fund Balance, June 30	$26.0	$8.4	$34.4	$61.7	$0.0	$61.7	$17.2	$0.0	$17.2	$0.0	$0.0	$0.0	$65.7	-	$65.7
Reserved for Revenue Stabilization Account	$69.0	-	$69.0	$89.0	-	$89.0	$89.0	-	$89.0	$9.3	-	$9.3	$9.3	-	$9.3
Total Equity	$95.0	$8.4	$103.4	$150.7	$0.0	$150.7	$106.2	(0.0)	$106.2	$9.3	-	$9.3	$75.0	-	$75.0

Operating Budget Fiscal Years 2010 and 2011

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

1. School building aid totaling $45 million in each year of the biennium will be bonded and is not budgeted as General Fund appropriations.

2. Revenue sharing to cities and towns of $25 million in each year of the biennium has been suspended for the biennium. (This suspension of revenue sharing is separate from the limitation imposed on meals and rooms tax distributions to cities and towns described above under "State Revenues.")

3. A reduction of $12.5 million in each year of the biennium in General Fund personnel and/or personnel related costs was achieved in the fall of calendar year 2009 by laying off, demoting, and reassigning approximately 300 employees.

4. The State share of municipal employer retirement contributions for police, fire and teacher groups is temporarily reduced from 35% to 30% in fiscal year 2010 and to 25% in fiscal year 2011. The General Fund savings from this statutory change are estimated to be approximately $27.7 million over the biennium. This reduction has been challenged in Court - see "Litigation" below.

5. Requiring employees under age 65 to pay monthly premiums for their State retiree health benefits. This change is estimated to save $5 million over the biennium.

6. The Liquor Commission is no longer budgeted under the General Fund. It has been established as separate enterprise fund. This reduces General Fund appropriations by approximately $45 million in each year of the biennium.

7. There are numerous other funding changes in the operating budget including, but not limited to, the closure of the Lakes Region prison, the Tobey School, and three district courts.

8. Department of Safety fee revenue of $9 million in each year of the biennium previously budgeted as unrestricted General Fund revenue is now budgeted as restricted revenue to fund specific Department of Safety programs previously funded from net General Fund appropriations.

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

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

1. The tobacco tax was increased by $.45 from $1.33 to $1.78 per package of 20 cigarettes effective July 1, 2009.

2. The meals and rooms tax was increased from 8% to 9% effective July 1, 2009 and makes campsites subject to the tax. (However, Chapter 6 of the Laws of 2010 repealed the extension of the meals and rooms tax to campsites effective May 3, 2010).

3. A new 10% tax on gambling winnings was enacted effective July 1, 2009. Chapter 371 of the Laws of 2010 exempts certain winnings and is expected to reduce revenues from this tax by $1.1 million and $1.0 million in fiscal years 2010 and 2011, respectively.

4. The interest and dividends tax was extended to include distributions from limited liability companies, partnerships and associations to the same extent that distributions to corporate shareholders are taxed effective for calendar years beginning on or after January 1, 2009. However, this provision was repealed effective January 2, 2010 pursuant to Chapter 1, Laws of 2010 Special Session.

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

1. $30 million in fiscal year 2011 from the sale of the Liquor Commission warehouse and leasing of service areas on highways around liquor stores.

2. Federal dollars from the American Recovery and Reinvestment Act:

   a. Education Trust Fund will receive $80 million in each year of the biennium to fund educational adequacy payments.

   b. Enhanced Federal Medical Assistance Payments to offset Medicaid costs will total $145.2 million over the biennium with $91.2 million being credited to fiscal year 2010 and $54 million credited to fiscal year 2011.

   c. State Fiscal Stabilization Fund moneys were anticipated to total $10.4 million in each year of the biennium for a total of $20.8 million. Based on guidance received from the federal government in July, 2009, the State applied $18 million of these Stabilization Fund dollars to fiscal year 2009 leaving $2.8 million to be applied to the current biennium.

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

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

Fiscal Years 2010 and 2011 Budget to Actual Update through December 31, 2010. Since enactment of the budget for fiscal year 2010 and 2011, State revenues have performed significantly below expectations. In addition, on January 28, 2010, the New Hampshire Supreme Court upheld the decision by the Merrimack County Superior Court that found the transfer of $110 million from the Joint Underwriters Association ("JUA") medical malpractice insurance fund to the General Fund pursuant to Chapter 144, Laws of 2009 was unconstitutional. The budgetary impact of this decision was a $22.5 million reduction per year for fiscal years 2010 and 2011. As discussed above, $65 million was transferred from the State's Rainy Day Fund at June 30, 2009 to offset the effect of this decision related to fiscal year 2009. Additionally, $20.8 million of State fiscal stabilization funds were transferred from fiscal years 2010/2011 to fiscal year 2009.

On April 12, 2010, the Joint Legislative Fiscal committee approved the Governor's executive order 2010-2, which reduced appropriations by $25.18 million from the fiscal year 2010 general fund budget. The majority of those reductions affected the Departments of Health and Human Services, Administrative Services, Corrections, and Education.

On June 2, 2010, the House Ways and Means Committee passed House Resolution 26 affirming that revenues for fiscal years 2010 and 2011 were expected to be $120.9 million or 5.4% below plan and $77.3 million or 3.3% below plan respectively for a $198.2 million biennial revenue shortfall. Through June 30, 2010 fiscal year 2010 revenues are preliminarily estimated to have been $84.8 million or 3.8% below plan. The most significant sources of the revenue shortfall come from business and interest and dividend taxes. Through June 30, business taxes were $30.7 million or 6.1% below plan and $21.4 million or 4.3% from fiscal year 2009. Interest and dividend taxes were down $33.0 million or 28.2% from plan and $14.8 million or 15.0% from fiscal year 2009. Included in these projected revenue shortfalls are the repeals of two tax extensions: the inclusion of campgrounds in the State's meals and rooms tax and the extension of the State's interest and dividend tax to limited liability companies. These two repeals were included as part of Special Session House Bill 1 (SSHB1) that was passed by the House and Senate on June 9, 2010 and signed by the Governor the following day as Chapter 1, Laws of the 2010 Special Session.

In addition to the $198.2 million projected biennial revenue shortfall discussed above and the loss of anticipated revenue from JUA, $25.9 million in appropriation adjustments are required to meet increased demands for services from the Department of Health and Human Services. Other unbudgeted appropriations related to indigent defense and timing issues related to personnel reductions create an additional $5.3 million in miscellaneous shortfalls. As the table shows below, these five categories create an estimated shortfall of $295.2 million over the biennium.

(in millions)	**Fiscal Year 2010**	**Fiscal Year 2011**	**Total**
Revenue Shortfall	($120.9)	($77.3)	($198.2)
JUA decision	(22.5)	(22.5)	(45.0)
State Fiscal Stabilization Fund	(10.4)	(10.4)	(20.8)
Health and Human Services deficit	(6.5)	(19.4)	(25.9)
Other	(13.1)	7.8	(5.3)
Total	**($173.4)**	**($121.8)**	**($295.2)**

On June 9, 2010, the House and Senate approved Special Session House Bill 1 (SSHB1), which combined with Executive Order 2010-2, addressed the projected $295 million General Fund shortfall outlined above. The Governor signed SSHB1 into law on June 10, 2010. The components of SSHB1 and certain estimates used in enacting SSHB1 include the following:

- General Fund spending reductions of an additional $.7 million in fiscal year 2010 and $55.57 million in fiscal year 2011. Examples of these reductions for Fiscal Year 2011 include $7.8 million in cuts in catastrophic aid to school districts, approximately $30 million in cuts to Health and Human Services, a $3.2 million reduction to the Department of Environmental Services, a $2.8 million reduction to the Department of Administrative Services ($2 million of which was attributable to retirees health experience being better than expected), a $2 million reduction to the Department of Information Technology, as well as other agency reductions throughout State government. The reductions for fiscal years 2010 and 2011 include the layoffs of approximately 50 employees, in addition to those previously laid off.

- Transfer of $20.2 million in dedicated fund balances to the General Fund over the biennium.

- Expected lapses increased by $29.6 million over the biennium. These savings will come from agencies continuing to reduce personnel, equipment, travel, and other operating expenditures.

- Restructuring of a portion of State debt maturing in fiscal year 2011. In July 2011, approximately $50 million in refunding bonds were issued to save the general fund $40 million in fiscal year 2011.

- Payment of $25 million from the University System of New Hampshire to reimburse the State for debt service payments made by the State on the University System's behalf. The State also increased the

University System's capital appropriation by $25 million for the 2010/2011 biennium, which increase will be funded through the issuance of State general obligation bonds.

- Increase revenue by approximately $3 million over the biennium through an increase in the tax rate for other tobacco products and other license and fee increases.

- Transfer of $80 million of fiscal year 2011 State fiscal stabilization funds into fiscal year 2010.

- Reduces the $12.5 million estimated to be received in each fiscal year from the sale of rest area land and development rights to $6.5 million in fiscal year 2010 to reflect the actual revenue received and retained the $12.5 million estimate for fiscal year 2011. The Governor's fiscal year 2011 estimate used to prepare the fiscal years 2012 and 2013 operating budget removes the $12.5 million assumed to be received in fiscal year 2011.

- Establishes a commission to inventory state assets, enterprises, and resources and to make recommendations as to those that may be monetized by sale or lease. The expected general fund impact for fiscal year 2011 is $60 million. Based on work done by the commission, it is highly unlikely that any meaningful benefit to the general fund will be achieved in fiscal year 2011. The Governor's fiscal year 2011 estimate used to prepare the fiscal years 2012 and 2013 operating budget removes the $60.0 million assumed to be received in fiscal year 2011.

- Enhanced FMAP: When original budget was adopted, it was assumed a two quarter FMAP enhancement would result in $54 million. The FMAP enhancement was then extended by Congress for two additional quarters. The $295 million budget gap plan assumed $102 million total would result from the enhancement and extension. NH's unemployment numbers have been more favorable than originally anticipated, causing the enhanced FMAP percentages to drop. The current estimate for FY 11 FMAP enhancement, including extension totals $84.5 million, a shortfall of $17.5 million.

- National healthcare reform is estimated to save approximately $5 million in fiscal year 2011 in State retiree health insurance costs.

- Additional federal US Dept of Education dollars were allocated to NH through the Education Jobs Grant and totaled $41 million. In November 2010, the Fiscal Committee of the General Court approved a plan to supplant $20.5 million of expenditures budgeted to be funded by the education trust fund with $20.5 million from the State's allocation of these federal education jobs funds. The other $20.5 million is to be distributed to local education agencies as additional education aid. The State drew $20.2 million of these federal dollars in December, 2010.

- Finally, SSHB1 transfers a sum sufficient to eliminate any budget deficit for the close of the fiscal year ending June 30, 2010 from the revenue stabilization reserve account to the general fund. The year did not end with a budget deficit, therefore no such transfer was necessary.

(in millions)	**FY10 Impact**	**FY11 Impact**	**Biennial Impact**
Executive Order 2010-2	$25	$0	$25
General Fund Reductions	1	56	57
Dedicated Fund Transfers	16	4	20
Additional Lapses	16	13	29
Debt Restructuring	0	40	40
USNH payment	25	0	25
Revenue changes	.2	2.6	2.8
State fiscal stabilization fund transfer	80	(80)	0
Turnpike System Rest Areas	6.5	(12.5)	(6)
Asset Monetization	0	60	60
Increased FMAP	0	48	48
Retirees Health	0	5	5
TOTAL	**$170**	**$136**	**$306**

The actual results for fiscal year 2011 will likely vary from the estimates used in connection with enactment of SSHB1. The State cannot provide assurance that it will be able to achieve the projected results described above or that additional action won't be needed in order to achieve these results or otherwise to maintain a balanced budget for the remainder of the current biennium.

American Recovery and Reinvestment Act of 2009

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

In fiscal year 2010, the State received $105.6 million in ARRA funding on Medicaid claims paid from July 1, 2009 through June 30, 2010. The State estimates it will receive $84.2 million from this ARRA funding in fiscal year 2011. Average Medicaid reimbursement rates for the fiscal years 2010 and 2011 are 61.24% and 59.59%, respectively.

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

Under the federal Education Jobs Fund (Public Law 111-226), the State has received $40,988,015, which will be distributed to Local Education Agencies (LEAs) through the State's primary elementary and secondary education funding formula. To provide additional support for communities, fifty percent of these funds, $20,494,008, will be distributed to LEAs proportionally through the State's primary elementary and secondary education funding formula as additional aid above the fiscal year 2011 education funding distribution under State law. This additional federal aid will be available to LEAs during the current fiscal year. An LEA that has funds remaining after the 2010-2011 school year may obligate those remaining funds through September 30, 2012.

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 will be matched with $22 million in private cash and in-kind funding. NNHN will expand broadband in all 10 counties in the State and also 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. To date, approximately $1 million under this program has been expended and reimbursed. The State does not currently expect a budget impact under this program.

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

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

The following table presents a comparison of General Fund and Education Trust Fund unrestricted revenues for fiscal years 2010 through 2013. The fiscal year 2010 information is audited. The fiscal year 2011 information has been updated through SSHB1. The information for fiscal years 2012 and 2013 is based on the Governor's proposed budget for the 2012-2013 biennium, released February 15, 2011.

GENERAL FUND AND EDUCATION TRUST FUND UNRESTRICTED REVENUES
ACTUAL AND BUDGET
FISCAL YEARS 2010-2013
(GAAP Basis-In Millions)

	Actual Fiscal Year 2010			Current Estimate Fiscal Year 2011			Proposed Budget Fiscal Year 2012			Proposed Budget Fiscal Year 2013		
Revenue Category	**General**	**Education**	**Total**	**General**	**Education**	**Total**	**General**	**Education**	**Total**	**General**	**Education**	**Total**
Business Profits Tax	$258.6	$57.6	$316.2	$256.0	$54.8	$310.8	$273.3	$58.5	$331.8	$290.4	$62.2	$352.6
Business Enterprise Tax	71.7	122.2	193.9	66.2	132.5	198.7	70.7	141.4	212.1	75.2	150.3	225.5
Subtotal	330.3	179.8	510.1	322.2	187.3	509.5	344.0	199.9	543.9	365.6	212.5	578.1
Meals & Rooms Tax	228.3	4.2	232.5	240.1	4.9	245.0	246.0	5.0	251.0	262.6	5.4	268.0
Tobacco Tax	130.5	113.0	243.5	133.1	104.6	237.7	134.4	105.6	240.0	134.4	105.6	240.0
Liquor Sales and Distribution	120.7		120.7	126.8		126.8	132.4		132.4	140.4		140.4
Interest & Dividends Tax	84.9		84.9	87.0		87.0	92.2		92.2	97.7		97.7
Insurance Tax	86.8		86.8	80.5		80.5	86.1		86.1	86.8		86.8
Communications Tax	81.0		81.0	82.0		82.0	85.7		85.7	87.8		87.8
Real Estate Transfer Tax	56.0	28.8	84.8	55.7	27.9	83.6	59.3	29.7	89.0	62.3	31.1	93.4
Securities Revenue	34.2		34.2	34.3		34.3	35.1		35.1	35.9		35.9
Transfers from Lottery Commission		66.2	66.2		70.0	70.0		77.0	77.0		85.0	85.0
Transfers from Racing & Charitable Gaming Commission		1.4	1.4		1.3	1.3		3.6	3.6		3.7	3.7
Tobacco Settlement	4.2	40.0	44.2	2.2	40.0	42.2	2.4	40.0	42.4	2.4	40.0	42.4
Utility Property Tax		29.9	29.9		28.0	28.0		29.0	29.0		29.0	29.0
State Property Tax		363.2	363.2		363.6	363.6		363.1	363.1		363.1	363.1
Other	123.3		123.3	128.3		128.3	124.2		124.2	124.3		124.3
Subtotal	1,280.2	826.5	2,106.7	1,292.2	827.6	2,119.8	1,341.8	852.9	2,194.7	1,400.2	875.4	2,275.6
Net Medicaid Enhancement												
Revenues	98.1		98.1	93.0		93.0	100.5		100.5	108.4		108.4
Recoveries	19.9		19.9	21.3		21.3	17.0		17.0	17.0		17.0
Subtotal	1,398.2	826.5	2,224.7	1,406.5	827.6	2,234.1	1,459.3	852.9	2,312.2	1,525.6	875.4	2,401.0
Executive Orders & Special Session Revenues	28.1		28.1									
Total	$1,426.3	$826.5	$2,252.8	$1,406.5	$827.6	$2,234.1	$1,459.3	$852.9	$2,312.2	$1,525.6	$875.4	$2,401.0

The following table compares on a cash basis, for the eight months ended February 28, 2011, General Fund and Education Trust Fund unrestricted revenues for the fiscal years 2010 and 2011 and a comparison to the most recent revenue estimates used in connection with enactment of SSHB1. 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 for fiscal year 2011 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 EIGHT MONTHS ENDED FEBRUARY 28, 2011
(Cash Basis-In Millions)

Revenue Category	FY 10 Actual	FY 11 Actual	FY 11 Plan	FY 2011 vs Plan Variance	FY 2011 vs Plan % Change	FY 2011 vs FY 2010 Variance	FY 2011 vs FY 2010 % Change
Business Profits Tax	$146.4	$143.8	$151.2	$(7.4)	-4.9%	$(2.6)	-1.8%
Business Enterprise Tax	89.3	92.2	91.9	0.3	0.3	2.9	3.2
Subtotal	235.7	236.0	243.1	(7.1)	-2.9	0.3	0.1
Meals & Rooms Tax	160.7	165.6	169.5	(3.9)	-2.3	4.9	3.0
Tobacco Tax	162.2	156.4	149.4	7.0	4.7	(5.8)	-3.6
Liquor Sales and Distribution	80.7	85.2	87.6	(2.4)	-2.7	4.5	5.6
Interest & Dividends Tax	39.7	34.1	37.0	(2.9)	-7.8	(5.6)	-14.1
Insurance Tax	12.4	12.6	11.9	0.7	5.9	0.2	1.6
Communications Tax	50.8	53.9	50.4	3.5	6.9	3.1	6.1
Real Estate Transfer Tax	59.4	56.5	62.1	(5.6)	-9.0	(2.9)	-4.9
Securities Revenue	11.8	13.6	12.5	1.1	8.8	1.8	15.3
Transfers from Lottery Commission	38.9	37.9	46.2	(8.3)	-18.0	(1.0)	-2.6
Transfers from Racing & Charitable Gaming Commission	0.8	0.7	0.7	-	0.0	(0.1)	-12.5
Tobacco Settlement	-	-	-	-		-	-
Utility Property Tax	15.8	16.7	14.0	2.7	19.3	0.9	5.7
State Property Tax	-	-		-		-	-
Other	69.1	74.6	70.7	3.9	5.5	5.5	8.0
Subtotal	938.0	943.8	955.1	(11.3)	-1.2	5.8	0.6
Net Medicaid Enhancement							
Revenues	97.9	92.9	108.2	(15.3)	-14.1	(5.0)	-5.1
Recoveries	11.7	14.4	10.8	3.6	33.3	2.7	23.1
Total	$1,047.6	$1,051.1	$1,074.1	$(23.0)	-2.1%	$3.5	0.3%

Fiscal Year 2011 (unaudited through February 28, 2011)

General and Education Fund revenues for the first eight months of fiscal year 2011 were $1,051.1 million, which were $23.0 million (2.1%) below plan and $3.5 million (0.3%) above the prior year. Net Medicaid Enhancement revenue was the largest component of the year to date shortfall. This category is tracking $15.3 million (14.1%) below plan due to lower net patient services revenue currently estimated by hospitals, than was expected. Consistent with the economic downturn and slow recovery, revenue sources from investment and consumer sectors are contributing to the underperformance from plan as well. The Interest and Dividends Tax and Meals and Room Tax were $2.9 million (7.8%) and $3.9 million (2.3%) below plan, respectively. Business taxes were $7.1 million (2.9%) below plan. The Real Estate Transfer Tax was $5.6 million (9.0%) below plan. In addition, transfers from the Lottery Commission were $8.3 million (18.0%) below plan.

Offsetting these shortfalls from plan were the Tobacco Tax, $7.0 million (4.7%) above plan, Communications Tax, $3.5 million (6.9%) above plan and the Utility Property Tax, $2.7 million (19.3%) above plan. In addition, the Other and Recoveries categories, which can fluctuate from month to month, are currently tracking ahead of plan by $2.7 million (7.9%) and $3.6 million (33.3%), respectively.

The results are preliminary and subject to change.

The following table presents a comparison of General Fund and Education Trust Fund appropriations net of estimated revenues for fiscal years 2010 through 2013. The fiscal year 2010 information is audited. The fiscal year 2011 information has been updated through SSHB1. The information for fiscal years 2012 and 2013 is based on the Governor's proposed budget for the 2012-2013 biennium, released February 15, 2011.

GENERAL FUND AND EDUCATION TRUST FUND APPROPRIATIONS NET OF ESTIMATED REVENUES
ACTUAL AND BUDGET
FISCAL YEARS 2010-2013
(In Millions)

	Actual Fiscal Year 2010			Current Estimate Fiscal Year 2011			Proposed Budget Fiscal Year 2012			Proposed Budget Fiscal Year 2013		
	General	**Education**	**Total**	**General**	**Education**	**Total**	**General**	**Education**	**Total**	**General**	**Education**	**Total**
Category												
General Government	$300.5		$300.5	$275.2		$275.2	$243.5		$243.5	$253.0		$253.0
Justice and Public Protection	211.8		211.8	218.9		218.9	218.5		218.5	219.5		219.5
Resource Protection and Development	36.3		36.3	33.4		33.4	32.2		32.2	30.4		30.4
Transportation	0.6		0.6	1.1		1.1	1.0		1.0	1.0		1.0
Health and Social Services	647.7		647.7	676.8		676.8	752.5		752.5	759.9		759.9
Education	201.2	794.7	995.9	193.6	936.9	1,130.5	161.7	955.8	1,117.5	202.8	955.8	1,158.6
Total	$1,398.1	$794.7	$2,192.8	$1,399.0	$936.9	$2,335.9	$1,409.4	$955.8	$2,365.2	$1,466.6	$955.8	$2,422.4

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 2011, 2012 and 2013. (Information for fiscal year 2010 can be found in the table on page 27.) The fiscal year 2011 numbers are adjusted from those in Chapters 143 and 144 of the Laws of 2009, the operating budget for fiscal years 2010 and 2011, to reflect changes made by executive order, legislative action (including SSHB1) taken to address the estimated $295 million biennial shortfall discussed previously, and certain other known variances. The fiscal year 2011 estimates have also been adjusted for projections included in the Governor's proposed operating budget for fiscal years 2012-2013. The information for fiscal years 2012 and 2013 is based on the Governor's proposed budget for the 2012-2013 biennium, released February 15, 2011.

GENERAL FUND AND EDUCATION TRUST FUND BALANCES
FISCAL YEARS 2011 – 2013
(GAAP Basis - In Millions)

	Current Estimate Fiscal Year 2011			Proposed Budget Fiscal Year 2012			Proposed Budget Fiscal Year 2013		
	General	**Education**	**Total**	**General**	**Education**	**Total**	**General**	**Education**	**Total**
Undesignated Fund Balance, July 1	$65.7	$0.0	$65.7	$6.7	$0.0	$6.7	$2.1	$0.0	$2.1
Additions:									
Unrestricted Revenue	1,406.5	827.6	2,234.1	1,459.3	852.9	2,312.2	1,525.6	875.4	2,401.0
Executive Orders & Special Session Revenues	1.5	-	1.5	-	-	-	-	-	-
Total Additions	1,408.0	827.6	2,235.6	1,459.3	852.9	2,312.2	1,525.6	875.4	2,401.0
Deductions:									
Appropriations Net of Estimated Revenues	(1,399.0)	(936.9)	(2,335.9)	(1,409.4)	(955.8)	(2,365.2)	(1,466.6)	(955.8)	(2,422.4)
Less Lapses	47.3		47.3	42.4		42.4	44.0		44.0
Total Net Appropriations	(1,351.7)	(936.9)	(2,288.6)	(1,367.0)	(955.8)	(2,322.8)	(1,422.6)	(955.8)	(2,378.4)
GAAP and Other Adjustments	(6.0)		(6.0)	6.0		6.0	(4.0)		(4.0)
Current Year Balance	50.3	(109.3)	(59.0)	98.3	(102.9)	(4.6)	99.0	(80.4)	18.6
Fund Balance Transfers (To)/From:									
Rainy Day Fund							(20.7)		(20.7)
Liquor Commission									
Highway Fund									
Education Trust Fund	(109.3)	109.3		(102.9)	102.9		(80.4)	80.4	
Undesignated Fund Balance, June 30,	$6.7		$6.7	$2.1		$2.1			
Reserved for Rainy Day Account	$9.3	-	$9.3	$9.3	-	$9.3	$30.0	-	$30.0
Total Equity	$16.0	-	$16.0	$11.4	-	$11.4	$30.0	-	$30.0

Operating Budget Fiscal Years 2012 and 2013

Governor's Proposal - General and Education Trust Funds. The Governor presented his proposed budget for fiscal years 2012 and 2013 to the Legislature on February 15, 2011. The Governor's proposed operating and capital budget, as well as the executive summary, can be found at *http://www.admin.state.nh.us/budget/index.asp*.

Total net appropriations for General and Education Trust funds for fiscal years 2012 and 2013 are proposed to be $4,701.2 million, 4.9% higher than at $4,481.4 million net appropriations for fiscal years 2010 and 2011. When $380.3 million of federal stimulus funds that were used during fiscal years 2010 and 2011 to supplant state funds are considered, appropriations in the Governor's proposed budget for the next biennium are 3.3% lower than combined state and federal stimulus spending in the current biennium. The Governor's plan assumes unrestricted revenue will grow by 3.5% in fiscal year 2012 and 3.8% in fiscal year 2013, and includes no new taxes, no tax increases, and no one-time revenues. The plan also includes a repeal of the gambling winnings tax and a doubling of the research & development credit against business taxes from $1 million to $2 million per fiscal year.

The Governor proposes level –funding the state's primary education funding formula for local school districts at the fiscal year 2011 level for both fiscal year 2012 and fiscal year 2013. The Governor's proposal repeals the State subsidy for local employer contributions to the State retirement system, repeals the State revenue sharing program, and restructures the State aid program for special education students. Total State aid to municipalities and school districts for the fiscal year 2012 and fiscal year 2013 biennium is proposed to be 6% less than in the current biennium when $180.7 million of federal stimulus funds were dedicated to State aid programs. When federal stimulus funds are discounted, State funds appropriated for State aid programs increases by 1.6% in the Governor's proposal.

Major changes resulting in spending cuts include:

- Eliminating 1,107 positions, including eliminating 366 vacant positions that are not currently funded, eliminating 486 vacant positions that are currently funded, and laying off 255 State workers and eliminating their positions. This action is currently expected to save approximately $155 million over the biennium from all funding sources.

- Consolidating and eliminating programs at the Department of Health and Human Services, including eliminating the catastrophic illness program ($500,000 savings), eliminating support to hospitals for medical education costs ($3 million savings), and eliminating the contract for management of the children's health insurance program and consolidating the program into the State's existing Medicaid unit ($3.3 million savings).

- Launching a comprehensive Medicaid managed care program, building on the many managed care practices the Department of Health and Human Services is already implementing, saving $16 million over the biennium, net of startup costs.

- Eliminating the Postsecondary Education Commission, a stand-alone State agency that provides scholarships and regulates institutions of higher education. Certain regulatory functions are transferred to the Department of Education, saving $8 million over the biennium.

- Beginning the centralization of State human resources and other business functions under the Department of Administrative Services, which is estimated to save $1 million over the biennium, with increased savings in future biennia as additional consolidation is achieved.

- Re-directing fee revenue the State receives from its 529 college savings plan from scholarship and endowment support for both public and private in-state higher education institutions to directly support the operations of the State's Community College and University Systems. This action is currently expected to increase revenue approximately $38 million over the biennium, $15 million of which is the projected balance at June 30, 2011.

- Reducing to zero the State's share of Retirement System employer contributions on behalf of local governments for teachers, police and fire. Current law provides that the State will subsidize 35% of the local government employer contributions for fiscal years 2012 and 2013. Eliminating the State share is currently expected to save the State approximately $174 million over the 2012-2013 biennium.

- Increasing retiree health premium contributions for retirees under the age of 65 from $65 per month to $100 per month per participant. The expected savings total $3 million over the biennium.

Other significant initiatives in the Governor's proposed budget include:

- A requirement that an additional $20 million of savings be achieved from compensation and benefit expenses, with the goal of flat-funding employee healthcare costs at the fiscal year 2011 level through the biennium, subject to collective bargaining.

- A series of proposed reforms to the NH Retirement System for new hires that increase employee contributions, increase retirement ages, and restructure benefits. The package is estimated to save public employers, including the State, $1.5 billion over 20 years. Pension reforms, if any, adopted in the 2011 legislative session may not result in savings in 2012-2013 biennium because employer contributions have already been certified. Any savings from reforms would be realized in later years. See also "STATE RETIREMENT SYSTEM."

- Increasing the State's Rainy Day Fund balance by $20.7 million to $30.0 million at June 30, 2013. In addition, the Governor's proposal includes directing the proceeds from any sales of state assets over the biennium to the Rainy Day Fund, further increasing the Fund's balance.

Governor's Proposal - Highway and Turnpike Funds. The Governor proposes to permanently extend the $30 registration surcharge that was originally enacted as a 2-year measure in the fiscal year 2010 and fiscal year 2011 operating budget. The surcharge generates approximately $45 million of highway fund revenue annually, with $15 million directed to the State's "betterment" program that maintains secondary State roads. The proposal also accelerates the Turnpike System's payments to the Highway Fund from the sale of a portion of I-95 in FY 2010 from $5.9 million to $26 million in each fiscal year.

The Governor's proposals are now under consideration by the Legislature and are subject to change in all respects.

Legislative Action. On February 9, 2011, the House adopted House Resolution 11, its revenue estimates for fiscal years 2011 through 2013. The House revenue estimate for fiscal year 2011 is approximately $50 million less than the Governor's current estimate. The House General and Education Trust Fund estimates for fiscal years 2012 and 2013 are $2,194.8 million and $2,228.8 million, respectively, or $117.4 million less and $172.2 million less, respectively, than the Governor's estimates. On March 24, 2011, the House Finance Committee released a proposed budget using these revenue estimates. The House Finance committee recommends General and Education Trust Fund net appropriations at levels $134 million and $181 million less than the Governor's proposed budget for fiscal years 2012 and 2013, respectively. The budget will now go to the full House for adoption on March 31, 2011. Following adoption by the House, the budget will then be considered by the Senate.

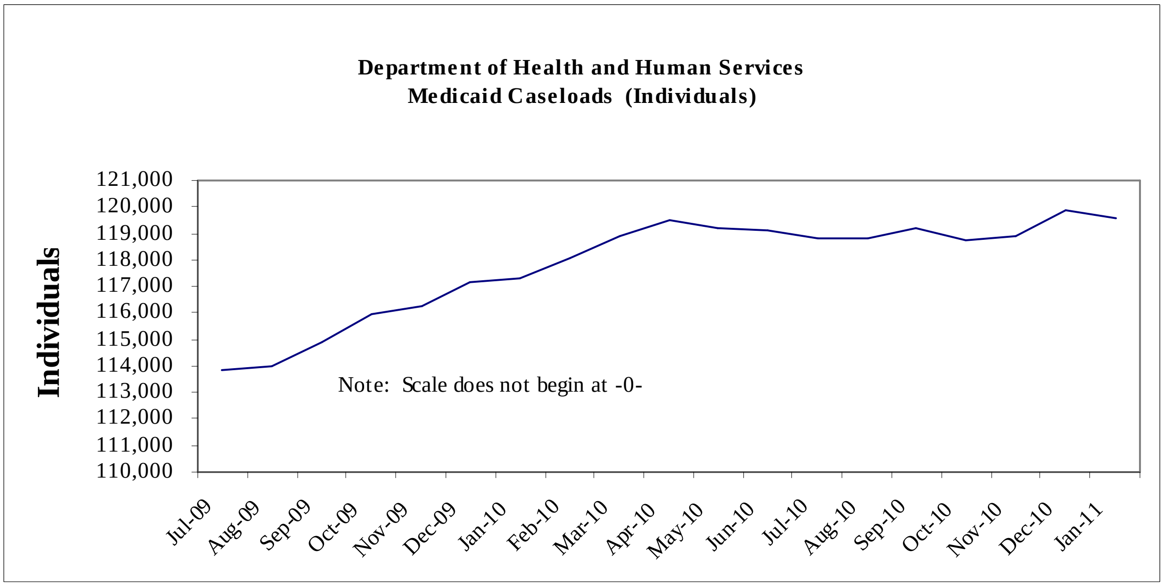
MEDICAID PROGRAM

Fiscal Summary of New Hampshire Medicaid Program as of December 31, 2010.

Medicaid spending includes many categories of service, the highest cost services being medical services for all Medicaid clients and long-term care services for the developmentally disabled and elderly. The most volatile of these is medical services due to the escalating cost of health care and the fact that Medicaid enrollment is highly aligned with the unemployment rate. An independent report commissioned by the DHHS titled "New Hampshire Medicaid Program Enrollment Forecast-SFY 2011-2013 Update" by Professors Ross Gittell and James Carter of the University of New Hampshire, Whittemore School of Business and Economics stated, "…the number of New Hampshire residents who are officially unemployed was the most useful economic indicator in explaining annual changes in Medicaid enrollment" and, more specifically, "…was most useful for explaining annual changes in enrollment for TANF adults and children." When the recession began in December 2007, the State's unemployment rate was 3.4% and Medicaid enrollment was at 102,432. By December 2010, the State's unemployment rate was 5.4% and Medicaid enrollment was at 119,845. Medicaid enrollment remains 17.0% higher than it was when the recession began. Recent trends, however, have been favorable. Unemployment has declined from a high of 7.1% in February 2010 to 5.4% in December 2010 and the growth rate in Medicaid enrollment has declined from a year-over-year rate of 8.9% for fiscal year 2010 to a more moderate rate of 3.2% for the first six months of fiscal year 2011, as shown on the chart below.

Options for controlling Medicaid spending have been limited. Medicaid costs are a function of enrollment, utilization and rates. Rates have been reduced or frozen in past budget reduction programs, utilization controls are restricted by State and federal regulation, and enrollment reduction through changes in eligibility criteria is prevented by the American Recovery and Reinvestment Act (ARRA) and the Patient Protection and Affordable Care Act (PPACA).

In July 2009, the DHHS initiated a three-step cost containment process to manage appropriations within State fiscal years 2010 and 2011. The process included personnel savings through attrition and changes to a wide range of programs, including Medicaid medical services. The Medicaid changes are having an impact. These services are now projected to cost $29 million less than the amount budgeted for fiscal year 2011, as shown on the table below.



Medicaid Provider Payments
(Provider Payments, Outpatient Hospital, Prescription Drugs)

	Budgeted	Expended[1]	Excess (Shortfall)
Jul-10	$39,993,309	$33,128,193	$6,865,117
Aug-10	31,366,522	27,217,205	4,149,317
Sep-10	29,767,312	28,937,820	$829,492
Oct-10	45,296,463	38,835,121	6,461,342
Nov-10	31,396,117	31,660,754	(264,637)
Dec-10	39,832,091	38,109,677	1,722,414
Jan-11	28,514,061	25,909,860	2,604,201
Feb-11	33,991,748	33,629,767	361,981
Mar-11	33,216,655	32,270,875	945,780
Apr-11	43,864,812	42,015,376	1,849,436
May-11	31,386,918	32,039,382	(652,464)
Jun-11	35,457,601	30,494,804	4,962,797
Total	**$424,083,609**	**$394,248,833**	**$29,834,776**

[1] Actual expenditures through February, 2011. Projected expenditures for remainder of fiscal year 2011. All dollar amounts are unaudited.

Office of the Inspector General Report. Starting in April 2005, auditors from the Office of the Inspector General ("OIG") of the Federal Department of Health and Human Services ("DHHS") began a review of the State's Department of Health and Human Services. The primary focus of their review was to determine whether the Disproportionate Share Hospital ("DSH") payments that the State agency claimed for Federal Fiscal Year ("FFY") 2004 complied with the hospital-specific DSH limits imposed by Federal requirements and the State plan. The auditors provided the State with a draft report in February 2007. The State responded to the draft report in April 2007. The OIG issued their final report in July 2007. The State's response to the draft report was included in the final OIG report. The State subsequently submitted a letter to the federal Centers for Medicare and Medicaid Services' action official in August 2007 outlining areas where the State believes the OIG auditors' interpretation and application of applicable regulations is in error.

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

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

The OIG report is a review with findings and recommendations. Remedial action, if any, is left to the federal Centers for Medicare and Medicaid Services (CMS) through its action official to determine and implement in conjunction with the State. During a meeting with Boston regional CMS staff in 2008, the State was informed the audit was being handled by the headquarters office in Baltimore, Maryland.

In October 2009, the State received notice from CMS that they concurred with the auditors' findings. The notice indicates that CMS is disallowing $35,325,468 in federal funds for FFY 2004. The State, on behalf of its Department of Health and Human Services, filed a formal Notice of Appeal on December 18, 2009 with the United States Department of Health and Human Services, Departmental Appeals Board. The State submitted a request for discovery of documents on January 14, 2010. As a result of the likely timeline for federal response to the discovery request, the deadline for the submission of the State's opening brief and appeal file was extended to July 16, 2010. The State has elected to retain the funds pending the appeal.

In years subsequent to FFY 2004, the State made two significant unrelated changes to the program in response to federal law and CMS guidance, both of which reduced the amount of federal DSH participation received by the State. The October 2009 notice from CMS does not address any years other than FFY 2004. The State General Fund currently receives approximately $90 million dollars per year through the DSH program. It is unclear whether any portion of this unrestricted revenue would be in jeopardy or whether or if any additional financial impact on the State would be retroactive or prospective or both.

On October 25, 2010, the State submitted its brief and appeal file to the Departmental Appeal Board of DHHS. On November 24, 2010, CMS filed its brief and on December 16, 2010 the State filed its reply brief. The parties are awaiting the issuance of a decision by the Departmental Appeal Board.

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.

SB 180, enacted into law as 2009 New Hampshire Laws Chapter 198, provides for an input-based school accountability system, beginning in the 2009-2010 school year, that ensures that the State's schools are providing a constitutionally adequate education. SB 180 establishes a task group to work on developing a performance-based school accountability system that will begin in the 2011-2012 school year as an alternative to the input-based accountability system. Schools will be allowed to choose which accountability system they use. The Legislature also enacted additional responsibilities for the legislative oversight committee established under RSA 198:3 to evaluate the progress and results from the two accountability systems. A constitutionally sound accountability process is the fourth mandate of the *Claremont II* decision for an adequate education system.

Recent Legislative Action. On March 16, 2011 the House of Representatives achieved the required 3/5 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 3/5 vote in the Senate is also required for the resolution to be included on the ballot in the next biennial November election (November 2012). If placed on the ballot, a 2/3 vote of qualified voters participating in the election would be required for adoption of the amendment.

STATE INDEBTEDNESS

Debt Management Program

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

Authorization and Classification of State Debt

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

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

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

Debt Statement

The following table sets forth the long-term debt of the State outstanding as of June 30, 2010.

Debt Statement as of June 30, 2010
(In Thousands)

General Obligation Bonds:		
General Improvement	$558,567	
Turnpike[(1)]	584	
Highway	97,081	
University System of New Hampshire	166,842	
Total Direct General Obligation Debt		$823,074
Revenue Bonds:		
Turnpike System[(2)]		377,845
Contingent (Guaranteed) Debt:		
Business Finance Authority	52,500	
School Building Authority Bonds	40,707	
Water Pollution and Waste Disposal Bonds issued by Political Subdivisions	6,980	
Solid Waste Management Bonds		175
Total Contingent Debt		$ 100,362
Total Debt		$1,301,281
Less: Self-Supporting and Contingent Debt:		
General Fund Self-Supporting Debt[(3)]	88,139	
Turnpike System Revenue Bonds	377,845	
Turnpike System General Obligation Bonds	584	
Highway	97,081	
Pease Development Authority General Obligation Bonds	8,822	
Fish & Game	3,405	
Business Finance Authority	52,500	
School Building Authority Bonds	40,707	
Water Pollution and Waste Disposal Bonds issued by Political Subdivisions	6,980	
Solid Waste Management Bonds	175	
Total Self-Supporting and Contingent Debt		$676,238
Total Net General Fund Debt[(4)]		$625,043

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

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

(2) Turnpike System revenue bonds are limited obligations of the State payable solely out of net revenues of the Turnpike System. Neither the full faith and credit nor the taxing power of the State is pledged for the payment of the Turnpike System revenue bonds.

(3) Includes bonds paid from General Fund restricted revenues (primarily user fees, criminal penalty assessments and lease revenues).

(4) Net General Fund debt is debt for which debt service payments are made directly by the State from its taxes and other unrestricted General Fund revenues. Also included is $2.6 million general obligation bonds paid by the State on behalf of the Pease Development Authority. If the Authority has sufficient funds, these bonds will be paid by the Authority.

In addition to the debt presented above, at June 30, 2010, the State had short and long-term capital leases outstanding of $835,000 and $3,203,000, respectively, 88% of which relate to building space.

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

Certain General Obligation Debt Statistics
(Dollars in Thousands)

	June 30,				
	2006	2007	2008	2009	2010
Direct General Obligation Debt	$644,715	$654,170	$688,598	$768,160	823,074
Contingent (Guaranteed) Debt	97,401	87,455	80,855	74,048	100,362
Less: Self-Supporting Debt	(196,146)	(186,076)	(216,221)	(237,926)	(298,393)
Total Net General Fund Debt	$545,970	$555,549	$553,232	$604,282	625,043
Per Capita Debt[1]:					
Direct General Obligation Bonds	$491	$497	$521	$580	$621
Net General Fund Debt	416	422	418	456	472
Ratio of Debt to Personal Income[1]					
Direct General Obligation Bonds	1.20%	1.16%	1.20%	1.35%	1.45%
Net General Fund Debt	1.02	0.99	0.96	1.07	1.10
Ratio of Debt to Estimated Full Value:					
Direct General Obligation Bonds	0.37%	0.38%	0.40%	0.48%	0.51%
Net General Fund Debt	0.32	0.32	0.33	0.38	0.39
General Fund Unrestricted Revenues	$1,329,489	$1,421,700	$1,483,934	$1,375,300	$1,418,800
Debt Service Expenditures[2]	81,521	82,906	85,020	90,314	93,471
Debt Service as a Percent of General Fund Unrestricted Revenues	6.13%	5.83%	5.73%	6.57%	6.59%
Population (in thousands)	1,312	1,317	1,322	1,325	1,325
Total Personal Income (in millions)	$53,661	$56,205	$57,399	$56,732	$56,732
Estimated Full Value (in thousands)	$173,176,615	$173,624,015	$170,079,381	$160,571,630	$160,571,630

[1] Based on U.S. Department of Commerce and U.S. Bureau of the Census estimates for population and personal income.
[2] Debt service on Net General Fund Debt. Does not include interest paid on revenue or bond anticipation notes.

Rate of Debt Retirement[1]
as of June 30, 2010

	General Obligation Debt	Net General Fund Debt
5 years	41%	41%
10 years	72	73
15 years	94	94
20 years	100	100

[1] Does not include refunding of bond anticipation notes.

Recent Debt Issuances

In recent years, the State has issued bonds and bond anticipation notes for a variety of authorized purposes. 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)

	Fiscal Year Ended June 30,				
	2006	2007	2008	2009	2010
Beginning Debt	$633,743	$ 644,715	$654,170	$688,598	$768,160
Bonds Issued	75,000	196,885	161,320	179,380	282,600
Total Net Debt	708,743	841,600	815,490	867,978	1,050,760
Less: Bonds Paid	64,028	64,866	66,892	70,648	74,296
Defeasance	0	122,564	60,000	29,170	153,390
Ending Debt	$644,715	$654,170	$688,598	$768,160	$823,074

The State issued its $45,035,000 General Obligation Refunding Bonds, 2010 Series B (the "2010 Series B Refunding Bonds") on July 27, 2010 for the current and advanced refunding of general obligation debt of the State maturing in fiscal year 2011. The 2010 Series B Refunding Bonds were issued in order to produce budgetary savings in fiscal year 2011 as part of the State's overall plan to balance its budget for fiscal year 2011 and did not result in any present value savings to the State.

The State issued its $150,000,000 General Obligation Capital Improvement Bonds, 2010 Series B and 2010 Series C (the "Capital Improvement Bonds") on September 2, 2010. The Capital Improvement Bonds were issued to finance and refinance various capital projects of the State and to refund bond anticipation notes of the State.

The State also issued its $80,000,000 Federal Highway Grant anticipation Bonds, 2010 Series A and 2010 Series B (the "2010 Garvee Bonds") on November 18, 2010. The 2010 Garvee Bonds are secured by a pledge of federal aid for highways and other grants, loans and contributions from any governmental unit relating to projects to be financed. The 2010 Garvee Bonds are not general obligations 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, 2010. The amounts set forth below do not reflect the issuance of the 2010 Series B Refunding Bonds. Also, 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 as of June 30, 2010 in the amount of $75,000,000. Except as noted in the following sentence, to date, the State has received, and expects to continue to receive, interest subsidy payments from the federal government equal to 35% of the actual interest payable on such "Build America Bonds." The federal government did reduce by approximately $8,700 one subsidy payment related to the State's outstanding Build America Bonds. The withheld amount related to an unpaid amount owed to the federal government by a State agency. The Treasury has since been reimbursed by the State agency for the withheld amount.

Direct General Obligation Debt
as of June 30, 2010[(1)]
(In Thousands)

Fiscal Year Ending June 30,	Principal	Interest	Total
2011	$79,111	$43,790	$122,901
2012	72,206	39,046	111,252
2013	67,604	32,873	100,476
2014	61,239	29,246	90,484
2015	57,086	31,547	88,633
2016	55,156	26,312	81,468
2017	54,134	21,781	75,915
2018	52,435	16,885	69,320
2019	50,710	14,217	64,927
2020	46,310	11,893	58,203
2021	44,605	9,942	54,547
2022	37,725	8,270	45,995
2023	31,315	6,565	37,880
2024	30,945	5,106	36,051
2025	27,695	3,730	31,425
2026	18,185	2,721	20,906
2027	15,180	1,846	17,026
2028	12,180	1,095	13,275
2029	5,000	464	5,464
2030	4,255	142	4,397
Total	$823,075	$307,469	$1,130,545

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

Temporary Loans

To the extent monies in the General Fund, Highway Fund or Fish and Game Fund are at any time insufficient for the payment of obligations payable from such funds, the State Treasurer, under the direction of the

Governor and Council, is authorized to issue notes to provide funds to pay such obligations. Outstanding revenue anticipation notes issued for the General Fund may not exceed $200 million; for the Highway Fund, $15 million; and for the Fish and Game Fund, $0.5 million. The State issued a $50 million general obligation interfund note to its Clean and Drinking Water State Revolving Fund (the "Fund") on January 19, 2010 and a $25 million general obligation interfund note to the Fund on February 10, 2010. The State paid the notes held by the Fund on June 21, 2010. In addition, in order to maintain sufficient funds to meet the State's obligations, on March 10, 2010, the Governor and Executive Council authorized the State Treasurer to issue up to $200 million of revenue anticipation notes (which amount includes the $75 million notes currently issued to the Fund) as permitted by RSA 6:13, and up to $15 million of short term loans to be repaid from highway income or federal reimbursement for highway purposes as permitted by RSA 6:13-b. There are currently no specific plans for issuing any of these obligations. During fiscal year 2009, the State also borrowed $75 million from the Fund that was repaid by the end of fiscal year 2009. The State issued $75 million of revenue anticipation notes in March 2003 which matured and were paid in May 2003, and $75 million of revenue anticipation notes in December 2004 which matured and were paid June 1, 2005.

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

The State Treasurer established a commercial paper program during fiscal year 1998 for the purpose of issuing bond anticipation notes. The maximum amount of commercial paper to be outstanding at any time is currently $50 million. The State issued $50 million of commercial paper bond anticipation notes in August 2009. Such amount was paid with a portion of the proceeds of the general obligation bonds of the State issued in December 2009. The State also issued $50 million of commercial paper bond anticipation notes on March 1, 2010 to fund fiscal year 2010 school building aid payments and various other capital projects. The outstanding commercial paper was paid with proceeds of general obligation bonds of the State issued September 2, 2010.

The State recently entered into a new line of credit with a bank for the State's commercial paper program. The State expects to issue commercial paper later in fiscal year 2011.

See "STATE FINANCES" – "Proprietary (Enterprise) Funds" – "*Unemployment Trust Fund*" for a discussion of repayable advances that the State has been approved for under Section 1201 of the Social Security Act. The State anticipates borrowing this money throughout calendar years 2011 and the first half of 2012.

Authorized But Unissued Debt

As of June 30, 2010 the State had statutorily authorized but unissued direct general obligation debt in the total principal amount of $263.3 million, under various laws. This amount includes $91.2 million in bond authorizations related to the school building aid program for fiscal year 2010 and 2011 as discussed below under "Capital Budget." This amount also includes $25 million in additional bond authorization related to the University System of New Hampshire for the biennium ending June 30, 2011 pursuant to Chapter 1 of the Laws of the 2010 Special Legislative Session. This amount does not include the State's Turnpike System authorizations or statutorily authorized guarantees, nor its authority to issue bonds in lieu of all or a portion of the State's guarantee of bonds of the Pease Development Authority.

Chapter 58 of the Laws of 2005, the "Federal Highway Anticipation Bond Act," authorized the State to issue federal highway grant anticipation bonds ("Garvee Bonds") in an amount not to exceed $195 million with the approval of the governor and council. 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. The State currently anticipates issuing up to the remaining $115 million for such purpose in fiscal year 2012. 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, each in Portsmouth, New Hampshire. The State currently anticipates sharing the costs of these two bridge projects equally with the State of Maine.

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.

Purpose	**Guarantee Limit as of June 30, 2010**	**Remaining Guarantee Capacity as of June 30, 2010**
Local Water Pollution Control Bonds	$50.0 million(1)(2)	$42.2 million
Local School Bonds	95.0 million(1)(2)	33.9 million
Local Superfund Site Bonds	20.0 million(1)(2)	20.0 million(3)
Local Landfill and Waste Site Bonds	10.1 million(1)(2)(3)	9.8 million
Business Finance Authority Bonds, Loans	95.0 million(1)	42.5 million
Pease Development Authority	105.0 million(3)	48.9 million
Housing Finance Authority Child Care Loans	0.3 million(4)	0.3 million

(1) Revolving limit.
(2) Limit applies to total principal and interest.
(3) Plus interest.
(4) Limit applies to principal only.

Capital Budget

The following table sets out the State's capital appropriations for the 2010-2011 biennium and the Governor's proposed capital budget for the 2012-2013 biennium. The Governor's proposed capital budget is subject to legislative action.

Biennium Capital Budget

	Biennium Ending June 30, 2011	Governor's Proposed Capital Budget
Adjutant General	$2,357,000	$3,000,000
Administrative Services	31,185,202	15,764,185
Community-Technical College System	19,250,000	24,815,000
Cultural Resources	-	50,000
Corrections	7,469,000	2,975,000
Education	16,186,552	15,110,195
Employment security	-	22,500,000
Environmental Services	11,074,720	31,476,172
Fish & Game	705,000	-
Health & Human Services	4,175,000	34,629,212
Information Technology	-	12,374,437
Judicial Branch	-	2,589,585
Liquor Commission	5,020,000	6,890,000
McAuliffe-Shepard Discovery Center	-	270,000
Police Standards & Training	1,440,000	-
Resources & Economic Development	19,832,000	3,750,000
Revenue Administration	7,000,000	-
Safety	8,770,000	4,477,000
Transportation	61,258,000	40,403,466
Veteran's Home	8,300,000	400,000
University System of New Hampshire(1)	35,000,000	40,000,000
Gross Appropriations	239,022,474	261,474,252
Less-Federal, Local & Other Funds	59,395,600	71,543,092
Net Bonds Authorized	$179,626,874	189,931,160
Funding of Bonds		
Highway Funded	14,105,000	12,453,187
Other Funded	17,447,500	43,733,172
General Funded(1)	148,074,374	133,744,801
Net Bonds Authorized	$179,626,874	$189,931,160

(1) $35 million appropriation was made in the capital budget adopted in 2005 for the 2010-2011 biennium and the 2012-2013 biennium.

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

In addition to the 2010-2011 capital budget, Section 2 of Chapter 259 of the Laws of 2005 appropriates a total of $109.5 million to the University System of New Hampshire over an eight-year period. This appropriation is non-lapsing and shall not exceed $35 million for the biennium ending June 30, 2011 and $35 million for the biennium ending June 30, 2013 (which are included in the table above).

Chapter 1 of the Laws of the 2010 Special Legislative Session appropriated an additional $25 million to the University System for capital purposes for the biennium ending June 30, 2011. This additional appropriation is not included in the Biennium Capital Budget Schedule set forth in above.

Chapter 1 of the Laws of 2008 Special Legislative Session appropriated $10.0 million for the renovation of the new Pease Community College System campus location which will be funded through bond proceeds, if necessary. The first $3.0 million appropriated is to be funded from the sale of the former community college campus location in Stratham. The next $5.0 million is to be funded $2.5 million from the sale of the Stratham campus and $2.5 million from college tuition and fees. The last $2.0 million is to be funded by the General Fund. It is anticipated that the State will use the proceeds from the sale to fund construction renovation at the Pease Campus and issue bonds for the remaining $4.5 million. Through June 30, 2010, there has been $9.9 million expended toward this renovation project. A portion of this has been financed with State general obligation bonds. The Stratham campus is currently for sale, but the State cannot predict when or if it will be sold and at what price.

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, 2010.

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 $377.8 million of such bonds were outstanding as of June 30, 2010.

The University System of New Hampshire. The University System is a body politic and corporate created by State law under the control and supervision of a 25 member board of trustees. The board of trustees is entrusted with the management and control of all property comprising the University System and maintains the financial affairs of the University System separate and apart from the accounts of the State. Income received by the University System, except where specifically segregated, is retained by the University System for its general purposes. State statutes additionally provide for annual appropriations by the Legislature to be used for the general purposes of the University System. General obligation bonds issued by the State for the construction of capital improvements at the University System are supported in part by revenues from the University System. Approximately $166.8 million of such bonds were outstanding June 30, 2010. 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, 2010, $7.8 million of principal and interest was guaranteed under this program.

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

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

The Governor and Council were authorized to guarantee the payment of the principal and interest of not more than $5 million principal amount of bonds issued by the division. The full faith and credit of the State were pledged for such guarantee. As of August 14, 2009, this guarantee program was repealed.

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, 2010, $61.1 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, 2010, $0.2 million of principal and interest was guaranteed under this program.

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

In order to carry out its programs, the Authority was authorized to issue up to $25 million in principal amount of bonds as general obligations of the Authority, the principal of and interest on which is guaranteed by the State. The Authority issued $25 million State guaranteed bonds in November, 1992. In April, 2002, the Authority issued an additional $10 million of State guaranteed bonds, half of which were used to refund then outstanding 1992 bonds. The Authority issued an additional $10 million of State guaranteed bonds in December 2002 to refund an equal amount of then outstanding 1992 bonds. The last $1.3 million of then outstanding 1992 bonds was redeemed on November 1, 2003, leaving the Authority with a total balance of $20 million of outstanding bonds as of June 30, 2010.

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, 2010, $32.6 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, 2009, the Pease International Tradeport had 4.4 million square feet of new or renovated office/R&D/manufacturing space with over 245 companies employing more than 7,000 people. As of June 30, 2010, 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, 2010 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. It will mature not later than June 30, 2017, unless extended by agreement of the State, the PDA and the bank that provided the line.

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.

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, 2010, no outstanding debt was guaranteed under this program.

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

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

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

New Hampshire Rail Transit Authority. The New Hampshire Rail Transit Authority ("NHRTA") was established under RSA 238-A effective July 1, 2007 as a body corporate and politic in the State for the general purpose of developing and providing intercity rail or other similar forms of passenger rail service. The NHRTA is authorized to issue bonds to carry out its purposes. RSA 238-A provides that all obligations of the NHRTA shall be paid solely from funds provided to or obtained by it and will not be deemed a debt of the State nor a pledge of the full faith and credit of the State. The NHRTA held its organizational meeting on September 30, 2007 and continues to meet on a monthly basis. The NHRTA is currently developing plans and operating agreements for proposed passenger rail service from Concord, New Hampshire to Boston, Massachusetts through the cities of Manchester and Nashua in New Hampshire. There are no specific plans for debt issuance at this time. House Bill 218 of the 2011 legislative session repeals RSA 238-A. The bill passed the House on March 16, 2011 and is currently pending in the Senate.

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, 2010, there were approximately 50,467 active, 1,515 inactive vested, 5,677 inactive non-vested, and 25,845 retired members of the System. The System provides service, disability, death and vested 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, 2010 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, 2010 (the "2010 CAFR"), which report is also incorporated herein by reference and may be accessed at *www.admin.state.nh.us/accounting/FY%2010/CAFR%20FY10.pdf*. The 2010 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*.

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*. Currently available reports include the System's Comprehensive Annual Financial Report for the year ended June 30, 2010 (the "2010 System CAFR"), which may be accessed at *www.nhrs.org/documents/NHRS2010CAFR.pdf* and the Actuarial Valuation Report as of June 30, 2010 (the "2010 Actuarial Valuation"), which may be accessed at *www.nhrs.org/documents/2010_actuarial_valuation_final.pdf*. The 2010 System CAFR and the 2010 Actuarial

Valuation are incorporated herein by reference. Similar reports for prior years are also available from the System at the address set forth above or at *www.nhrs.org*.

The System also recently 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 *http://www.nhrs.org/documents/NHRS_5_Year_Experience_Study_March_2011.pdf*. The Board of Trustees of the System is considering the recommendations set forth in the 2005-2010 Experience Study and expects to make decisions regarding those recommendations by June 30, 2011. 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 the current 8.5% to 7.75%. While not binding on the Board, the actuary has 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 will be used to set contribution rates for fiscal years 2014 and 2015. The Board is expected to take action on the recommendation by June 30, 2011, although the State cannot now predict what action the Board will take.

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 is currently equal to 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%. The employer contribution rate is based on a biennial actuarial valuation performed by an independent actuary and then certified by the NHRS Board of Trustees. The State Constitution provides that the employer contribution certified as payable to the System to fund the System's liabilities, as determined by "sound actuarial valuation and practice," shall be appropriated each fiscal year in the amount so certified.

The Pension Plan is divided into two membership groups. Group I consists of State and local employees and teachers. Group II consists of firefighters and police officers. The Medical Subsidy Plans consists of four groups: 1) State employees, 2) political subdivision employees, 3) teachers, and 4) police and fire. The State funds 100% of the employer cost for 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 such employees in fiscal year 2010 and will fund 25% of the employer cost for such employees in fiscal year 2011. Under current law, in fiscal year 2012 and in future fiscal years, the State's funding share for such employees will return to 35%. However, the Governor's proposed budget for the 2012-2013 biennium calls for reducing the State's share of contribution for teachers, firefighters and police officers employed by political subdivisions to zero. To the extent the State's contribution is reduced from the prior 35%, local employers are required to contribute greater amounts to make up for the reduced State contributions.

A lawsuit has been filed by the City of Concord, NH, Belknap County and Mascenic Regional School District, with backing from approximately 294 other New Hampshire municipalities, counties, school districts and school administrative units, challenging the constitutionality of the reduction in the State's share of funding for local employer costs for teachers, firefighters and police officers in fiscal years 2010 and 2011. The lawsuit alleges that the reduction for those two fiscal years violates the State Constitution as an unfunded mandate imposed by the State on the local employers. The trial is set for April 2011. See "LITIGATION" below.

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 Governor's budget proposal for fiscal years 2012 and 2013, if implemented, is expected to save the State approximately $85.2 million and $89 million, respectively.

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 years 2011 through 2013 are estimated, as described in the footnotes to the table and are subject to change. 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					
Fiscal Year	**Total Employer**	**% of ARC**	**For State Employees**	**On Behalf of Local**[2]	**Total**	**State Share % of Total**	**Local Share**	**Local Share % of Total**
2013 (est)[1]	$434.7	100%	$95.0	$89.0	$184.0	42%	$250.7	58%
2012 (est)[1]	416.6	100%	91.2	85.2	176.4	42%	240.2	58%
2011 (est) [1]	318.6	100%	75.6	46.8	122.2	38%	196.4	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%
2004	123.6	100%	32.6	22.8	55.4	45%	68.2	55%
2003	88.5	100%	21.5	17.6	39.1	44%	49.4	56%

[1] The amounts shown for fiscal year 2011 and fiscal years 2012 and 2013 are based upon actuarial valuations dated as of June 30, 2007 and June 30, 2009, respectively. These valuation reports are available from the System at the address set forth above under "Overview" or may be accessed at *www.nhrs.org*.
[2] On Behalf of Local for fiscal years 2012 and 2013 is 35% based on the law in effect as of the date of this Information Statement. The Governor's proposed budget for fiscal year 2012 and 2013 eliminates the State's employer contributions on behalf of local governments. See "STATE FINANCES – Operating Budget Fiscal Years 2012 and 2013."

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.

State law establishes 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. The Special Account is 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 restricts any funds from being credited to the Special Account until the funded ratio of the consolidated retirement system as of June 30th of any given year is equal to or greater than 85%. Upon achievement of the 85% funded ratio, only returns in excess of ten and one-half percent will be allocated to the Special Account. See Note 6 to the 2010 System CAFR.

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 can be accessed in its entirety at *http://nhrs.org/documents/NHRS_5_Year_Experience_Study_March_2011.pdf*. Significant recommendations include 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%. Using data from the 2010 interim actuarial valuation, the total Pension Plan funded ratio was 58.5% at June 30, 2010. The following table sets forth the Pension Plan funded ratio and total blended employer conribution rates based upon the actuarial assumptions currently in effect and based upon the range of recommendation provided by the actuary. The amounts shown are projected as of June 30, 2014. The actual amounts as of such date will differ.

New Hampshire Retirement System
Effect of Proposed Changes to Assumed Investment Rate of Return and Wage Growth
Projected as of June 30, 2014
(Dollars in millions)

	Current 8.5%/4.5%	Proposed 8.0%/4.0%	Proposed 7.75%/3.5%	Proposed 7.5%/3.5%
Employer Normal Cost	4.26%	4.63%	4.58%	5.06%
UAAL Payment	8.80	9.91	10.67	11.12
Pension Contribution (estimated 2014)	13.06	14.54	15.25	16.18
Employer Health Subsidy Contribution	1.97	2.04	2.13	2.13
Total Employer Contribution	**15.03%**	**16.58%**	**17.38%**	**18.31%**
Total Estimated Employer Contribution $	**$444.60**	**$481.10**	**$494.60**	**$520.90**
Valuation Assets	$5,233.80	$5,233.80	$5,233.80	$5,233.80
Accrued Liability	9,116.70	9,487.70	9,627.40	9,889.10
UAAL	$(3,882.90)	$(4,253.90)	$(4,393.60)	$(4,655.30)
Funded %	**57.40%**	**55.20%**	**54.40%**	**52.90%**

Source: 2005-2010 Experience Study

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 June 30, 2011 valuation will determine the required contributions for fiscal years 2014 and 2015. The June 30, 2007 and the June 30, 2009 System actuarial valuations can be viewed in their entirety at *www.nhrs.org*. An interim actuarial valuation was performed as of June 30, 2010 but will not be used for contribution rate setting. Based on the results of the interim valuation as of June 30, 2010, the net assets available to pay pension benefits, at actuarial value, were reported to be $5,233.8 million. The market value of assets as of June 30, 2010 was approximately $671.0 million less than the actuarial value. The total pension liability at June 30, 2010 was $8,953.9 million, resulting in an unfunded pension liability at June 30, 2010 of $3,720.1 million and a funding ratio of 58.5%. 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 amortization of the unfunded accrued actuarial liability. Due to the fact that contributions for any particular fiscal 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 8.5% (and 4.5% for Medical Subsidy Plans as of the 2010 Actuarial Valuation) and the wage inflation rate at 4.5%. 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.

As of June 30, 2010, the net assets available to pay post employment health benefits, at actuarial value, were reported to be $57.8 million, with a corresponding liability of $1,033.9 million, resulting in an unfunded post employment health benefit liability at June 30, 2010 of $976.1 million and an overall funded ratio of 5.6%. 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 2010 Actuarial Valuation. Except where noted, the same assumptions were used in the two prior valuations used to determine the contributions required for fiscal years 2010 through 2013.

New Hampshire Retirement System
Pension and Medical Subsidy Plans Assumptions

	Pension Plan	Medical Subsidy Plans
Actuarial Cost Method	Entry age normal	Entry age normal
Amortization Method	Level percentage of payroll, closed	Level percentage of payroll, closed
Equivalent single amortization period	29 years From 06/30/2010	*
Asset valuation method	5-year smoothed market	5-year smoothed market
Actuarial Assumptions:		
Investment rate of return*	8.5%	4.5%
Projected salary increases*	4.5% to 16.25%	4.5% to 16.25%
**Includes Price Inflation at*	3.5%	3.5%
Rate of Payroll Growth	4.5%	4.5%
Valuation Health Care Trend Rate	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% for four years, until the annual escalation resumes at a 4% rate effective on July 1, 2012.

* 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 will exceed the contribution that would be otherwise necessary to amortize the liability under a 29 year amortization period.

Based on the results of the June 30, 2009 actuarial valuation, the employer contribution rates to be paid by the State for fiscal years 2012 and 2013 increased by approximately 11.0%-11.5% over fiscal year 2010-2011 rates. The rates for 2010 through 2013 are shown below. The rates for fiscal years 2014 and 2015 will be determined based upon a valuation as of June 30, 2011, not the interim 2010 Actuarial Valuation. See discussion under "2005-2010 Experience Study" for the potential range of contribution rates in those years.

Combined Employer Contribution Rates for Pension Plan and Medical Subsidy Plans For Fiscal Years 2010-2013

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

These increased contribution rates are currently expected to cause the State's annual required contribution for State employees and the State's expected 35% share of contributions for teachers, firefighters and police to increase to $176.4 million and $184.0 million for fiscal years 2012 and 2013, respectively. Significant annual increases in employer contributions will be required in future years as well, in order to meet all obligations owed to the System, including reduction of the unfunded accrued actuarial liability.

The 2010 Actuarial Valuation, includes in Section B thereof, a schedule labeled "NHRS Total Pension Unfunded Actuarial Accrued Liability Payoff Projection." It projects that, based upon the assumptions set forth in the 2010 Actuarial Valuation and, in particular, the contribution rates set forth in this schedule, the total dollar amount required to amortize the UAAL, calculated as of June 30, 2010, would range from $147 million in fiscal year 2011 to $756 million in fiscal year 2039. Assuming that the State continues to pay 35% of the required contribution for teachers, firefighters and police officers employed by political subdivisions, the State's estimated share of these total amounts would range from $105 million in fiscal year 2011 to $491 million in fiscal year 2039.

The amounts in the preceding paragraph are hypothetical and the actual amounts required to be contributed in the future by the State and other Pension Plan participants to pay off the UAAL will differ, and it is likely the differences will be substantial. The actual amount for any particular year will be based upon the applicable actuarial valuation used to certify the contribution rates for such year and will reflect all actuarial assumptions then in effect, including, in particular, the assumed rate of return on investments and the overall level of benefits being earned by employees and being paid to retirees. The State cannot now predict what the actual dollar amount of contributions will be for fiscal years beyond fiscal year 2013.

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 described under the heading "Medical Subsidy Plans" are not included in these asset values because they are not deemed to be available to pay existing benefits in the AAL. The purpose of the Special Account is to fund additional benefits, such as COLAs.

NEW HAMPSHIRE RETIREMENT SYSTEM
TEN YEAR HISTORY OF PENSION PLAN FUNDING STATUS
FISCAL YEARS 2001-2010
(All Dollar Amounts in Thousands)

Actuarial Valuation Date (June 30)	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio
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
2003	3,500,037	4,669,192	1,169,155	75.0
2002	3,443,395	4,196,314	752,919	82.1
2001	3,264,901	3,842,602	577,701	85.0

Note: Liabilities for fiscal years 2007-2010 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 2007-2010 and prior years are not comparable.

NEW HAMPSHIRE RETIREMENT SYSTEM
TEN YEAR HISTORY OF MEDICAL SUBSIDY PLANS FUNDING STATUS
FISCAL YEARS 2001-2010
(All Dollar Amounts in Thousands)

Actuarial Valuation Date (June 30)	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio
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
2003	415,046	701,408	286,362	59.2
2002	437,478	576,770	139,292	75.8
2001	336,078	429,773	93,695	78.2

Note: $89.5 million of the asset change from fiscal year 2009 to fiscal year 2010 represents the VCP transfer to the Special Account discussed below.

Note: Liabilities for fiscal year 2007-2010 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 2007-2010 and prior years are not comparable.

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, 2010 was unanimously approved and accepted by the NHRS Board of Trustees at its November 19, 2010 regular meeting and may be accessed at *http://nhrs.org/documents/AnnualInvestmentReportFY2010.pdf* or may be obtained, upon request, from the System at the address set forth above in "Overview."

The target allocation and range for each asset class, as adopted by the Board of Trustees on July 13, 2010, are as follows:

Asset-Class	Target Allocation	Allocation Range
Domestic Equity	30%	20 – 50%
Non-U.S. Equity	20%	15 – 25%
Fixed Income	30%	25 – 35%
Real Estate	10%	0 – 15%
Alternative Investments	10%	0 – 15%

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

Annualized Investment Returns for the period ended June 30, 2010

Asset Class	Weight 6/30/10	Fiscal Year 2010	3 Year	5 Year	10 Year
Total NHRS Fund (Gross Returns)	100.0%	13.2%	-3.8%	2.7%	2.6%
ICC Public Fund Universe Ranking[1]		47	53	48	76
Total NHRS Fund (Net Returns)	100.0%	12.9%	-4.1%	2.4%	2.3%
Total Fund Custom Index		11.7%	-3.8%	2.6%	2.8%
Domestic Equity	42.5%	15.5%	-10.6%	-1.5%	-1.6%
Total Domestic Equity Blended Benchmark[2]		15.7%	-9.5%	-0.5%	-1.2%
International Equity	14.3%	12.2%	-9.4%	3.6%	0.9%
Total International Equity Blended Benchmark[2]		10.4%	-10.7%	3.4%	1.6%
Global Equity	5.3%	9.0%	-	-	-
MSCI ACWI		11.8%	-	-	-
Fixed Income	30.6%	13.6%	8.7%	6.6%	7.9%
Total Fixed Income Blended Benchmark[2]		10.6%	7.2%	5.5%	6.6%
Real Estate	5.1%	1.8%	-9.0%	1.6%	6.9%
Total Real Estate Blended Benchmark[2]		-1.0%	-4.5%	3.9%	7.2%
Alternative Investments	1.9%	8.3%	-12.4%	-3.8%	-6.4%
Consumer Price Index + 5%[2]		6.2%	6.6%	7.4%	7.4%
Cash Equivalents	0.3%	0.2%	1.9%	3.0%	2.9%
Cash Index		0.2%	1.6%	2.8%	2.7%

[1] The Independent Consultants Cooperative Public Fund Universe represents more than 150 public fund observations. The rankings are in percentile terms on a scale from 1 as the highest score to 100 as the lowest score.

[2] 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.

As shown above, the total annualized 10-year return (net of fees) as of June 30, 2010 was 2.3%, as compared to an assumed rate of return during this period of 9.0% until fiscal year 2005 and 8.5% since then. The annualized 20-year return (net of fees) as of June 30, 2010 was 7.89%.

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.

At June 30, 2009, the 120% corridor was exceeded resulting in approximately $750 million of the total $1.484 billion in losses for fiscal year 2009 being recognized in that year.

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. According, 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
Actuarial Value vs. Market Value
Fiscal Years 2001 to 2010

Fiscal Year	Actuarial Rate of Return	Actuarial Value of Assets	Market Value Rate of Return	Market Value of Assets
	(Per Actuarial Valuation Reports)	(in thousands)	(NHRS CAFRs)	(in thousands)
2010	6.48%	$5,569,341	12.90%	$4,898,339
2009	-3.87%	5,353,453	-18.10%	4,461,211
2008	9.52%	5,701,579	-4.60%	5,597,047
2007	12.85%	5,272,358	16.00%	5,967,916
2006	9.27%	4,647,973	10.00%	5,112,256
2005	1.25%	4,322,614	10.10%	4,728,590
2004	1.85%	4,339,537	14.90%	4,391,286
2003	1.92%	4,323,936	2.50%	3,901,681
2002	4.80%	4,323,997	-6.40%	3,936,475
2001	3.72%	4,201,904	-6.70%	4,340,270

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 $4.9 billion level as of June 30, 2010. (It should be noted that future State 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 six months ending December 31, 2010, the System's total fund investment return was 16.5%. For the eight months ending February 28, 2011, the investment return for total marketable assets, approximately 93% of System assets, was 22.1%. 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.

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.

As required for its fiscal year 2007 implementation of GASB 43, the System conducted an actuarial valuation dated June 30, 2007 of its Medical Subsidy Plans. As part of implementing GASB 43, the System underwent a compliance review of its medical subsidy program. The compliance review made multiple recommendations that were unanimously adopted by the System's Board of Trustees in November 2007. These recommendations included: (1) seeking IRS approval to correct a series of transfers that occurred from fiscal years 1990 through 2000 by participating in the IRS voluntary correction program (if approved, a transfer of at least $26 million would be made from the 401(h) medical subtrust to the pension reserve); (2) seeking ratification by corrective State legislation of the 33-1/3% employer contributions that were made and prospectively abide by the 25% statutory limitation; (3) eliminating the financial reporting of the $295 million Medical Special Account as part of the postemployment 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 Voluntary Correction Program (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 or will be 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. The System will correct the plan document failure by June 30, 2012.

- 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. Legislation is pending that would transfer this amount from the Special Account to the regular account of the Pension Plan to be available for benefits.

- 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. The System will correct the plan document failure by June 30, 2012.

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 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 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 $17.7 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, 2009 and 2010 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.*

Legislative Activity

The State has enacted various legislation 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. A detailed discussion of legislative activity for the 2009 and 2010 legislative session can be found in Note 5 of the 2010 System CAFR. Notable legislative changes enacted during the fiscal year 2010 legislative session include the following:

- Extended the effective date from July 1, 2010 to July 1, 2011 of 2008 legislation (Chapter 300, Laws of 2008) which created a so-called "anti-spiking" provision through the enactment of a special 125% employer assessment from July 1, 2010 to July 1, 2011. A legislative study commission will continue to evaluate proposals for the assessment methodology.[1]

- Effective July 1, 2010, granted a 1.5% COLA to be added to the base pension, on the first $30,000 of pension benefits to all retirees and beneficiaries who had been retired for at least 12 months by July 1, 2010. In addition, two additional lump sum temporary allowances were provided as follows:[2]

    1. Only for the fiscal year beginning July 1, 2010, a supplemental allowance of $1,000 for any retired member or beneficiary who had been retired at least 12 months whose annual retirement is based on at least 15 years of service and is $20,000 or less annually;

    2. Only for the fiscal year beginning July 1, 2010, a supplemental allowance of $500 for any retired member or beneficiary who retired prior to January 1, 1993.

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

- Set the member contribution rate for all Group I State employees hired on or after July 1, 2009 at 7.0% of earnable compensation. The member contribution rate for State employees hired before July 1, 2009 remains at 5.0%.

- Reduced the State's share of the political subdivision employers' normal cost from 35% to 30% for fiscal year 2010, and to 25% for fiscal year 2011. The State's share of political subdivision employer's normal cost reverts back to 35% for fiscal year 2012 and each fiscal year thereafter. (See "STATE FINANCES - Operating Budget Fiscal Years 2012 and 2013" regarding the Governor's current proposal to reduce the State share to zero for the 2012-2013 biennium.)

- Re-defined "extra or special duty compensation" as a component of a member's earnable compensation to mean member work activities or details for which the employer bills or charges another entity for the work activities provided.

- Required NHRS to re-certify employer contribution rates for fiscal years 2010 and 2011, based upon a July 1, 2009 State Employee Medical Subsidy Plan balance of zero and to base all future employer contribution rates for the State Employee Medical Subsidy Plan using the same zero balance.

- Delayed from August 29, 2008, until July 1, 2010 the implementation of RSA 100-A:16, III-a, which addresses the funding of dramatic increases in the pensions of NHRS members resulting from excessively high end-of-career earnable compensation payments made to a retiring employee by an employer. Known as the "spiking provision" or the "125% calculation provision", RSA 100-A:16, III-a provides that employers assume financial responsibility for the funding costs associated with those increased pension amounts.

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[1] Will have no impact on the normal employer contribution rates.

[2] Will have no impact on the normal employer contribution rates determined using the entry age normal funding method because, as required by the legislation, the costs are terminally funded from the Special Account at a cost of $65.9 million.

- Effective July 1, 2009, granted a 1.5% COLA to be added to the base pension, on the first $30,000 of pension benefits to all retirees and beneficiaries who had been retired for at least 12 months by July 1, 2009. In addition, two additional lump sum temporary allowances were provided as follows:
    - Only for the fiscal year beginning July 1, 2009, a supplemental allowance of $1,000 for any retired member or beneficiary who had been retired at least 12 months whose annual retirement is based on at least 15 years of service and is $20,000 or less annually;
    - Only for the fiscal year beginning July 1, 2009, a supplemental allowance of $500 for any retired member or beneficiary who retired prior to January 1, 1993.

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

Proposed Pension Reform

There are multiple legislative proposals intended to address pension reform. House Bill 2, Senate Bill 3 and House Bill 580 are simultaneously moving through the legislative process. The final outcome of these proposals is unknown. Primary changes recommend raising member contribution rates, increasing retirement age, increasing years of service required to retire, increasing the number of years used to calculate average final compensation, and elimination of end-of-year payouts from the pension calculation. Under current law, savings from any reform would likely not be achieved in the fiscal year 2012 and 2013 biennium because rates have already been certified by the Board of Trustees. However, some of the proposals may require that the Board of Trustees recertify employer contribution rates for fiscal years 2012 and 2013. Regardless of whatever recertification of rates is required, all legislative changes would be incorporated in the June 30, 2011 actuarial valuation used to set rates for fiscal years 2014 and 2015. The State cannot predict the outcome of any of the legislative proposals. Legislation can be viewed and status followed at the General Court website *http://gencourt.state.nh.us/bill_status/*.

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. In the past, eligible retirees did not contribute toward the cost of health care. However, effective July 1, 2009, retirees under the age of sixty-five contribute $65 per month and additional $65 per month for spousal coverage. The Governor's proposed budget for the 2012-2013 biennium calls for increasing this contribution to $100 per month per participant. Substantially all of the State's employees who were hired on or before June 30, 2003 may become eligible for these benefits if they reach normal retirement age while working for the State, have 10 years of State service and receive their pensions on a periodic basis rather than a lump sum. During fiscal year 2004, legislation was passed that requires State Group I employees hired on or after July 1, 2003 to have 20 years of State service in order to qualify for health coverage benefits. These and similar benefits for active employees are authorized by RSA 21-I:30 and are provided through the Employee and Retiree

Benefit Risk Management Fund (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 $72.4 million to cover 10,896 retirees and dependents in fiscal year 2010 on a pay-as-you-go (cash) basis. The source of this funding included $34.7 million from the State General Fund, $15.2 million from State self-supporting agencies, $14.4 million from the NHRS medical subsidy plan, $7.1 million in pharmaceutical rebates and Medicare Part D Retiree Drug Subsidy (RDS Program), and $2.3 million in retiree self-pay. The budget for the 2010 – 2011 biennium does not pre-fund any OPEB costs. However, it does establish an account for all resources accumulated for purposes of funding retiree health benefits.

In 2008, following a procurement process, the Department of Administrative Services retained The Segal Company to assist, among other matters, in the determination and valuation of the States OPEB Plan liability under GASB Statement No. 45. Segal currently provides to the State benefits consulting, claims auditing and actuarial services for the purposes of setting rates for its self-funded health and dental plans. The State OPEB Plan liability actuarial valuation as of June 30, 2008 was completed December 21, 2009. The report can be accessed through 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 CAFR for fiscal year 2010 (dollar amounts in thousands):

Annual Required Contribution/OPEB Cost	$204,948
Interest on net OPEB obligation	13,192
Adjustment to annual required contribution	(9,989)
Annual OPEB cost	208,151
Contributions made (pay-as-you-go)	(52,790)
Increase in Net OPEB Obligation	155,361
Net OPEB Obligation - Beginning of Year	295,241
Net OPEB Obligation - End of Year	$450,602

The $155.4 million increase in net State OPEB Plan obligation is reflected in the State's fiscal year 2010 government-wide financial statements as claims and compensated absences payable.

The ARC for fiscal year 2010 is $208.2 million and the pay-as-you-go contributions made in fiscal year 2010 were $52.8 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. RDS subsidies and rebates are excluded pursuant to guidance promulgated by GASB 45. Other small differences will exist because of timing between cash and accrual basis of accounting.

As of June 30, 2008, the most recent actuarial valuation date, the actuarial accrued liability ("AAL") for benefits was $2,470.5 million, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability ("UAAL") of $2,470.5 million. The next completed valuation of the State OPEB Plan is expected to be dated December 31, 2010. Because data managed by NHRS is being converted to systems administered by the Department of Administrative Services, it is currently expected the valuation will be available in 3 to 6 months. In the interim, an estimate of the June 30, 2010 liability was prepared by the actuary at the request of the comptroller in December, 2010. The June 30, 2010 estimated UAAL is $2,536 million. The estimate was performed using the same data, assumptions, demographics and methodology as was used in the June 30, 2008 valuation except for specific changes made to pricing of the prescription drug program. If a complete actuarial valuation had been performed as of June 30, 2010, the UAAL would have been different and would likely have been higher This amount does not include the State's share of the UAAL from the NHRS Medical Subsidy plans discussed below.

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. An interim actuarial valuation of the NHRS Medical Subsidy Plan was performed at the request of the NHRS as of June 30, 2010. At that date, the 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 the subsidy payments. The UAAL at June 30, 2010 for the State employee group was $122.3 million. Additionally, based on current payroll data, approximately twenty percent of the Police and Fire Group of the NHRS Medical Subsidy Plans relates to State police. Accordingly, the State's portion of the UAAL of the Police and Fire Group at June 30, 2010 would approximate $85.4 million.

The State's total UAAL for all groups related to retiree health at June 30, 2010 (based upon the interim estimate described above) approximated $2,743.7 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 Benefits – Cash Basis
(in millions)

Fiscal Year	General Fund	Self-Supporting Agencies	NHRS Medical Subsidy	Other Sources (i.e. Rebates, RDS Subsidy, Contrib.)	Total Revenue	Total Costs
2013 (est)	$38.3	$20	$13.6	$13.9	$85.8	$85.8
2012 (est)	35.3	17.6	14	12.8	79.7	79.7
2011 (est)	35.5	15.7	14.2	10.9	76.3	76.3
2010	34.7	15.2	14.4	10.5	74.8	72.4

STATE RETIREE HEALTH PLAN COMMISSION

Effective July 1, 2007, the State Retiree Health Plan Commission was established pursuant to RSA 100-A:56 to determine the actuarial assumptions to be used in the valuation of liabilities relative to State employee health benefits. The Commission membership includes one representative appointed by the Speaker of the House, one Senator appointed by the Senate President, one member appointed by the Governor, the State Treasurer and the Commissioner of Administrative Services. Legislation introduced in the 2009 session to: 1) authorize the State and/or local governments to establish irrevocable trusts for the purpose of funding OPEB, and 2) expand the membership and the role of the Commission to include studying the future costs of OPEB and making necessary recommendations for change in policy or practice was referred back to Committee in the Senate. On January 21, 2010 the Senate Executive Departments and Administration Committee sent this legislation to interim study. No further action has been taken. A new chairman of this Commission has been named and has called an organization meeting for March 29, 2011.

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.

Additional information pertaining to the Judicial Plan is contained in the State's audited financial statements for the year ended June 30, 2010 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, 2010 (the "2010 CAFR"), which report is also incorporated herein by reference and may be accessed at *www.admin.state.nh.us/accounting/FY%2010/CAFR%20FY10.pdf*. The 2010 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*.

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., 6 London Road, Suite 502, Concord, NH 03301. Currently available reports include the Judicial Plan's Financial Statements and Required Supplementary Information as of December 31, 2009 and 2008 (the "2009 Financial Statements), and the most recent Actuarial Valuation Report dated as of January 1, 2010 (the "2010 Judicial Actuarial Valuation"). Financial statements as of December 31, 2010 are not yet available. The 2009 Financial Statements and the 2010 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:

NH Judicial Retirement Plan
Selected Actuarial Valuation Results

Valuation Date January 1	Actuarial Value of Assets	Unfunded Accrued Liability	Funded Ratio	State Contribution Rates for Fiscal Years	
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%	46.31%	FY 12-13

The market value of assets as of the two most recent valuation dates is shown below.

January 1, 2008	$51,857,186
January 1, 2010	36,678,291

The State contributions in the current biennium increased approximately $625,000 over the 2008-2009 biennium. The significantly increased unfunded actuarial liability set forth in the most recent actuarial valuation, dated as of January 1, 2010, is expected to cause the State contributions for the 2012-13 biennium to increase from approximately $1.9 million (as projected in the prior January 1, 2008 valuation) for the current biennium to an estimated $3.6 million annually for the 2012-2013 biennium. Further increases will be required in later years as well in order to amortize the current unfunded liability, which has 15 years remaining in the current amortization period. House Bill 299 was adopted by the House on February 23, 2011 and is currently pending in the Senate. If passed into law, House Bill 299 would extend the amortization period to 30 years.

The actuary for the Judicial Plan uses several actuarial assumptions in the 2010 Judicial Actuarial Valuation including the investment return rate at 8.0% and the wage inflation rate of zero for the next two years and 3.0% annually thereafter commencing in calendar year 2012. 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 2009 actuarial valuations 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 2012 and 2013.

Employer contribution rates depend on all of the actuarial assumptions used in determining the contribution rates. The assumptions used in the 2010 Judicial Actuarial Valuation are set forth in Appendix B thereto. The following table sets forth a summary of certain assumptions used in the 2010 Judicial Actuarial Valuation. Except where noted, the same assumptions were used in the two prior valuations used to determine the contributions required for fiscal years 2011 through 2013.

New Hampshire Judicial Retirement System
Actuarial Assumptions

Actuarial Cost Method	Entry age normal
Amortization Method	Level percentage of payroll, closed
Equivalent single amortization period	20 years From 01/01/2005
Asset valuation method	5-year smoothed market
Actuarial Assumptions:	
Investment rate of return	8.0%
Projected salary increases	0% to 3.0%

See "Litigation - *Cloutier v. State and Judicial Retirement System*" below for information pertaining to pending litigation regarding the Judicial Plan.

EMPLOYEE RELATIONS

The State Employees' Association of New Hampshire Inc.-SEIU Local 1984 (the "SEA") is the exclusive bargaining representative of the majority of classified (merit system) employees in the State, a group of approximately 10,000 employees. The employees of the University System, the Community College System of New Hampshire and the NH Retirement System are not 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.

The State has continued to negotiate with all three unions and has successfully concluded negotiations with the SEA and the NHTA. New collective bargaining agreements were ratified by both unions and will remain in effect through June 30, 2011. In addition, new agreements were reached with the Probation Parole Officers and Probation Parole Officer Supervisors, represented by the NEBPA. These collective bargaining agreements will also remain in effect through June 30, 2011. There are no wage increases or any changes that required additional appropriation by the legislature in any of the new contracts. Negotiations continue with all other units represented by the NEPBA. Due to the "evergreen" provision of New Hampshire's public sector bargaining law, expired contracts will continue in effect until new contracts are finalized.

The next round of collective bargaining with the State's three unions began during the month of January, 2011. Any agreements reached through these negotiations will be effective from July 1, 2011 through June 30, 2013.

LITIGATION

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

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

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

The second issue raised by the Plaintiff Counties in their suit is whether DHHS exceeded the statutory cap on the total amount that the Plaintiff Counties can be billed under RSA 167:18-b in fiscal year 2004. RSA 167:18-b establishes a $60 million cap on the total liability for the Plaintiff Counties under this section of the statute. The legal dispute in this case involves whether that figure should be interpreted as a gross amount or a net amount.

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

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"), *Chase Home et al v. DCYF*. The claims include (1) breach of contract, (2) breach of implied covenant of good faith and fair dealing, (3) unconstitutional taking, and (4) deprivation of rights under 42 U.S.C. §1983. The petitioners seek retroactive payment of more than $3 million as well as costs and attorneys' fees. The State filed a motion for summary judgment on the grounds that DCYF does not have a contractual relationship with the providers, and that it has not engaged in any unconstitutional taking of property. On December 5, 2008, the petitioners filed a motion to amend their complaint to state a separate claim based on statutory violations created by DCYF's statutory obligation to pay for residential childcare services provided under certain provisions of State law. A hearing on the parties' motions for summary judgment was heard on July 31, 2009. The court denied the State's motion for summary judgment and granted in part the petitioner's motion giving collateral estoppel effect to the 2006 hearing officer's finding that there was sufficient money in the State budget to pay the three petitioners that had appealed in that year. In May

2010, the Court ruled in favor of the 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 has not been scheduled yet.

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

DOC has submitted its plan for the court to review. DOC also appealed parts, but not all, of the court's order asserting that the court exceeded its authority under the settlement agreements. The parties settled the matters on appeal and the appeal has been withdrawn. The trial court continues to hold status conferences to discuss and monitor the progress of implementation. The DOC estimates that full implementation of the court's order will require approximately $9.0 million in capital and operating expenses which costs were included in the budget for fiscal years 2008-2009. The court continues to monitor implementation. The next court ordered hearing is now scheduled for November 2011.

Bel Air Associates v. Department of Health and Human Services was decided by the Supreme Court in September 2006 and involved certain restrictions on the rates paid by the Department of Health and Human Services ("DHHS") to nursing home providers. The Supreme Court held that DHHS' capital costs cap and its budget neutrality factor should have been created by administrative rule. The Supreme Court further held that because they were not created as rules, they could not be applied against Bel Air Associates. The Supreme Court did not order any damages against DHHS, as it did not allow a late attempt by Bel Air Associates to add a breach of contract claim. Bel Air Associates, however, filed a separate breach of contract claim in Merrimack County Superior Court in late November 2006 alleging approximately $600,000 in damages. Following cross-motions for summary judgment, the New Hampshire Supreme Court reversed the decision of the trial court in November 2008 and remanded the case for further proceedings. The Supreme Court held that the Medicaid provider agreement constitutes a contract, but remanded the case for the Superior Court to consider whether Bel Air's claim is nevertheless barred by res judicata and the statute of limitations. The parties attempted to mediate the case in April 2009, but mediation was unsuccessful. The State filed a motion to dismiss on the grounds that Bel Air's claim is barred by res judicata. On September 10, 2009, the Court denied the State's motion to dismiss on the grounds that Bel Air's claim is barred by res judicata. Trial occurred over a six day period ending in January, 2011. A decision by the Court is pending.

The *State of New Hampshire v. Phillip Morris USA, RJ Reynolds, Inc. and Lorillard Tobacco Company* is a petition for a declaratory order. The defendants are signatories to the Tobacco Master Settlement Agreement under which the defendants are required to make annual payments to all of the states, including the State of New Hampshire. The annual payments received since 2006 have been approximately $5.0 million below the required amount. On June 5, 2006 the Superior Court ordered the case to arbitration under the terms of the Master Settlement Agreement. A notice of appeal was filed to the New Hampshire Supreme Court on August 11, 2006. Briefs were filed and oral argument occurred in March, 2007. The Supreme Court affirmed the ruling of the trial court on June 22, 2007. The arbitration process for all states began on July 1, 2010, and is expected to last at least six months. The tobacco companies are seeking recovery of up to the entire annual payment of approximately $50 million made to the State under the MSA.

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

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

Since then the Plaintiffs have sought to enforce the consent decree in various ways, claiming that the Department was not in compliance with the terms of the decree. In particular, the Plaintiffs allege that insufficient numbers of eligible children are receiving dental services. The motion does not specify any particular form of relief, but requests that the Court order the State do more to ensure that children receive dental services under Medicaid and to extend the Decree for an additional three years.

The Department continues to work with the Plaintiffs to resolve the issues identified in the most recent motion for contempt. Because the Decree expired in January 2009, the plaintiffs requested that the State assent to an extension. The parties entered into a Consent Decree Extension to extend the Decree for an additional six months. The Court will also retain jurisdiction for six months following the expiration of the Consent Decree to address any motion for contempt filed by the Plaintiffs regarding whether DHHS was in compliance with the Consent Decree during the years prior to its expiration, and if not, what remedy or remedies are appropriate. The Plaintiffs requested a meeting to discuss the perceived areas of non-compliance, and mediation with a neutral party was held on December 3, 2009. The Department was unable to reach any further agreement with the Plaintiffs, and on January 21, 2010, they filed a renewed motion for show cause to which the Department objected. In May 2010, the Court denied the Plaintiff's motion and closed the Consent Decree. The Plaintiffs have appealed to the First Circuit. Both sides have filed their briefs and are awaiting the scheduling of oral argument.

Timothy Hallam and Joseph Laramie v. Shawn Stone and Todd Connor, Merrimack County Superior Court, is a wrongful termination action that was filed by two corrections officers against the Department of Corrections, the former warden of the state prison, and two corrections officers. Summary judgment was granted in favor of the Department and former warden, and the case proceeded to trial against two corrections officers. The plaintiffs asserted claims of intentional interference with employment relations and false light invasion of privacy, alleging that the defendants lied about them, causing them to be dismissed from employment with the Department. The jury found for the plaintiffs, awarding Timothy Hallam $1.3 million and Joseph Laramie $650,000 in damages. The defendants filed post-trial motions, including a motion for a new trial, motion for remititur, and motion to apply the statutory cap of $475,000 per claimant. The court denied these motions in October, 2008. The State has appealed the verdict to the Supreme Court. In June, 2010, the Supreme Court issued a ruling overturning in part and remanding in part. The Supreme Court held that the $475,000 per claimant cap applied to this type of jury award and ordered a new trial on several issues. As a result of the Supreme Court's decision, damages will be capped at a maximum of $950,000. On November 23, 2010, the trial court entered an Order for interest to the first plaintiff of approximately $100,000 and no appeal was taken of that Order. The second plaintiff has accepted $350,000 for settlement of his claims. The parties are in the process of finalizing that settlement.

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

On or about May 19, 2009, the same plaintiffs re-filed their action in the New Hampshire Superior Court, again seeking mandamus and declaratory relief. The plaintiffs also requested a preliminary injunction temporarily enjoining the lapse of the disputed funds. On June 30, 2009, the Superior Court issued a preliminary order enjoining the lapse of the Chapter 129 funds pending the outcome of the litigation. The Court found that the plaintiffs had shown a likelihood of success on the merits of the their claim to the Chapter 129 funds but not as to the remainder of their lawsuit, including their challenge to the authority of the Governor, with the approval of Fiscal Committee, to implement budget reductions. On July 9, 2009, the State moved to clarify the Court's preliminary injunction order to indicate that only $2.217 million of the total $8.8 million appropriation constituted State general funds subject to the non-lapse order. The Court ruled in response to the motion to clarify that the State is required to carry the Chapter 129 funds, which it identified as $8.8 million, on its books as non-lapsing. In October 2009, the plaintiffs filed a motion for partial summary judgment on their claim to the Chapter 129 funds. The State objected, and filed a cross motion for partial summary judgment on the same claim. The plaintiffs have also moved to amend their petition to add a contract claim and to seek class certification. The court granted the motion to amend. In June 2010, the Superior Court granted the State's motion for partial summary judgment and denied the plaintiffs' motion for partial summary judgment, upholding the constitutionality of RSA 9:16-b and the governor's authority to reduce appropriations in times of serious deficit. The plaintiffs appealed this ruling to the New Hampshire Supreme Court and have taken a non-suit on the remaining claims.

Before the Supreme Court accepted the appeal, the State filed a motion for clarification in the Superior Court seeking clarification on what effect the summary judgment order had on the preliminary injunction. On July 22, 2010, the Superior Court issued an order stating that the summary judgment order terminated the preliminary injunction. Because the plaintiffs had filed a notice of appeal in the Supreme Court, the Superior Court gave them 10 days to seek relief in that Court before its order would go into effect. The plaintiffs filed two emergency motions for expedited relief seeking to stay the Superior Court's July 22, 2010 order. On July 30, 2010, the Supreme Court issued temporary relief, continuing the preliminary injunction with respect to the $8.8 million surplus funds pending further order of that Court. The Supreme Court ordered the State to respond to the expedited motions by August 9, 2010. The State will object to the continuation of the preliminary injunction. In January 21, 2011, the Supreme Court ordered that the State was authorized in lapsing the funds. Plaintiffs have filed a motion to reconsider which is now pending.

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

By letter dated July 9, 2007, the Department of Health and Human Services ("DHHS") received a final report from the Office of Inspector General ("OIG") regarding an audit of DHHS' disproportionate share hospital ("DSH") payments during federal fiscal year 2004. See "Medicaid Program." The report found that the $35,325,468 federal share for federal fiscal year 2004 was unallowable on the grounds that the State's cost to charge ratio was inflated. The report recommended that the federal share be refunded and that the State work with the Centers for Medicare and Medicaid Services ("CMS") to review DSH payments claimed after the audit period and refund any overpayments. DHHS responded to CMS regarding the report on August 8, 2007. Based on DHHS's response to a previously transmitted draft report, the OIG reduced the amount it recommended for repayment in the July 9, 2007 final report by approximately $9 million. The draft report had recommended repayment of $44,418,237.00. In

October 2009, DHHS received a Notice of Disallowance from CMS indicating that it concurred with the OIG findings. The notice indicated that CMS is disallowing $35,325,468 in federal funds for FFY 2004. The letter also confirms that the State may appeal the disallowance to the Federal Departmental Appeals Board (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 have filed briefs with the DAB. DHHS has elected to retain the funds pending the appeal. A decision in the appeal has been 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 are required to report to the DAB as to the status of any settlement discussions before the DAB will consider issuing an additional stay.

The Community College System of New Hampshire ("CCSNH") negotiated with the United States Department of Education ("USDOE") regarding its use of financial aid program funds. The USDOE requested that the CCSNH perform a self-assessment of the 2004-2005 single audit of federal financial assistance programs. The CCSNH self-assessment revealed $191,341 in questioned costs and approximately $1.5 million in incorrect federal financial aid awards. CCSNH reached an agreement with the USDOE in September 2010 regarding its use of federal financial aid program funds for the 2004-2005 year. The September 2010 Final Decision directed the CCSNH to pay the sum of $759,662 to the USDOE. In November 2010, the CCSNH negotiated a repayment agreement, including 1% interest, with five annual installments of $123,623.88, commencing on April 1, 2011, and ending April 1, 2015. Additionally, CCSNH remitted a down payment of $115,562 in December 2010. The CCSNH will also remit $31,785 to Federal Family Education Loan Program (FFELP) lenders and $12,316 to the Federal Perkins Revolving Loan Fund by June 30, 2011.

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

Petitioners in these cases are JUA policyholders who claim that they have rights to dividends from any surplus held in the JUA fund. Petitioners brought a petition for declaratory judgment finding Chapter 144:1 unconstitutional; a petition for mandamus and restraining order to prevent the transfer of the JUA funds to the General Fund and a request that a dividend be ordered to the policyholders; and a petition to attach with notice the JUA fund. On July 29, 2009, the Superior Court found the transfer of $110 million from the JUA to the General Fund under HB 2 unconstitutional. The Court found that the JUA is not a State entity and that the JUA policyholders have a vested property right in the funds held by the JUA. On August 4, 2009, the State filed a notice of appeal with the New Hampshire Supreme Court and a motion for expedited appeal requesting that the briefing schedule be abbreviated. The Supreme Court granted, in part, the motion for expedited appeal, and issued a somewhat expedited briefing schedule with oral arguments held on October 15, 2009. The Supreme Court issued a decision on January 28, 2010 in favor of the petitioners. The Court, by a 3-2 margin, concluded that Chapter 144:1 constitutes a retrospective law that results in impairment of contract rights in violation of the New Hampshire Constitution, and affirmed the trial court's decision. The State filed a motion to reconsider, which was denied by the Supreme Court. The matter is now concluded.

In *Cloutier v. State and Judicial Retirement System,* Former Judge Cloutier is challenging RSA 100-C, Judicial Retirement Plan, enacted in 2003. The Judicial Retirement Plan created by RSA 100-C limits a judge's retirement to 75% of the salary earned in the judge's last year of service, instead of 75% of the current salary level that was in effect prior to July 1, 2003 when RSA 100-C took effect. The plaintiff is arguing that he was a permanent employee when the statutory change was made and therefore he has a vested right in the retirement benefits that existed prior to July 1, 2003. The parties have agreed to submit the case on pleadings with an agreed-to statement of facts. Six more retired judges have intervened as plaintiffs in the case. The parties filed cross motions for summary judgment. On September 14, 2010, the trial court granted summary judgment for the 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 and the Board of Trustees for the Judicial Retirement Plan filed their opening briefs on March 4, 2011. The plaintiffs' brief in opposition is due on April, 4, 2011, and the State's answering brief is due May 4, 2011.

In *SEA v. State and Judicial Retirement System*, the SEA, on behalf of its retired members, is challenging the section of Chapter 144 of the Laws of 2009 that requires retirees under the age of 65 years old to pay a portion of their health care benefits. On March 31, 2010, the Superior Court granted the State's motion for summary judgment. The SEA has filed an appeal and the parties have filed briefs with the Supreme Court. Oral argument was held and a decision is pending.

In *American Federation of Teachers - New Hampshire, et al v. State, Retirement System and Lisa Shapiro, Individually*, a group of 12 plaintiffs, seeking class certification for all of the other New Hampshire retirees, filed suit August 7, 2009 challenging the changes to the retirement system made pursuant to Chapter 300 of the Laws of 2008, that affect (1) earnable compensation; (2) COLA payments; and (3) medical subsidies. The plaintiffs have also sought class certification for all other New Hampshire retirees eligible for state retirement benefits. The State answered the complaint on November 4, 2009. On May 18, 2010, the plaintiffs filed a motion to amend their petition, which was granted on July 20, 2010 and the State filed an amended answer. The parties filed cross motions for summary judgment on December 5, 2010. In January 2011, the court issued an order indicating that it would defer ruling on the parties' summary judgment motions until the class certification process was complete. A status conference is scheduled for April.

Fidele Tremblay, Inc. and Francis Hammond v. NH Dept. of Transportation, is a subrogation case in which Plaintiffs bring a contribution claim after settling related negligence litigation with Kimberly Kyle and the Estate of Brendon Mahoney for a motor vehicle collision that occurred on February 15, 2007. In the subrogation claim, Plaintiffs assert that New Hampshire DOT employees responsible for the maintenance of I-93 in the Derry area were derelict in their duties and failed to apply abrasive products to treat ice and snow on the roadway. The State has certain immunities and defenses for the maintenance of state highways. In addition, any damages are capped by RSA 541-B:14 at $475,000 per claimant. In June 2010, after a five day jury trial, the State won on all counts. This matter was not appealed and is now concluded.

Woodland Management Associates, LLC and The Lyme Timber Co. v. State of New Hampshire is an appeal pursuant to RSA 21-J:28-b, IV. Petitioners allege that the Department of Revenue improperly assessed an additional $4,559,772.64 in business profits taxes, interest, and penalties against Woodland and Lyme for the tax year ending December 31, 2003, and improperly denied a request for refund filed by Woodland. The total amount in controversy for the tax year ending 2003 is approximately $5,323,187.42. The Superior Court granted Petitioners' motion for summary judgment finding the assessment of the additional tax to be improper. In June, 2010, the State appealed the Superior Court's decision to the New Hampshire Supreme Court. No briefing schedule has been issued. The parties are presently litigating the impact of alleged concessions that were made at the hearing below. Petitioners claim that such statements narrow the scope of the case before the court; the Department disagrees. Cross Motions in Limine have been filed on the issue. No decision has been rendered yet. It is not possible to predict the outcome of this matter at this time.

In *Kimberly J. Blain and Joe King's Shoe Shop, on behalf of themselves and all others similarly situated v. Catherine Provencher, Treasurer, State of New Hampshire*, filed in the Merrimack County Superior Court in February, 2010, plaintiffs seek to represent a class of people having property in New Hampshire that has been or will be escheated to the State. Plaintiffs allege that the State's method of giving notice under the abandoned property system violates their rights to due process under the State and Federal Constitutions and the takings and contracts clauses under the State and Federal Constitutions. Plaintiffs seek declaratory and injunctive relief, restitution and disgorgement in the form of an order requiring the State to refund property to Plaintiffs. Plaintiffs do not identify the value of the property in question in their complaint. The State filed a motion for summary judgment which was granted by the Court in October, 2010. Plaintiffs timely appealed this matter to the Supreme Court but are now preparing a motion to withdraw their appeal which will be filed by the end of March, 2011.

City of Concord, Belknap County and Mascenic Regional School District v. State and State Retirement System, which also seeks certification as a class action, challenges the constitutionality of the reduction of the State's share of funding for local employers' cost for municipal, school, and county employees in fiscal years 2010 and 2011. The total reduction of the State's share over the biennium is estimated to be $27 million. Petitioners allege that this reduction in the State's share results in an unfunded mandate imposed on them. Petitioners have filed for summary judgment. The State filed its response on December 20, 2010. Trial is scheduled for April 2011.

Marino v. Commissioner of Banking, filed in Merrimack County Superior Court, is the first of many possible cases related to the failure of an investment company known as Financial Resources Mortgage, Inc., ("FRM"). FRM was operating a ponzi scheme related to real estate and construction loans. After investigation by the Attorney General, it was determined that three State agencies, the Banking Department, the Securities Bureau, and the Attorney General's Office, failed to appropriately handle complaints received over a 10 year period. The plaintiffs are claiming $265,000 in damages. The State has received an additional 35 notices of claim alerting the State that these individuals intend to file suit claiming that the State failed to appropriately regulate FRM. Some reports calculate the total losses to all investors at $80 million The State filed a motion to dismiss this matter which was granted by the Court on January 27, 2011, with the Court finding that the State is not a guarantor of individuals' investment decisions. It is unknown if Petitioners will appeal this matter.

Leighton et al v. State of New Hampshire challenges the constitutionality of RSA 77:39, the State's 10% tax on gambling winnings. Plaintiffs have brought this as a class action, but the State has 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 plaintiff's (Willey's) claims remain.

Walker Digital, LLC v. Multi-State Lottery Assoc., which is filed in the United States District Court of Delaware, alleges patent infringement against the Multi-State Lottery Association ("MUSL"). The action is against MUSL and not directly against New Hampshire, although the New Hampshire Lottery Commission is a member of MUSL. MUSL management believes that the action is without merit. A motion to dismiss is currently pending. It is not possible to predict the outcome of this matter at this time.

K. Frisselle v. DCYF. et al was initially filed against the Division of Children, Youth and Families ("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 has since retained counsel who has indicated that an amended complaint will be filed by the end of March 2011. It is unclear at this time what will be alleged in the amended pleading.

FINANCIAL STATEMENTS

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

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

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

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

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

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

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

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

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

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

Fiscal Year 2009. The State received an unqualified auditor's opinion on its 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#PAFR*.

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 its 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/reports.asp#PAFR*.

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.

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

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.

EXHIBIT A

STATE OF NEW HAMPSHIRE

AUDITED FINANCIAL STATEMENTS

FOR FISCAL YEAR 2010

(Included by Reference and Filed with the Municipal Securities Rulemaking Board)