STATE OF NEW HAMPSHIRE

ANNUAL REPORT

DATED MARCH 27, 2015

This Annual Report dated March 27, 2015 for the fiscal year ended June 30, 2014 (this "Annual Report") has been prepared by the State of New Hampshire (the "State") in connection with the State's continuing disclosure obligations under SEC Rule 15c2-12 with respect to its general obligation bonds. This Annual Report includes the attached Information Statement dated March 27, 2015 and incorporates by reference the State's Comprehensive Annual Financial Report for the fiscal year ended June 30, 2014 (the "2014 CAFR"). The 2014 CAFR was previously filed with the Municipal Securities Rulemaking Board's Electronic Municipal Market Access website (EMMA) on January 7, 2015.

This Annual Report does not constitute an offer to sell or the solicitation of an offer to buy any bonds of the State.

STATE OF NEW HAMPSHIRE

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 William F. Dwyer, 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

William F. Dwyer
State Treasurer

March 27, 2015

TABLE OF CONTENTS

STATE OF NEW HAMPSHIRE

Governor
Margaret Wood Hassan

Executive Council
Joseph D. Kenney
Christopher C. Pappas
Debora B. Pignatelli
Christopher T. Sununu
Colin Van Ostern

State Treasurer
William F. Dwyer

Secretary of State
William M. Gardner

Attorney General
Joseph A. Foster

Commissioner of Administrative Services
Linda M. Hodgdon

Comptroller
Gerard J. Murphy

Budget Director
Meredith J. Telus

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, higher education and the university system), Resources and Economic Development, Corrections, Environmental Services, Revenue Administration, Safety 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 chamber of the Legislature. If the Governor fails to act within five days (except Sundays) on a bill presented for approval, the bill automatically becomes law unless the Legislature is not then in session.

Judicial Branch

The judicial branch of the government consists of a Supreme Court, Superior Court with 11 sites, and a Circuit Court with three divisions (probate, district, and family) with 32 sites. Administrative support is provided by staff at the Administrative Office of the Courts and at the Trial Court Center. All justices and judges are appointed by the Governor and Council and may serve until seventy years of age.

STATE DEMOGRAPHIC AND ECONOMIC DATA

General

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

Population

New Hampshire experienced an increase in population between 2003 and 2013, mostly between 2003 and 2008. The State's population was 1,323,459 in 2013 according to the U.S. Census Bureau. Population has increased by 3.4% since 2003 and 0.6% since 2008. 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
2003	1,280	0.8%	14,182	0.4%	290,108	0.9%
2004	1,290	0.8	14,207	0.2	292,805	0.9
2005	1,298	0.6	14,217	0.1	295,517	0.9
2006	1,308	0.8	14,246	0.2	298,380	1.0
2007	1,313	0.3	14,279	0.2	301,231	1.0
2008	1,316	0.3	14,340	0.4	304,094	1.0
2009	1,316	0.0	14,404	0.4	306,772	0.9
2010	1,317	0.0	14,465	0.4	309,326	0.8
2011	1,318	0.1	14,518	0.4	311,583	0.7
2012	1,322	0.3	14,563	0.3	313,874	0.7
2013	1,323	0.1	14,619	0.4	316,129	0.7
Percent Change:						
2003-2013		3.4%		3.1%		9.0%
2008-2013		0.6%		1.9%		4.0%

Source: U.S. Census Bureau.

Personal Income

The State's per capita personal income increased 41.2% between 2003 and 2013 (as contrasted with an increase of 37.0% in the per capita personal income for the United States and a 40.0% increase for the New England region). The State's per capita personal income ranked 8th in 2013 with $51,013 or 114.0% of the national average. The State's total personal income for 2013 was $67.51 billion. The following table sets forth information on personal income for New Hampshire, New England and the United States since 2003.

Comparisons of New Hampshire Personal Income
to New England and United States, 2003-2013

		Per Capita Personal Income			Percent Change			
Year	New Hampshire Total Personal Income (In Millions)	New Hampshire	New England	United States	New Hampshire	New England	United States	New Hampshire Per Capita Personal Income Ranking(1)
2003	46,242	36,131	39,145	32,677	2.0%	2.3%	2.8%	6
2004	49,312	38,223	41,304	34,300	5.8	5.5	5.0	6
2005	51,010	39,284	42,974	35,888	2.8	4.0	4.6	7
2006	54,511	41,663	46,048	38,127	6.1	7.2	6.2	8
2007	56,944	43,384	48,362	39,804	4.1	5.0	4.4	8
2008	58,406	44,384	49,407	40,873	2.3	2.2	2.7	9
2009	57,664	43,814	48,213	39,379	(1.3)	(2.4)	(3.7)	8
2010	59,199	44,963	49,398	40,144	2.6	2.5	1.9	8
2011	62,825	47,664	51,860	42,332	6.0	5.0	5.5	9

2012	66,155	50,056	54,156	44,200	5.0	4.4	4.4	8
2013	67,513	51,013	54,797	44,765	1.9	1.2	1.3	8

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

Civilian Labor Force, Employment and Unemployment

Average annual employment growth rate in New Hampshire grew faster than those in the region but lower than the national growth rate from 2003 to 2013. 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
	2003	**2013**	**2003-2013**
New Hampshire………….	679	703	0.35%
Connecticut………………	1,697	1,715	0.11
Maine…………………….	650	662	0.17
Massachusetts……………	3,209	3,238	0.09
Rhode Island……………..	533	503	(0.57)
Vermont………………….	331	336	0.14
New England……………..	7,100	7,157	0.08
United States…………….	137,736	143,929	0.45

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

In the last ten years, New Hampshire's annual unemployment rate was lower than the rates for New England and the United States, and was often the lowest in the nation. As of August 2014, the non-seasonally adjusted unemployment rate in the State was 4.3%, a decline from 5.1% in August 2013 and significantly lower than 6.0% in the New England region and 6.3% nationally. The table below sets forth information on the civilian labor force, employment and unemployment statistics since 2003.

	Labor Force Trends (Not Seasonally Adjusted) New Hampshire Labor Force (In Thousands)			Unemployment Rate		
Year	**Civilian Labor Force**	**Employed**	**Unemployed**	**New Hampshire**	**New England**	**United States**
2003	711	679	32	4.5%	5.4%	6.0%
2004	716	688	28	3.9	4.9	5.5
2005	723	697	26	3.6	4.7	5.1
2006	735	709	26	3.5	4.5	4.6
2007	740	714	26	3.5	4.5	4.6
2008	743	714	29	3.9	5.4	5.8
2009	742	696	46	6.2	8.1	9.3
2010	739	694	46	6.2	8.5	9.6
2011	738	698	41	5.5	7.8	8.9
2012	743	702	41	5.5	7.2	8.1
2013	742	703	39	5.3	7.1	7.4
Month						
August 2013	750	712	38	5.1	7.0	7.3
August 2014	747	714	32	4.3	6.0	6.3

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

Composition of Employment

The service sector was the largest employment sector in New Hampshire in 2013, accounting for 45.1% of nonagricultural employment, as compared to 39.2% in 2003. 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 45.5% of employment in 2013, up from 41.1% in 2003.

The second largest employment sector in New Hampshire during 2013 was wholesale and retail trade, accounting for 19.0% of total employment as compared to 15.3% nationally. In 2003, wholesale and retail trade accounted for 19.8% of total employment in New Hampshire.

Manufacturing remains an important economic activity in New Hampshire although the percentage has dropped in recent years. Manufacturing accounted for 10.3% of nonagricultural employment in 2013, down from 13.0% in 2003. For the United States as a whole, manufacturing accounted for 8.8% of nonagricultural employment in 2013, versus 11.1% in 2003. 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**	
	2003	**2013**	**2003**	**2013**
Manufacturing	13.0%	10.3%	11.1%	8.8%
Durable Goods	9.7	7.8	6.9	5.5
Nondurable Goods	3.3	2.5	4.2	3.3
Nonmanufacturing	87.0	89.7	88.9	91.2
Construction & Mining	4.8	3.6	5.6	4.9
Wholesale and Retail Trade	19.8	19.0	15.7	15.3
Service Industries	39.2	45.1	41.1	45.5
Government	14.6	14.1	16.6	16.0
Finance, Insurance & Real Estate	6.0	5.5	6.2	5.8
Transportation & Public Utilities	2.6	2.4	3.7	3.7

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

Largest Employers

The following table lists the twenty largest private employers in the State and their approximate number of employees as of January 2014, the most recent date for which such information is available.

Largest Employers
(Excluding Federal, State and Local Governments)

	Company	Employees	Primary New Hampshire Site	Principal Product
1.	DeMoulas & Market Basket	9,000	Nashua	Supermarkets
2.	Wal-Mart Stores, Inc.	7,896	Bedford	Retail Department Stores
3.	Dartmouth-Hitchcock	6,404	Lebanon	Acute Care Hospital
4.	Fidelity Investments	5,400	Merrimack	Financial Services
5.	Hannaford Brothers	4,900	Manchester	Supermarkets
6.	Liberty Mutual- Northern N.E. Division	4,700	Bedford	Financial Services
7.	BAE Systems Electronic Systems	4,500	Nashua	Communications
8.	Elliot Hospital	4,000	Manchester	Acute Care Hospital
9.	Concord Hospital	3,346	Concord	Acute Care Hospital
10.	Dartmouth College	3,328	Hanover	Private College
11.	Genesis HealthCare	3,000	Concord	Long-Term Healthcare Providers
12.	Shaw's Supermarkets Inc.	2,900	Stratham	Supermarkets
13.	Home Depot	2,571	Manchester	Hardware Store
14.	Wentworth-Douglass Hospital	2,350	Dover	Acute Care Hospital
15.	Southern New Hampshire Medical Center	2,269	Nashua	Healthcare Providers
16.	Catholic Medical Center	2,100	Manchester	Healthcare Providers
17.	Lowe's	1,751	Bedford	Hardware Store
18.	New Hampshire Motor Speedway	1,500	Loudon	Motorsports Facility
19.	Target Stores	1,464	Nashua	Retail Department Stores
20.	Public Service Company of New Hampshire	1,417	Manchester	Electric Utility

____
Source: *New Hampshire Business Review,* Book of Lists 2014.

State and Local Taxation

The State finances its operations through a combination of specialized taxes, user charges and revenues received from the State liquor sales and distribution system. The most important taxes are the business profits and business enterprise taxes and a meals and rooms tax. The State does not levy any personal earned income tax or general sales tax but does impose a tax on interest and dividends. The State believes its tax structure has played an important role in the State's economic growth.

New Hampshire has generally been the highest among all states in local property tax collections per $1,000 of personal income, because local property taxes were traditionally the principal source of funding for primary and secondary education.

Housing

According to the 2013 American Community Survey 1-year estimates, housing units in the State numbered 616,496, of which 84.2% were occupied. The tenure of occupied housing units in the State was 70.2% owner occupied and 29.8% renter occupied. According to the New Hampshire Housing Finance Authority's latest housing data release, the median purchase price of all primary homes sold in 2013 was $220,000, an increase of 7.3% from 2012. The median price for primary non-condominium homes sold in 2013 was $227,500, an increase of 7.1% from 2012.

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
2003	$229,400	14.2%	$854	5.4%
2004	252,660	10.1	896	4.9
2005	270,000	6.9	901	0.6
2006	265,000	(1.9)	928	3.0
2007	269,900	1.8	946	1.9
2008	250,000	(7.4)	969	2.4
2009	217,000	(13.2)	969	0.0
2010	223,500	3.0	980	1.1
2011	214,400	(4.1)	984	0.4
2012	212,500	(0.9)	1,005	2.1
2013	227,500	7.1	1,018	1.3
2014	233,000[2]	2.4	1,037	1.9

Source: New Hampshire Housing Finance Authority.
(1) Includes utilities.
(2) January-through July.

The New Hampshire Housing Finance Authority issued an updated report in November 2014 with respect to foreclosure activity in the State that included the following:

"The 151 foreclosure deeds recorded in September of this year reflect a decrease of 26% from September of 2013, although an increase of 6% from the prior month. The cumulative total for January through September of 2014 is now 24% below the total for the same period in 2013, and lower than any year since 2007. At the current pace, total foreclosure deeds for 2014 are projected to be about 2,100. These improvements are in part due to slow but steady improvements in the housing market and the overall economy. They may also be attributable in part to the easing of lender attitudes toward short sales, allowing underwater borrowers to exit ownership prior to foreclosure."

Building Activity

The pattern of building activity in New Hampshire in recent years, as evidenced by the issuance of residential building permits, has generally paralleled that of the New England region, with the exception of 2012. There was growth in the 1992 to 2002 period in New Hampshire, New England, and the nation. The number of permits and dollar value peaked in 2004 and declined in each subsequent year through 2009, increased in 2010 and declined again in 2011 in the State and the region but continued to grow for the nation as a whole. In 2012, while the number of permits and dollar value had increased significantly throughout the New England region and the nation, the State saw slight declines in both measures with building permits dropped to 2,296 and housing value totaled $426 million. This represents a decrease of 2.1% in the number of permits, and a decrease of 1.5% in dollar value, from 2011. Nonetheless the number of permits and dollar value in 2013 improved significantly, along with the rest of New England region and the nation. Total permits increased to 2,788 and housing value totaled $566 million in the State during 2013. 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)

	2008	2009	2010	2011	2012	2013
New Hampshire						
Single Family	2,333	1,662	1,890	1,606	1,682	2,136
Multi-Family	901	625	780	740	614	652
Total	3,234	2,287	2,670	2,346	2,296	2,788
Value	$593	$421	$462	$432	$426	$566
New England						
Single Family	15,870	13,595	14,880	12,322	14,186	16,670
Multi-Family	8,584	5,868	6,084	5,665	8,923	11,965
Total	24,454	19,463	20,964	17,987	23,109	28,635
Value	$4,705	$3,560	$4,048	$3,659	$4,675	$6,567
United States						
Single Family	575,554	441,148	447,311	418,498	518,695	620,802
Multi-Family	329,805	141,815	157,299	205,563	310,963	370,020
Total	905,359	582,963	604,610	624,061	829,658	990,822
Value	$141,623	$95,410	$101,943	$105,269	$140,425	$177,656

Source: U.S. Census Bureau.

Transportation

New Hampshire has more than 4,500 miles of State and federal highways. In 1986, the State Legislature enacted a highway plan to serve as a guideline for highway development in the State. A major component of the 1986 highway plan legislation as amended to date provides for continued development of the State's Turnpike System. The State issued in December, 2009 and August, 2012, $150 million and $110 million, respectively, of its Turnpike System revenue bonds to finance additional capital improvements to the Turnpike System. The State has also issued $178.25 million of Federal Highway Grant Anticipation Bonds since November 2010 to finance a portion of the costs of improvements to Interstate 93 from the Massachusetts border to Manchester. Effective July 1, 2014, Chapter 17 of the Laws of 2014 authorized the use of a 4.2 cent increase in motor vehicle fuel fees (referred to as a 'road toll' in New Hampshire laws) to fund $200 million in general obligation bonds to complete the I-93 Salem to Manchester widening project. This increase under Chapter 17 of the Laws of 2014 will expire once all debt service payments for the I-93 project have been made.

There are twenty-five airports open to the public in the State, of which three have scheduled air service (Manchester, Portsmouth, and Lebanon), and twenty-two serve general aviation. Manchester-Boston Regional Airport, the State's largest commercial passenger and air cargo airport, has grown from 427,657 enplanements in fiscal year 1994 to 1,135,757 enplanements in fiscal year 2014. Due to a continued soft global economy, jet fuel price uncertainty and a dramatically changing aviation industry, the airport experienced a 7% decrease in enplanements in fiscal year 2014 as compared with fiscal year 2013. Manchester-Boston Regional Airport is the third largest cargo airport in New England. Air cargo activity remained strong in fiscal year 2014, with the airport processing approximately 167 million pounds of air cargo.

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

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

The New Hampshire Rail Transit Authority (NHRTA) was created pursuant to Chapter 360 of the Laws of 2007 for the purpose of establishing regular commuter rail or other passenger rail service between points within and adjacent to the State. Early in 2013, the New Hampshire Department of Transportation, working in concert with its counterparts in Massachusetts, started the New Hampshire Capitol Corridor Rail and Transit Study, a 21-month project supported by both the Federal Railroad Administration and Federal Transit Administration. An advisory committee made up of many stakeholders from both New Hampshire and Massachusetts has been established to provide guidance as the study moves forward. The NHRTA has two seats on the advisory committee. The study was completed in December, 2014 and is available at *www.nh.gov/dot/org/aerorailtransit/railandtransit/corridor-rail-transit.htm*. One component of the study is to review the governance model in the event a project is implemented to better define what the role of the NHRTA will be.

Education

New Hampshire provides a mix of public and private educational opportunities. The education function of the State is carried out through the State Board of Education, the Department of Education and the University System of New Hampshire. The State Board and the Department of Education provide curriculum guidance and administrative support to 176 public school districts ranging in grades from kindergarten through grade twelve. In addition to public education, there are numerous private preparatory schools in the State, including Phillips Exeter Academy in Exeter and St. Paul's School in Concord.

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

As the following table indicates, as of 2013, the educational level of New Hampshire residents over the age of 25 was higher than that of the nation as a whole.

	2000 [1]		2013 [2]	
Level of Education	**New Hampshire**	**United States**	**New Hampshire**	**United States**
9-11 years	N/A	84.5%	97.1%	94.2%
12 years	88.1%	78.5	92.7	86.6
1-3 years post-secondary	N/A	47.5	63.	58.8
4 or more years post-secondary	30.1	21.9	34.5	29.6

[1] Source: U.S. Census of Population, Census Bureau..
[2] Source: 2013 U.S. Census Bureau, 2013 American Community Survey 1-Year Estimates

STATE FINANCES

General

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

The Department of Administrative Services prepares the State's CAFR in accordance with U.S. generally accepted accounting principles ("GAAP"). The State has contracted with KPMG LLP to provide audit services since fiscal year 1997 and has a current audit contract through completion of the fiscal year 2016 audit. The audited financial statements for fiscal year 2014, together with the unqualified report thereon of KPMG LLP, are incorporated herein by reference, copies of which have been provided to the Municipal Securities Rulemaking Board, though its Electronic Municipal Market Access ("EMMA") system, as directed by SEC Rule 15c2-12. See "FINANCIAL STATEMENTS." The audited financial statements for fiscal year 2014 are also available as part of the State's fiscal year 2014 CAFR (pages 16 through 80 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, 2014 are preliminary, unaudited and subject to change, whether or not expressly labeled as such.

For information relating to management letters and federal single audit results delivered to the State for fiscal years 2010 through 2014, see "FINANCIAL STATEMENTS."

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

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

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

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

Fund Types

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

Governmental Funds

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

Highway Fund. Under the State Constitution, all revenues in excess of the necessary cost of collection and administration accruing to the State from motor vehicle registration fees, operator's licenses, motor vehicle fuel fees 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. Adequate education grants to school districts are appropriated from this fund, as is kindergarten and charter school aid and low and moderate income homeowner 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. By statute, effective September 22, 2013, the Commission is under the direction of a liquor commissioner, known as the chairman of the liquor commission, appointed by the Governor with the consent of the Council. The liquor commissioner nominates a deputy commissioner for appointment by the Governor with the consent of the Council. The Commission is directed by statute to set liquor prices at levels sufficient to pay all costs of liquor purchased and operating expenses of the Commission and the State stores and to impose additional charges for overhead and a profit for the State.

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

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

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

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

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

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

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

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

As a further sign of a strengthening Unemployment Compensation Trust Fund, effective with wages paid October 1, 2014 for which taxes will be due the following quarter, all employers will receive a 0.5% reduction in their unemployment compensation tax rate pursuant to RSA 282-A:82 and 82-a.

Internal Service Fund. The Employee Benefit Risk Management Fund was created to account for the State's self-insurance program and to pool all resources to pay for the cost associated with providing employee benefits for active state employees and retirees. See also "HEALTH CARE COVERAGE FOR RETIRED EMPLOYEES."

Fiduciary Funds

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

Investment Policy

The State Treasury 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 and statutorily-compliant investment policies and procedures. The State Treasury has in place investment policies and procedures for the safekeeping and prudent management of various State assets. Certain trust and custodial funds are subject to very specific investment guidelines in order to meet objectives 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 ensure best practices are followed and to incorporate strategies to reduce risk that may arise or become magnified 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.

Chapter 229, Laws of 2011 required all departments to also submit a budget that in the first year is 10% less than the first year of the preceding biennium and in the second year is 10% less than the second year of the preceding biennium (exclusive of debt service) by November 15 prior to the start of the biennial legislative session. This requirement was to take effect beginning with the 2014-2015 biennial budget. Prior to the November 15 deadline, Chapter 168, Laws of 2014 repealed the requirement.

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. Using the Governor's budgets as a starting point, the House prepares and approves its own budgets, which are then submitted to the Senate. The Senate prepares and approves its budgets based on the House proposals. A legislative Conference Committee comprised of members from both chambers forges the final budget drafts to be approved by both chambers. 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.

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.

Financial Controls

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

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

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

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

ERP System. The Legislature appropriated nearly $22 million dollars in the 2002-2003 capital budget and passed subsequent laws to enable the acquisition and implementation of an enterprise resource planning (ERP) system. The ERP is designed to serve as a single system of fully integrated modules that facilitate the financial and human resources business functions of all State agencies including accounts payable, accounts receivable, assets and inventory, budgeting, financial accounting, grants and projects, human resources, payroll, benefits administration, purchasing, revenues and receipts, and treasury functions.

The first phase of this project was completed in July, 2008 with the implementation of a new accounting structure that improved clarity of expenditures. In August, 2008, the budgeting component of the ERP was implemented and used for fiscal years 2010-2011 budget planning.

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

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

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

The ERP implementation enabled the retirement of the legacy human resources and payroll system which was unsupported by the software publisher and for which the State was only licensed to use through May of 2014. The implementation was significant and challenging because it impacted over 15,000 State employees. The realization of the full benefits associated with the additional functionality provided in Phase II is currently limited by the aging desktop computer technology for approximately 3,000 employees spread across State government which prevents those employees from accessing all functions of the ERP from their local computer. The 2014-2015 capital budget includes an appropriation to modernize desktop computers to address this issue and, as of June 30, 2014, 69% of the 3,000 desktops have been upgraded. In the interim, computer kiosks have been made available in locations where employees do not have ready access to computers. Additionally, the ability of central and agency staff to implement additional functionality is limited by the staff reductions at various State agencies imposed by the 2012-2013 budget and continued by the 2014-2015 biennial budget.

The human resources and payroll implementation was the first step in a State-wide effort to centralize a very decentralized system. The State experienced significant post-implementation challenges and the initial steps taken to centralize the human resources and payroll processes on a State-wide basis have identified weaknesses in the State's internal control and compliance structure. The State continues to work to address the weaknesses in the internal control structure as well as resolve the identified areas of non-compliance.

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

DRA System Upgrade. In fiscal year 2012, the Department of Revenue Administration ("DRA") implemented a new document imaging/electronic remittance system. During fiscal years 2012 and 2013, the DRA experienced delays in validating Business Tax and Interest & Dividends Tax documents that were scanned using the new system. In fiscal year 2014 the DRA validated 85,000 more documents than it scanned to complete validation of the backlog of documents carried forward from fiscal year 2013. There was no material backlog carried forward from fiscal year 2014 to fiscal year 2015 and, as of July 15, 2014, the DRA is current on all document validations. Under the new system, all payments are processed and deposited in "real time" as received.

Revenue Stabilization Reserve Account

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

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

Chapter 143 of the Laws of 2009, the operating budget for fiscal years 2010-2011, assumed $69 million would be drawn from the Revenue Stabilization Reserve Account at June 30, 2009 leaving a balance of $20 million at June 30, 2009. The actual draw on the Revenue Stabilization Reserve Account at June 30, 2009 was

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

State Revenues

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

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

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

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

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

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

Beginning in fiscal year 1995 a portion of the revenue derived from the meals and rooms tax is distributed to the cities, towns and certain unincorporated subdivisions of the State, eventually increasing to 40% of such revenue annually. For fiscal years 1997 and thereafter, the amount to be distributed is the sum of the prior year's distribution plus an amount equal to 75% of any increase in the income received from the tax for the preceding fiscal year, not to exceed $5 million. However, since 2009 various chapter laws have capped the distribution to cities and towns at no more than the 2009 level as shown on the table below with the percentage of previous year's tax collections for fiscal years 2009 through 2014. Chapter 144, Laws of 2013, capped the fiscal year 2014 distribution at the 2009 level; however, absent any further legislative action, the distribution will revert to the original statutory distribution in fiscal year 2015.

Fiscal Year	Amount Distributed	% of Previous Year's Total Meals and Rooms Tax Collection
2009	$58,805,057	28.5%
2010	58,805,057	28.9
2011	58,805,057	25.3
2012	58,805,057	24.5
2013	58,805,057	25.3
2014	58,805,057	22.4

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

Business Enterprise Tax (BET). Effective July 1, 1993, the State established a business enterprise tax. The rate is currently .75% for tax years ending on or after July 1, 2001 and previously had been .50% for tax years ending on or after July 1, 1999 and .25% prior to that time. The increases (.50%) have been dedicated to the Education Trust Fund. The tax is assessed on wages paid to employees, interest paid on debt and dividends paid to shareholders. Businesses with less than $150,000 in gross receipts and an enterprise value base of less than $75,000 are exempt from the business enterprise tax. Every business enterprise is required to make quarterly estimated tax payments due on the fifteenth day of the fourth, sixth, ninth and twelfth months of its taxable year. The business enterprise tax may be used as a credit against the business profits tax under RSA 77-A:5. Any unused portion of the credit may be carried forward and allowed against the business profits tax for five (5) taxable periods from the taxable period in which the business profits tax was paid.

Several pieces of legislation adopted between 2011 and 2014 are projected to significantly reduce business tax revenue starting in fiscal year 2014. When the legislation was adopted, the DRA provided estimated "worst case" impacts for each change. In performing its work for the 2014-2015 operating budget, the Consensus Revenue Estimating Panel ("CREP"), created by Executive Order, reconsidered each of the legislative changes. The DRA worked with the CREP to refine the estimated impacts from worst case to what is believed to be more realistic impacts in developing budgeted revenue for the 2014-2015 biennium. More recently, in anticipation of revenue estimating for the 2016-2017 operating budget, the DRA began analyzing the actual impact of the tax law changes on fiscal year 2015 revenues in order to attribute what changes may be driving trends in revenues.

- Chapter 224:363 Laws of 2011 and Chapter 71, Laws of 2012 increased the amount of Net Operating Loss (NOL) that can be generated in a tax year from $1 million to $10 million, effective January 1, 2013. The initial 2011 DRA estimates were based on data from tax year 2009. The DRA has analyzed tax year 2013 data and estimated a potential maximum reduction in BPT revenue for fiscal year 2015 to be $36 million based on an unlikely worst case scenario because it is largely affected by a business' future profits, a business' decision to use an NOL deduction and by a business' future apportionment factor. Because of the unknown future profits, unknown NOL usage and unknown future apportionment, the DRA agrees with the effective reductions recommended by the CREP and ultimately passed with the 2014-2015 biennial budget of $2 million and $4 million in fiscal years 2014 and 2015, respectively.

- Chapter 225, Laws of 2011 and Chapter 192, Laws of 2014 increased the BET credit against BPT carry forward period from 5 to 10 taxable periods, effective July 1, 2014 and applicable for taxable periods ending on or after December 31, 2014. Chapter 192, Laws of 2014 clarified the applicability of the increased carry forward and ensured there would be no fiscal impact until tax year 2020.

- Chapter 287, Laws of 2012 established the Education Tax Credit (ETC) against BPT and BET, effective June 27, 2012 with the first program year beginning January 1, 2013. The total amount of ETCs available in 2013 was $3.4 million. However, the total amount of ETCs awarded by the scholarship organization in 2013 was $117,590, of which $112,570 have been used in tax year 2013. The total amount of ETCs available in 2014 was $5.1 million. However, the total amount of ETCs awarded by the scholarship organization in 2014 was $49,725. The DRA does not yet have data as to the amount of ETCs used in tax year 2014 as tax filings are just beginning; but the maximum possible revenue reduction would be $49,725. The total amount of ETCs available for 2015 is $5.1 million. However, as of March 25, 2015, the total amount of ETCs awarded in 2015 is $31,777.

- Chapter 279, Laws of 2012 increased the BET filing thresholds effective for taxable periods ending on or after December 31, 2013 and was originally estimated to result in $3 million annual revenue reduction in fiscal years 2014 and 2015. In analyzing more recent data, the DRA estimates a reduction in BET revenue for fiscal year 2015 in the range of $1.7 million to $3.2 million.

- Chapter 116, Laws of 2012 changed the prospective repeal date for the Research and Development Tax Credit from July 1, 2013 to July 1, 2015 and was estimated to result in $1 million annual revenue reduction in fiscal years 2014 and 2015. Chapter 5, Laws of 2013 increased the Research and Development Tax Credit by $1 million per year to $2 million per year, and made the credit permanent. There is no fiscal impact in fiscal year 2015 because the $2 million reduction in revenue was anticipated in the development of the fiscal year 2015 revenue estimates.

- Chapter 279:1, Laws of 2012 increased the Internal Revenue Code §179 expense deduction from $20,000 to $25,000, effective June 21, 2012 and applicable for equipment placed in service on or after January 1, 2012. In analyzing tax year 2013 data, the DRA estimates a minimum reduction of BPT revenue for fiscal year 2015 of $1.1 million. The DRA's estimate is a minimum because not all tax year 2013 returns have been received.

- Chapter 144:124, Laws of 2013 excluded gratuitous tips from the definition of compensation under BET, effective May 20, 2013 and applicable to taxable periods beginning on or after January 1, 2013. The DRA, however, has no data or information specific to tip reporting and, therefore, was unable to determine the reduction in revenue.

- Chapter 207, Laws of 2011 and Chapter 71, Laws of 2013 shifted the burden of proof with respect to the BPT compensation deduction, effective June 25, 2011 and applicable to taxable periods beginning on or after January 1, 2011, and increased the recordkeeping safe harbor from $50,000 to $75,000, effective July 1, 2013. The DRA is unable to determine the reduction in revenue with respect to the burden of proof shift. The fiscal impact of the increased recordkeeping safe harbor is nominal.

Board and Care Revenue. These revenues are payments primarily from health insurers and the federal government to reimburse the State for costs of health and mental care services and board provided at State institutions, including the New Hampshire Hospital. The budget for the 2014-2015 biennium redirected this revenue from unrestricted to restricted revenue within the Department of Health and Human Services.

Liquor Sales and Distribution. By statute, effective September 22, 2013, the Commission is under the direction of a liquor commissioner, known as the chairman of the liquor commission, appointed by the Governor with the consent of the Council. The liquor commissioner nominates a deputy commissioner for appointment by the Governor with the consent of the Council. The Commission makes all liquor purchases directly from the manufacturers and importers and operates State liquor stores in cities and towns that accept the provisions of the local option law. The Commission is authorized to lease and equip stores, warehouses and other merchandising facilities for liquor sales, to supervise the construction of State-owned liquor stores at various locations in the State, and to sell liquor at retail and to licensed restaurants, hotels and other organizations. Revenues from the State Liquor Commission are credited to the Enterprise Fund for accounting purposes and the cash flow from operations is unrestricted and deposited into the State's pooled bank accounts.

Chapter 328 of the Laws of 2000 requires fifty percent of any current year's gross profits from liquor sales that exceed fiscal year 2001 actual gross profits be deposited into the alcohol abuse prevention and treatment fund established by RSA 176-A:1, however various chapter laws have suspended this provision since 2003. Chapter 296 of the Laws of 2008 reduced the discounts offered to certain wine licensees. Chapter 144:254 of the Laws of 2009, which proposed a repeal of the reductions as stated in Chapter 296 was itself repealed, thereby maintaining the discount reductions offered in Chapter 296:31 and 32 of the Laws of 2008. Discounts for holders of off-premises retail licenses with annual purchases of less than $350,000 continue to receive the discount of 15% less than the regular retail price at New Hampshire Liquor and Wine Outlets and 20% less than the regular F.O.B. price at the warehouse. Holders of off-premises retail licenses with annual purchases exceeding $350,000 shall receive a discount of 15% less than the regular F.O.B. price at the warehouse.

Tobacco Tax. Effective July 6, 1999, the cigarette tax rate increased by 15 cents to a rate of 52 cents per package of 20 cigarettes. The increase was dedicated for the Education Trust Fund. Effective July 1, 2005, the tax was increased to 80 cents per pack, and effective July 1, 2007 the tax was increased to $1.08 per pack. Smokeless and loose tobacco is generally taxed at a rate proportionate to the cigarette tax, but was not subject to the tax increase effective July 1, 2007. Effective July 1, 2008, the definition of a cigarette was changed to include any roll of tobacco wrapped in any substance containing tobacco, weighing not more than 3 lbs. per thousand, which would include the taxation of some little cigars. Effective October 15, 2008, the rate increased to $1.33 per package of 20 cigarettes. Effective July 1, 2009, the tax rate increased by 45 cents to $1.78 per package of 20 cigarettes. Chapter 144:257 of the Laws of 2009 provides that the revenue produced in excess of $1.00 per pack shall be deposited in the Education Trust Fund. Pursuant to Chapter 224:377-381 of the Laws of 2011, effective July 1, 2011, the tobacco tax rate for each pack containing 20 cigarettes was decreased from $1.78 to $1.68 per pack, the rate for each pack containing 25 cigarettes was decreased from $2.23 to $2.10 per pack, and the rate for all other tobacco products, except premium cigars, was decreased from 65.03% to 48.0% of the wholesale price.

The 2011 law decreasing the tax had a contingency provision requiring the DRA to report, on or before July 15, 2013, the amount of tobacco tax revenue received for the period of July 1, 2011 through June 30, 2013. If the DRA reported that the amount of tobacco tax revenue received for the period was below the amounts received for the period of July 1, 2009 through June 30, 2011, then, effective August 1, 2013, the tax rate for each pack containing 20 cigarettes would revert to $1.78 per pack, the tax rate for each pack containing 25 cigarettes would revert to $2.23 per pack, and the tax rate for all other tobacco products, excluding premium cigars, would revert to 65.03% of the wholesale sales price. The DRA did report that tobacco tax revenues for the period July 1, 2011 through June 30, 2013 were below revenues for the period July 1, 2009 through June 30, 2011. Accordingly, as of August 1, 2013 tobacco tax rates reverted to rates in effect on June 30, 2011. An estimated increase of $10 million in tobacco tax revenue in fiscal year 2014 was expected to result from the reversion to $1.78 per package of 20 cigarettes. In fact, tobacco tax revenues increased $14.2 million from fiscal year 2013 to fiscal year 2014.

Medicaid Enhancement Tax (MET) Revenues. Effective July 1, 1993, the State lowered the MET rate from 8% to 6%, and effective July 1, 2007, the State lowered such tax to 5.5%. Previously, the tax was assessed against the gross patient services revenue of hospitals operating in the State. "Gross patient services revenue" was defined as the amount that a hospital records at the hospital's established rates for patient services, regardless of whether full payment of such amounts is expected or paid. As of July 1, 2005, the tax is assessed against net patient services revenue, which means the "gross charges of the hospital, less any deducted amount for bad debts, charity care and payor discounts." As of July 1, 2011, Chapter 224 of the Laws of 2011 amended the definition of "hospital" under RSA 84-A:1, III to mean general hospitals and special hospitals for rehabilitation required to be licensed under RSA 151 that provide inpatient and outpatient hospital services, but not including government facilities. The definition of "net patient services revenue" under RSA 84-A:1, IV-a was amended to include revenues received from the State's uncompensated care account and revenues received from all payers of inpatient and outpatient patient care. Effective July 1, 2014, Chapter 158 of the Laws of 2014 clarified the taxable services under the MET, declared the intent of the MET, removed the application of the MET to special hospitals for rehabilitation, provided for a tax rate reduction beginning for the taxable period ending June 30, 2016 and changed the payment and return date. Further, all revenue collected pursuant to the tax is now placed in the Uncompensated Care Fund to fund medical care for the Medicaid population. The tax payment and tax return are now due on April 15 within the taxable period.

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

Since June of 2011, DRA has received requests for refund or credit of the MET from 20 of the 28 hospital taxpayers for prior fiscal periods ending June 30, 2008 through June 30, 2013, totaling $109 million, and received additional refund requests from all hospitals for the fiscal year 2014 receipts of approximately $165.6 million. DRA denied $20 million of those requests related to fiscal year 2008 as being outside the statute of limitations as well as denied $7 million in requests related to fiscal year 2012. Additionally, the DRA issued tax notices for fiscal year 2012 for $13 million.

During fiscal year 2013, the DRA reached agreements with over half of the hospitals to resolve all outstanding issues between them relating to approximately $67.6 million of the $89 million in MET refund and credit requests and $11 million of the $13 million in tax notices for fiscal years 2009 through 2013 leaving $14.4 million in refund requests and $2 million in tax notices outstanding as of June 30, 2013. As a result of the settlement agreements reached in fiscal year 2013 for fiscal years 2009 through 2013, the State received approximately $5.4 million of MET revenue and granted $3.6 million in credits to be applied in fiscal year 2014 and $3.6 million in credits to be applied in fiscal year 2015. See RESULTS OF OPERATIONS – Fiscal Year 2013 and MEDICAID PROGRAM.

In fiscal year 2014, the State reached an agreement with 25 New Hampshire hospitals' outstanding challenges to: the constitutionality of the MET, to the majority of the claims that the hospitals had filed for refunds on their fiscal year 2014 tax payments and what remained outstanding related to fiscal years 2013 and prior years, and to Medicaid rate reductions made in previous years. The legislature approved this agreement and Senate Bill 369 was signed into law on June 30, 2014 (Chapter 158, Laws 2014). Only one hospital did not participate in the agreement. See LITIGATION – *Catholic Medical Center et al v. DRA.* Under the agreement, the State will provide DSH payments to critical and noncritical access hospitals. Critical access hospitals would be reimbursed 75 percent of their uncompensated care costs, and noncritical care access hospitals would receive no more than 50 percent of their individual uncompensated care costs in fiscal years 2016 and 2017. The State's liability would be capped at $224 million in total payments that are shared with the federal government. Based on aggregate uncompensated care estimates, the State's liability is expected to range between approximately $45 and $95 million for the biennium, depending on actual levels of uncompensated care. In fiscal years 2018 and 2019, critical access hospitals would continue to be reimbursed 75 percent of their uncompensated care costs. Other acute care hospitals would receive no more than 55 percent of their uncompensated care costs, up to a cap of $241 million. The State's liability for fiscal year 2018 and 2019 is expected to range between approximately $35 million and $80 million, as compared to fiscal year 2015. The hospitals are guaranteed at least $175 million a year in DSH payments. Payments to hospitals would be contingent on MET revenues reaching agreed upon estimates. If revenues fall short of the estimates, State payments to the disproportionate share pool for noncritical access hospitals will be reduced. The State agreed to put all money raised from the MET in a trust fund and use those funds exclusively to support Medicaid services, including funding DSH payments, hospital provider payments, and other Medicaid costs. The agreement also eliminates certain freestanding rehabilitation hospitals from the MET base, and also precludes them from receiving uncompensated care payments. Through the agreement, the participating hospitals agreed they will not challenge the MET on constitutional grounds as long as the terms of the agreement are met. Additionally, the participating hospitals agreed to drop their claims for tax refunds in fiscal years 2014 and 2015 and drop their participation – and claims – in lawsuits challenging the constitutionality and application of the MET. They also agreed to drop claims in state and federal court cases challenging rate reductions made beginning in fiscal year 2008. If future legislatures choose to cut funding, the hospitals retain the right to re-launch their litigation and the State retains all of its defenses.

As a result of the settlement reached in fiscal year 2014, the remaining refund requests outstanding as of June 30, 2014 from fiscal years 2014 and prior years are not considered material. St. Joseph's Hospital did not agree to the settlement, and on October 15, 2014, St. Joseph Hospital filed a new lawsuit challenging the constitutionality of both the 2014 changes to the MET and the previous law. The plaintiff also claims that the revisions to the law do not apply because it paid the tax before the changes went into effect, and seeks a full tax refund for its fiscal year 2014 MET of $9,379,356. The State has filed its answer, denying the plaintiff's claim that the law (both in its original form and as amended) is unconstitutional. The parties have filed a case management proposal, requesting that trial be scheduled in January 2016. The case is in its preliminary stages, and no court proceedings have yet been scheduled. See also *Operating Budget Fiscal Years 2014 and 2015 – MET Settlement*, MEDICAID PROGRAM and LITIGATION – *Frisbie Memorial Hospital et al v. Toumpas*, – *Frisbie Memorial Hospital et al v. Sebelius*, – *Catholic Medical Center et al v. DRA* and – *St, Joseph's Hospital v. DRA*.

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

	FY 2012 (Actual)	FY 2012 (Budget)	FY 2013 (Actual)	FY 2013 (Budget)	FY 2014 (Actual)	FY 2014 (Budget)	FY 2015 (Budget)
Medicaid Enhancement Tax Revenues	$175.3	$197.5	$177.7	$213.4	$180.5	$184.8	$190.3
To hospitals for uncompensated care	24.6	24.6	$26.7	26.7	26.6	30.9	26.3
To General Fund	74.8	97.0	$69.1	104.8	0.0	0.0	0.0
To medical providers	75.9	75.9	$81.9	81.9	153.9	153.9	164.0

Fiscal year 2013 MET payments from hospitals were due in October 2012. The Department of Health and Human Services estimated receipt of $213.8 million in MET payments for fiscal year 2013. The State received $177.7 million in fiscal year 2013 MET payments. The fiscal year 2013 MET collections resulted in a shortfall of $35.7 million from the $213.4 million estimated when the budget was adopted. When making the October 2012 MET payments, some hospitals used a definition of net patient services revenue that varied from the definition used in previous years and excluded certain hospital services. In addition, as previously stated, the DRA received refund and credit requests for fiscal period 2013, which were immaterial.

Fiscal year 2014 MET payments from hospitals were due on October 15, 2013, but no interest or penalties are assessed if the tax is received by the State on or before October 31, 2013. The Commissioner of the DRA granted an extension to seven hospitals to make payments by December 2013. For fiscal year 2014, the State received $180.5 million in MET. The fiscal year 2014 MET collections resulted in a shortfall of $4.3 million from the $184.8 million estimated when the budget was adopted. As with fiscal year 2013, some hospitals used a definition of net patient services revenue that varied from the definition used in previous years and excluded certain hospital services. For the current status of litigation concerning MET, see LITIGATION – *Frisbie Memorial Hospital et al v. Toumpas, – Frisbie Memorial Hospital et al v. Sebelius, – Catholic Medical Center et al v. DRA* and *– St, Joseph's Hospital v. DRA.*

Insurance Tax. Prior to fiscal year 2008, the State imposed a tax on licensed insurance companies equal to 2% of net premiums written in the State (5% of taxable underwriting profit in the case of ocean marine insurance companies). Chapter 277 of the Laws of 2006, reduced such tax to 1.75% effective July 1, 2007, 1.5% effective January 1, 2009, and 1.25% effective January 1, 2010, and would have reduced it to 1% effective January 1, 2011 but for Chapter 1 of the Laws of 2010 Special Session which repealed the provision bringing the tax to 1%. The tax rate remains at 1.25%. This applies to all lines of insurance except accident and health insurance (RSA 401:1, IV), and insurers licensed as Health Service Corporations (RSA 420-A), Health Maintenance Organizations (RSA 420-B), and Delta Dental Plan Of NH, Inc. (RSA 420-F) which remains at 2%. Prior to 2011, ocean marine insurance was taxed on an underwriting profit basis. The purpose of the legislation was to stimulate economic growth by retaining current domestic insurers and recruiting other insurance companies to incorporate in the State. Effective for calendar year 2007, the new legislation also changed the collection of the tax from quarterly to annually on or before March 15 of each year. Under an insurance retaliatory statute, the State collects the greater of premium tax calculated by the effective New Hampshire premium tax rate or premium tax calculated by the effective tax rate of the state of which each insurer is domiciled. As of December 31, 2013, companies of 35 states having a higher premium tax rate in their domiciliary states were licensed in the State. Premium tax on unlicensed companies ranges from 2% to 4% of premiums written.

Interest & Dividends Tax. A tax of 5% is imposed on income in excess of $2,400 received from interest and dividends on stocks, bonds and other types of investments. Chapter 163 of the Laws of 1998 allows for a deduction from taxable interest and dividend income any amount equal to any cash distributions made to a qualified investment capital corporation.

Chapter 144 of the Laws of 2009 amended the Interest & Dividends Tax to treat distributions from limited liability companies, partnerships and associations as dividends subject to the tax to the same extent that distributions to corporate shareholders are taxable as dividends. This change was effective for calendar tax years beginning on or after January 1, 2009. A distribution that is a return of capital is not subject to taxation. This change in the tax was estimated to generate an additional $15 million in each of fiscal years 2010 and 2011. However, Chapter 1, Laws of the 2010 Special Session, repealed the inclusion of distributions from limited liability companies, partnerships and association as dividends subject to the Interest & Dividends Tax effective January 1, 2010, leaving such distributions received during the 2009 tax year subject to the tax.

Chapter 286 of the Laws of 2012 amended the Interest & Dividends Tax to eliminate the taxation of trusts. Under the new law, interest and dividend income received by estates held by trustees treated as grantor trustees under Section 671 of the United States Internal Revenue Code shall be included in the return of their grantor, to the extent that the grantor is an inhabitant or resident of New Hampshire. Income reported by, and taxed federally as interest or dividends to, a trust beneficiary who is an individual inhabitant or resident of New Hampshire with respect to distributions from a trust that is not treated as a grantor trust under Section 671 of the United States Internal Revenue Code shall be included as interest or dividends in the return of such beneficiary and subject to taxation in accordance with the provisions of RSA Chapter 77. This change in the tax was originally estimated to result in a reduction in revenue of $4 million to $5 million. Fiscal year 2014 Interest & Dividends Tax revenues were below those for fiscal year 2013 by approximately $13 million. In addition to the difference between the amount of tax paid by trusts ($5.1 million in tax year 2012) and the amount of tax currently paid by beneficiaries of those trusts (which is affected by a possible reduction in distributions to beneficiaries), additional exemptions and exceptions available to beneficiaries, and the exclusion of previously taxable income; other possible factors impacting the reduction of revenue include: lower interest rates; the acceleration of 2013 dividends into 2012; and non-taxable distributions resulting from conversions of S-corporations to limited liability companies. As a result, the actual impact of the 2012 Interest & Dividends Tax law change on the fiscal year 2014 and fiscal year 2015 revenues remains unknown at this time.

Communications Tax. For the 2002-03 biennium, the communications tax was increased to a 7% aggregate tax applicable to the gross charges collected for most retail communication services. The 7% tax rate was made permanent pursuant to Chapter 319 of the Laws of 2003. Chapter 279 Laws of 2012 amended RSA 82-A to exclude internet access from the definition of communication services effective June 21, 2012. This resulted in a shortfall of $28.5 million in communication services tax revenue for fiscal year 2013. The revenue decrease caused by the elimination of internet access from the definition of communication services was factored into the determination of the revenue plan for the 2014-2015 biennium. While the amount of revenue collected in fiscal year 2014, $59.3 million, was $3.2 million below plan, no further significant shortfall in the Communications Tax is expected.

Real Estate Transfer Tax. The real estate transfer tax was first enacted in 1967. Chapter 17 of the Laws of 1999 increased the permanent tax rate assessed on the sale, granting, and transfer of real estate and any interest in real estate from $.50 per $100 to $.75 per $100, or fractional part thereof, of the price or consideration effective July 1, 1999. The increase has been dedicated to the Education Trust Fund. This rate is assessed on both the buyer and the seller for the combined tax rate of $1.50 per $100. Where the price or consideration is $4,000 or less, there is a minimum tax of $20 assessed on both the buyer and seller. Pursuant to Chapter 179 of the Laws of 2011, the buyer and seller must each file a separate Declaration of Consideration (Form CD-57) with the DRA. Effective July 1, 2008, an additional $25 fee was legislated to be assessed for the recording of each deed, mortgage, mortgage discharge, or plan. This assessment is recorded with the Land and Community Heritage Investment Program (LCHIP) stamp. Chapter 144 of the Laws of 2009 requires that 50% of the revenue received from the $25 LCHIP stamp in fiscal year 2011 be credited to the General Fund. Chapter 224:3, Laws of 2011, provides that $120,000 in each of fiscal years 2012 and 2013 are credited to the LCHIP administrative fund. The balance of all recording surcharge fees collected shall be credited to the General Fund. For the 2014-2015 biennium, all revenues from the $25 fee will again be dedicated to the LCHIP program.

Court Fines and Fees. The Unified Court System was established during the 1984-1985 biennium. Prior to July 1, 2009 fines and fees collected by the various components of the court system were credited to the General Fund. Effective July 1, 2009, pursuant to Chapter 144 of the Laws of 2009, motor vehicle fines collected at the court are credited as unrestricted revenue to the Highway Fund, while fines collected through the plea by mail program are credited as restricted Highway Fund revenue. Effective July 1, 2013, pursuant to RSA 262:44-I, fines collected through the plea by mail program are credited as restricted General Fund agency income to the Department of Safety. All fines, fees and surcharges imposed and collected by the various components of the court system are credited to various funds depending upon the law involved. Approximately 55% of revenues collected are credited to the General Fund, 29% to the Highway Fund and 16% to restricted funds.

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

Utility Property Tax. Chapter 17 of the Laws of 1999 also established a statewide tax on utility property. A tax is imposed upon the value of utility property at the rate of $6.60 on each $1,000 of such value. The proceeds from this tax have been dedicated to the Education Trust Fund.

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

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

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

Racing and Charitable Gaming Revenue. The operation of greyhound, harness and thoroughbred racing in the State is conducted under the supervision of the New Hampshire Racing and Charitable Gaming Commission as are Bingo and Lucky 7, games of chance. On games of chance, the State receives a blended rate between 3% and 10% of revenues in addition to fixed fees on Bingo and Lucky 7. The State now imposes a tax ranging from 1% to 1.25% of the contributions plus one-quarter of the breakage of all simulcast harness and thoroughbred racing pari-mutuel pools. For simulcast greyhound racing pari-mutuel pools, the tax is 1.5% of contributions plus one-quarter of the breakage. Live racing is no longer conducted in the State.

Tax on Gambling Winnings. Effective July 1, 2009, a tax of 10% is imposed on gambling winnings of New Hampshire residents from anywhere derived and gambling winnings of nonresidents derived from New Hampshire entities. Effective May 23, 2011, Chapter 47 of the Laws of 2011, the tax on gambling winnings was repealed. The repeal was not applied retroactively and, therefore, those taxpayers who reported and paid gambling winnings tax for gambling winnings received between July 1, 2009 and December 31, 2010 are not entitled to a refund based upon the repeal. Taxable gambling winnings received between January 1, 2011 and May 22, 2011 must have been reported and the tax due paid by April of 2012.

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

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

Lottery Receipts. The State conducts daily and weekly lotteries and instant games throughout the State through tickets sold by or on behalf of the Lottery Commission in State liquor stores, at horse and dog tracks (where only simulcast racing occurs currently) 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. Effective July 19, 2014, under Chapter 17 of the Laws of 2014, the northbound and southbound ramp tolls for exit 12 on the Everett Turnpike in the town of Merrimack have been eliminated. The toll elimination is expected to result in a reduction in net toll revenue of approximately $600,000 annually; however, Turnpike System debt service coverage ratios are not expected to be materially adversely affected.

Fuel Tax. The State imposes a user fee 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 fees are credited to the General Fund. The proceeds of the motor vehicle fuel fee 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 fee 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. Effective July 1, 2014, Chapter 17 of the Laws of 2014 increased the motor vehicle fuel fee by 4.2 cents to 22.2 cents per gallon. All revenue associated with the increase in rate is restricted for paving and bridge work, municipal block grant aid, municipal bridge aid, and funding to pay debt service on bonds to be issued to complete the I-93 Salem to Manchester widening project. Chapter 17 of the Laws of 2014 authorized $200 million in general obligation bonds for this purpose, and the State Treasury anticipates that $100 million will be issued in each of fiscal years 2016 and 2017, with a 15-year term for each issue. The increase under Chapter 17 of the Laws of 2014 will expire once all debt service payments for the I-93 project have been made.

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. Transportation related match resources by the State are primarily non-cash Turnpike toll credits. In August 2014, legislation was enacted that provides $10.9 billion to fund the federal Highway Trust Fund (HTF) through May 2015. This action provides cash to the HTF to make payment on current active projects. MAP-21 authorization was also extended through May 2015. The federal fiscal year 2015 distribution of obligation limitation for the period beginning on October 1, 2014, and ending on December 11, 2014, has been made pursuant to the Continuing Appropriations Resolution, 2015 P.L. 113-164. This equates to approximately 19.73% or $29.2 million for the State pending further continuing appropriations resolution or enactment of a full-year appropriations act. Beginning in July 2014, the State has sought to mitigate the risks associated with the uncertainty of the continued funding of the HTF by deferring federally funded infrastructure projects.

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

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

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

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

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

The Internal Revenue Service notified the State on March 4, 2013 of an 8.7% reduction in direct pay subsidies for the State's outstanding "build America bonds" (BABs) and recovery zone economic development bonds (RZEDBs). The actual result for fiscal year 2013 was a reduction in direct pay subsidies payable to the State with respect to interest on one general obligation BABs issue in the amount of approximately $36,106. On October 3, 2013 the Internal Revenue Service notified the State that the sequestration reduction was lowered to 7.2%. During fiscal year 2014, the State requested through IRS filings interest subsidies totaling $6,802,716 associated with five bond issues. The actual result for fiscal year 2014 was a reduction in direct pay subsidies payable to the State with respect to interest in the following amounts: $162,280 with respect to general obligation BABs, $123,426 with respect to GARVEE BABs and RZEDBs and $225,406 with respect to Turnpike System BABs. On March 10, 2014, the federal government announced that the reduction to be effective for federal fiscal year 2015 would be 7.3%. The State projects this will result in an aggregate shortfall in fiscal year 2015 of approximately $496,598 out of a total of $6,802,716 to be requested in interest subsidies. The State applied other moneys in the General Fund, Turnpike System and Federal Highway Trust Fund to make up for the reduced federal subsidy payments in fiscal year 2014, and expects to do the same for the reduced subsidies in fiscal year 2015.

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

Expenditures

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

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

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

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

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

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

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

Results of Operations

Fiscal Year 2010

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

- On April 12, 2010, the Joint Legislative Fiscal Committee approved the Governor's Executive Order 2010-2, addressing this shortfall and affecting the Departments of Health and Human Services, Administrative Services, Corrections and Education, as described below.

- On June 9, 2010, the House and Senate approved Special Session House Bill 1 (SSHB1), which, combined with Executive Order 2010-2, was intended to address the projected shortfall. On June 10, 2010 the bill was signed into law thereby enacting revenue enhancements and spending reductions spanning the remainder of the 2010-2011 biennium. The actions expected to affect the remainder of the 2010-2011 biennium included General Fund spending reductions, transfers from dedicated fund balances, increases in expected lapses, restructuring of the state debt, a transfer from the University System, transfers of State Fiscal Stabilization Funds provided pursuant to the American Recovery and

Reinvestment Act of 2009 (ARRA) from fiscal year 2011 and the sale of assets to the Turnpike System, among others.

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

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

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

- Interest & Dividend Taxes were below the plan by 27% and below the prior year by 13%.

- Meals and Rooms Taxes were below the plan by 7%, although above the prior year by 11% due to a rate increase of 12.5% effective for all of fiscal year 2010.

- The Lottery Commission contributed 11% less than plan for the year and was 3% below the prior year, due to increased regional competition, low Powerball jackpots and a fall-off in sales of other products.

- Other taxes and revenues, comprised of numerous categories, were $5.7 million less than the plan and $20.7 million less than the prior year, primarily in miscellaneous taxes and fees.

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

Fiscal Year 2011

Fiscal year 2011 began with a an undesignated surplus of $65.7 million and a Rainy Day Account balance of $9.3 million versus the original fiscal year 2011 budget estimate which was a combined total of $21.6 million. This was an increase of approximately $53.4 million of which a significant portion was utilized during fiscal year 2011.

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

The General and Education Trust Funds revenues, before Executive Order and Special Session revenues, for fiscal year 2011 were $2,193.2 million, which were $40.9 million (1.8%) below plan (SSHB1 2010 Special

Session) and $31.5 million (1.4%) below prior year. Several individual categories also performed below SSHB1 estimates and below prior year results, respectively, including: Business taxes, $12.8 million (2.5%) and $19.9 million (3.9%); Interest and Dividends, $13.5 million (15.0%) and $8.3 million (9.8%); Real Estate Transfer tax, $7.2 million (8.1%) and $2.8 million (3.3%); and Lottery collections, $15.5 million (19.9%) and $4.0 million (6.0%). Other results include Meals and Rooms taxes which were $9.5 million (3.9%) below plan but $3.0 million (1.3%) above prior year, Tobacco taxes which were $6.0 million (2.7%) above plan but $16.9 million (6.9%) below prior year, and the shortfall of Medicaid Enhancement Tax which was below plan and prior year by $15.1 million (13.9%) and $4.7 million (4.8%), respectively.

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

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

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

Fiscal Year 2012

The General and Education Trust Fund revenues for fiscal year 2012 met budgeted estimates of $2.2 billion. While total revenues were substantially the same as the estimates, several revenue sources varied from their individual plans. The largest underperformer was the total category of Medicaid Enhancement Tax and Medicaid Recoveries which was $22.2 million, or 23% lower than plan. This was offset by the net increase of all other unrestricted revenue categories which over performed, the primary contributors were business taxes ($13.1 million or 2.6% above plan), meals and rooms tax ($10.2 million or 4.5% above plan) and the utility property tax ($4.9 million or 17.4% above plan). Offsetting these favorable performers, tobacco tax ($8.6 million or 3.8%), transfers from the Liquor Commission ($3.8 million or 2.9%) and the Lottery ($3.2 million or 4.6%), underachieved estimates.

Net appropriations exceeded budget estimates by $21.8 million, or less than one percent. The plan, $2,254.5 million, including $7.3 million in net reductions under House Bills 1 and 2, was not achieved. In addition, final lapses of $40.2 million were $3.0 million lower than the plan of $43.2 million, resulting in total net appropriations $25.0 million higher than estimated. Closing adjustments, made in accordance with generally accepted accounting principles (GAAP) to bring budgetary accounting basis to the modified accrual reporting basis, totaled $40.2 million and were $34.6 million more favorable than plan. These are reflective of lower adjustments for year-end liabilities in fiscal year 2012, primarily related to the reversal of a higher than normal payroll accrual in fiscal year 2011 that reduced payroll accruals at June 30, 2012 by $12 million. The fluctuation between years results from 27 pay periods occurring in fiscal year 2012.

Non-recurring year end accruals totaling $14 million related to payables for a Medicaid plan amendment and State retirement contributions were made on a GAAP basis in fiscal year 2011 but paid and reversed in fiscal year 2012. The General Fund portion of year-end Medicaid liabilities was approximately $10 million lower than in fiscal year 2011.

June 30, 2012 unassigned fund equity (surplus), exclusive of the $9.3 million Revenue Stabilization Account, totaled $13.8 million, for total Unassigned General Fund equity of $23.1 million compared to an estimated $13.6 million deficit. This represents a net favorable variance at June 30, 2012 of $36.7 million when compared to the budget as adopted.

Fiscal Year 2013

The fiscal year 2013 budget as adopted in 2011 (the "Fiscal Year 2013 Budget") assumed the State would start the year with an unassigned general fund deficit of $14.1 million. The Fiscal Year 2013 Budget also assumed that the State would make up the deficit during the year and would end fiscal year 2013 with approximately $0.6 million available to be transferred to the Rainy Day Fund as of June 30, 2013. Additionally, the Fiscal Year 2013 Budget assumed that $10 million, to be generated by the sale of the State's Lakes Region Facility by the end of the fiscal year, would be deposited directly to the Rainy Day Fund.

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

The unassigned general fund balance, comprising Revenue Stabilization (Rainy Day Fund) amount of $9.3 million and other undesignated fund balance of $72.2 million, ended the year at $81.5 million. The undesignated fund balance was $15.3 million higher than the amount projected in the fiscal years 2014-2015 budget adopted in June 2013.

Unrestricted revenue for the General and Education Trust Funds received during fiscal year 2013 totaled $2,275.6 million which was above the Fiscal Year 2013 Budget by $45.7 million and $4.2 million lower than the revised estimate made in June 2013.

- The favorable results as compared to the Fiscal Year 2013 Budget resulted, in part, from one-time settlements received during the year. An additional $20.8 million of Tobacco Settlement revenue was received during fiscal year 2013 (see LITIGATION – *State of New Hampshire v. Philip Morris USA, RJ Reynolds, Inc. and Lorillard Tobacco Company*), as well as approximately $9 million from the Methyl tertiary-butyl ether ("MtBE") settlement. Additionally, the following taxes performed better than expected: Business Taxes by $33.7 million; Meal and Rooms Taxes by $14.1 million; and Real Estate Transfer Taxes by $12.2 million. The Medicaid Enhancement Tax was below the Fiscal Year 2013 Budget by approximately $35.7 million primarily as a result of hospitals reporting less than projected net patient services revenues, Tobacco Tax was below the Fiscal Year 2013 Budget by approximately $13.1 million which was primarily the result of the decreased tax rate effective during fiscal year 2013 (the rate reduced on July 1, 2011 from $1.78/pack of cigarettes to $1.68/pack) and Communications Taxes were significantly below the Fiscal Year 2013 Budget by $25.0 million primarily as a result of the change in the law which excluded certain internet services from the taxable base. The State's other remaining revenue sources combined were approximately $29.7 million above the Fiscal Year 2013 Budget.

Net General Fund and Education Fund appropriations exceeded the Fiscal Year 2013 Budget estimates by $10.1 million, or approximately 0.5%. The Fiscal Year 2013 Budget of $2,215.2 million included approximately $7.8 million in net reductions under House Bills 1 and 2 that were not achieved during the fiscal year. Appropriations authorized after the passage of the Fiscal Year 2013 Budget via new legislation or existing laws were approximately $19.3 million; however, lapses were approximately $17.0 million higher than expected.

Total closing adjustments made in accordance with generally accepted accounting principles (GAAP) to bring the budgetary accounting basis to the modified accrual accounting basis totaled $8.1 million for fiscal year 2013. Significant adjustments included a benefit of approximately $11.1 million related the Abandoned Property

Escheat Revenue which was partially related to the refinement of the revenue calculation ($6 million) and the remaining increase ($5 million) was related to the increased value of the abandoned property assets. Additional GAAP adjustments were recorded to recognize a deficit in the Capital Fund related to the sale of the Community College System Stratham Property ($2.8 million) and other GAAP adjustments totaled a net decrease of $.2 million.

For information regarding the audit for fiscal year 2013, see FINANCIAL STATEMENTS.

Fiscal Year 2014

The fiscal year 2014 budget as adopted in 2013 (the "Fiscal Year 2014 Budget") assumed the State would start the year with an unassigned general fund surplus of $56.9 million and a Rainy Day balance of $9.3 million. However, the State began fiscal year 2014 with an unassigned surplus of $72.2 million, an increase of $15.3 million, and a Rainy Day balance of $9.3 million. Accordingly, the unassigned general fund balance, comprising Revenue Stabilization (Rainy Day Fund) amount of $9.3 million and other undesignated fund balance of $72.2 million, ended fiscal year 2013 at $81.5 million.

Unrestricted revenue for the General and Education Trust Funds received during fiscal year 2014 totaled $2,173.2 million which was above the revised fiscal year 2014 budget by $3.8 million and $102.4 million lower than fiscal year 2013. Note: The original fiscal year 2014 unrestricted revenue budget as passed in 2013 ($2,241.6 million) included $72.2 million of Medicaid Enhancement Tax revenue which was redirected to the Department of Health and Human Services as a restricted revenue pursuant to Chapter 158, Laws of 2014, which passed in June 2014. The revised fiscal year 2014 Revenue budget was $2,169.4 million.

- The net favorable results as compared to the revised fiscal year 2014 budget resulted from favorable and unfavorable changes within many of the revenue categories. Revenues that performed better than the revised budget included: Meals and Rooms Taxes by $10.5 million (4%), Insurance Taxes $8.1 million (9%), Tobacco Taxes $5.4 million (3%) (Note: the tobacco tax rate increased on August 1, 2013 from $1.68/pack of cigarettes to $1.78/pack), and Real Estate Transfer Taxes $3.9 million (4%). Revenues that performed below the revised budget included: Business Taxes by $11.5 million (2%) and Interest and Dividends Taxes $16.3 million (17%). The State's other remaining revenue sources combined were approximately $3.7 million above the revised fiscal year 2014 budget.

- The reported $102.4 million (4.5%) revenue reduction as compared to fiscal year 2013 resulted primarily from one-time settlements received during fiscal year 2013 and changes made to the Fiscal Year 2014 Budget.

    - One-time revenues received in fiscal year 2013 included an additional $20.8 million of Tobacco Settlement revenue was received during fiscal year 2013 (see LITIGATION – *State of New Hampshire v. Philip Morris USA, RJ Reynolds, Inc. and Lorillard Tobacco Company*), as well as approximately $9 million from the Methyl tertiary-butyl ether ("MtBE") settlement.

    - The Fiscal Year 2014 Budget changed how the board and care revenue and certain drug rebate revenue was recognized by the Department of Health and Human Services from an unrestricted revenue to a restricted revenue (reduction of $26.4 million for Board & Care and approximately $6.2 million for drug rebates). Additionally, Chapter 158 Laws 2014, directed 100% of the fiscal year 2014 Medicaid Enhancement Tax revenue to the Department of Health and Human Services whereas $69.1 million had been recognized as unrestricted revenue in fiscal year 2013.

    - Accordingly, excluding the significant one-time revenues received in fiscal year 2013 which were not received in fiscal year 2014 and excluding the Fiscal Year 2014 Budget changes to Board & Care, Drug Rebates and Medicaid Enhancement Tax revenues, the remaining unrestricted revenues increased approximately $29 million or 1.3%. Meals and Rooms Taxes increased $13.3 million (5%), Tobacco Taxes increased $14.2 million (7%), Real Estate Transfer Taxes increased $7.4 million (8%), Interest & Dividends Taxes decreased $13.2 million (14%), and all other variances were approximately $7.3 million favorable (net).

Net General Fund and Education Fund appropriations included in the original fiscal year 2014 budget, $2,271.1 million, were revised in June 2014 to $2,198.9 million as a result of Chapter 158, Laws of 2014, which directed 100% of the Medicaid Enhancement Tax to the Department of Health and Human Services as a restricted revenue ($72.2 million of Medicaid Enhancement Tax revenue was changed from unrestricted to restricted). As compared to the revised fiscal year 2014 budget, net appropriations in fiscal year 2014 of $2,205.3 million were approximately $6.4 million unfavorable. Approximately $4.3 million in net reductions under House Bills 1 and 2 were not achieved during the fiscal year and appropriations authorized after the passage of the Fiscal Year 2014 Budget via new legislation or existing laws were approximately $11.6 million. However, lapses were approximately $9.4 million higher than expected. Net appropriations are reported as approximately $20 million lower than the fiscal year 2013 net appropriations of $2,225.3 million; however, if fiscal year 2013 is reduced ('normalized') for the fiscal year 2013 board and care, drug rebates and MET revenues which were changed from unrestricted to restricted revenues in fiscal year 2014, net appropriations in fiscal year 2014 increased approximately $81.7 million (3.8%) from approximately $2,123.6 million in fiscal year 2013.

Total closing adjustments made in accordance with generally accepted accounting principles (GAAP) to bring the budgetary accounting basis to the modified accrual accounting basis totaled $17.4 million for fiscal year 2014. GAAP and other adjustments were not budgeted in fiscal year 2014. The most significant GAAP and other adjustments affecting fiscal year 2014 were the result of an increase in the Medicaid liability required as of June 30, 2014. A General Fund GAAP adjustment of approximately $17.5 million was required for unpaid liabilities to providers and managed care organizations as well as the incurred but not reported liabilities. The remaining GAAP and other adjustments totaled a net decrease (favorable) of $0.1 million. The fiscal year 2014 GAAP and other adjustments were approximately $25.5 million higher than fiscal year 2013 ($8.1 million).

The following tables present a comparison of General Fund and Education Trust Fund unrestricted revenues for fiscal years 2010 through 2014 and General Fund and Education Trust Fund net appropriations for fiscal years 2010 through 2014. The information for fiscal years 2010 through 2014 is derived from the State's audited financial statements.

GENERAL AND EDUCATION TRUST FUND UNRESTRICTED REVENUES
FISCAL YEARS 2010-2014
(GAAP Basis - In Millions)

		FY 2010			FY 2011			FY 2012			FY 2013			FY 2014	
Revenue Category	**General**	**Education**	**Total**	**General**	**Education**	**Total**	**General**	**Education**	**Total**	**General**	**Education**	**Total**	**General**	**Education**	**Total**
Business Profits Tax	$ 258.6	$ 57.6	$ 316.2	$ 248.5	$ 49.3	$ 297.8	$ 256.5	$55.3	$ 311.8	$267.1	$56.7	$323.8	$271.7	$58.4	$330.1
Business Enterprise Tax	71.7	122.2	193.9	63.0	129.4	192.4	68.5	135.8	204.3	78.3	149.7	228.0	73.0	146.5	219.5
Subtotal	330.3	179.8	510.1	311.5	178.7	490.2	325.0	191.1	516.1	345.4	206.4	551.8	344.7	204.9	549.6
Meals & Rooms Tax	228.3	4.2	232.5	228.9	6.6	235.5	231.8	7.6	239.4	241.2	7.2	248.4	254.0	7.7	261.7
Tobacco Tax	130.5	113.0	243.5	129.8	96.8	226.6	136.1	78.8	214.9	126.2	79.7	205.9	130.3	89.8	220.1
Liquor Sales and Distribution	120.7	-	120.7	125.7	-	125.7	127.6	-	127.6	132.3	-	132.3	135.9	-	135.9
Interest & Dividends Tax	84.9	-	84.9	76.6	-	76.6	83.5	-	83.5	93.0	-	93.0	79.8	-	79.8
Insurance Tax	86.8	-	86.8	84.9	-	84.9	85.0	-	85.0	95.4	-	95.4	95.0	-	95.0
Communications Tax	81.0	-	81.0	76.5	-	76.5	79.3	-	79.3	57.4	-	57.4	59.3	-	59.3
Real Estate Transfer Tax	56.0	28.8	84.8	54.0	28.0	82.0	52.8	29.2	82.0	62.3	31.1	93.4	67.1	33.7	100.8
Securities Revenue	34.2	-	34.2	37.0	-	37.0	37.6	-	37.6	38.1	-	38.1	40.6	-	40.6
Lottery Transfers	-	66.2	66.2		62.2	62.2	-	66.8	66.8	-	74.3	74.3	-	72.4	72.4
Racing & Charitable Gaming Commission Transfers	-	1.4	1.4	-	1.3	1.3	-	3.5	3.5	-	3.4	3.4	-	3.0	3.0
Tobacco Settlement	4.2	40.0	44.2	1.7	40.0	41.7	2.5	40.0	42.5	23.2	40.0	63.2	2.3	40.0	42.3
Utility Property Tax	-	29.9	29.9	-	32.3	32.3	-	33.1	33.1	-	33.2	33.2	-	35.8	35.8
State Property Tax	-	363.2	363.2	-	363.6	363.6	-	363.1	363.1	-	363.7	363.7	-	363.6	363.6
Other	123.3	-	123.3	135.9	-	135.9	134.3	-	134.3	141.7*	-	141.7*	108.6	-	108.6
Subtotal	1,280.2	826.5	2,106.7	1,262.5	809.5	2,072.0	1,295.5	813.2	2,108.7	1,356.2	839.0	2,195.2	1,317.6	850.9	2,168.5
Net Medicaid Enhancement Revenues	98.1	-	98.1	93.4	-	93.4	74.8	-	74.8	69.1	-	69.1	-	-	-
Recoveries	19.9	-	19.9	27.8	-	27.8	6.3	-	6.3	11.3	-	11.3	4.7	-	4.7
Subtotal	1,398.2	826.5	2,224.7	1,383.7	809.5	2,193.2	1,376.6	813.2	2,189.8	1,436.6	839.0	2,275.6	1,322.3	850.9	2,173.2
Executive Orders & Special Session Revenues	28.1	-	28.1	1.5	-	1.5	-	-	-	-	-	-	-	-	-
Total	$1,426.3	$826.5	$2,252.8	$1,385.2	$809.5	$2,194.7	$1,376.6	$813.2	$2,189.8	$1,436.6	839.0	$2,275.6	$1,322.3	$850.9	$2,173.2

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

GENERAL FUND AND EDUCATION TRUST FUND NET APPROPRIATIONS
FISCAL YEARS 2010-2014
(GAAP Basis – In Millions)

Category of Government	FY 2010 General	FY 2010 Education	FY 2010 Total	FY 2011 General	FY 2011 Education	FY 2011 Total	FY 2012 General	FY 2012 Education	FY 2012 Total	FY 2013 General	FY 2013 Education	FY 2013 Total	FY 2014 General	FY 2014 Education	FY 2014 Total
General Government	$300.5	-	$300.5	$248.3	-	$248.3	$248.1	-	$248.1	$240.1	-	$240.1	247.8	-	247.8
Justice and Public Protection	211.8	-	211.8	208.0	-	208.0	200.7	-	200.7	197.8	-	197.8	210.5	-	210.5
Resource Protection and Development	36.3	-	36.3	31.1	-	31.1	28.6	-	28.6	26.5	-	26.5	17.0	-	17.0
Transportation	0.6	-	0.6	1.0	-	1.0	0.9	-	0.9	0.7	-	0.7	1.0	-	1.0
Health and Social Services	647.7	-	647.7	647.5	-	647.5	643.5	-	643.5	632.4	-	632.4	571.6	-	571.6
Education	201.2	794.7	995.9	190.0	933.4	1,123.4	158.8	955.7	1,114.5	168.7	959.1	1,127.8	203.1	954.3	1,157.4
Net Appropriations	$1,398.1	$794.7	$2,192.8	$1,325.9	$933.4	$2,259.3	$1,280.6	$955.7	$2,236.3	$1,266.2	$959.1	$2,225.3	$1,251.0	$954.3	$2,205.3

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 2010 through 2014. The information for fiscal years 2010 through 2014 is derived from the State's audited financial statements.

GENERAL FUND AND EDUCATION TRUST FUND BALANCES
FISCAL YEARS 2010–2014
(GAAP Basis - In Millions)

	FY 2010			FY 2011			FY 2012			FY 2013			FY 2014		
	General	Education	Total	General	Education	Total	General	Education	Total	General	Education	Total	General	Education	Total
Undesignated Fund Balance, July 1	$0.0	$0.0	$0.0	$65.7	$0.0	$65.7	$17.7	$0.0	$17.7	$13.8	$0.0	$13.8	$72.2	$0.0	$72.2
Additions:															
Unrestricted Revenue	1,398.2	826.5	2,224.7	1,383.7	809.5	2,193.2	1,376.6	813.2	2,189.8	1,436.6	839.0	2,275.6	1,322.3	850.9	2,173.2
Executive Orders and Special Session Revenues	28.1	-	28.1	1.5	-	1.5	-	-	-	-	-	-	-	-	-
Total Additions	1,426.3	826.5	2,252.8	1,385.2	809.5	2,194.7	1,376.6	813.2	2,189.8	1,436.6	839.0	2,275.6	1,322.3	850.9	2,173.2
Deductions:															
Appropriations Net of Estimated Revenues	(1,440.4)	(796.8)	(2,237.2)	(1,595.5)	(938.3)	(2,533.8)	(1,320.1)	(956.4)	(2,276.5)	(1,325.5)	(961.4)	(2,286.9)	(1,305.4)	(959.3)	(2,264.7)
Special Session Reductions	-	-	-	172.5	-	172.5	-	-	-	-	-	-			
Less: Lapses	42.3	2.1	44.4	97.1	4.8	101.9	39.5	0.7	40.2	59.3	2.3	61.6	54.4	5.0	59.4
Total Net Appropriations	(1,398.1)	(794.7)	(2,192.8)	(1,325.9)	(933.5)	(2,259.4)	(1,280.6)	(955.7)	(2,236.3)	(1,266.2)	(959.1)	(2,225.3)	(1,251.0)	(954.3)	(2,205.3)
GAAP and Other Adjustments	(7.0)	(0.3)	(7.3)	14.6	-	14.6	40.1	2.5	42.6	9.3	(1.2)	8.1	(18.9)	1.4	(17.5)
Current Year Balance	21.2	31.5	52.7	73.9	(124.0)	(50.1)	136.1	(140.0)	(3.9)	179.7	(121.3)	58.4	52.4	(102.0)	(49.6)
Transfers (to)/from:															
Fish & Game Fund	-	-	-	-	-	-	-	-	-	-	-	-	(.7)		(.7)
Liquor Commission	6.5	-	6.5	2.1	-	2.1	-	-	-	-	-	-			
Highway Fund	6.5	-	6.5	-	-	-	-	-	-						
Education Trust Fund	31.5	(31.5)	-	(124.0)	124.0	-	(140.0)	140.0	-	(121.3)	121.3	-	(102.0)	102.0	-
Undesignated Fund Balance, June 30	65.7	(0.0)	65.7	17.7	(0.0)	17.7	13.8	-	13.8	72.2	-	72.2	21.9	-	21.9
Reserved for Revenue Stabilization Account	9.3	-	9.3	9.3	-	9.3	9.3	-	9.3	9.3	-	9.3	9.3	-	9.3
Total Equity	$75.0	$(0.0)	$75.0	$27.0	$(0.0)	$27.0	$23.1	$-	$23.1	$81.5	$-	$81.5	$31.2	-	$31.2

American Recovery and Reinvestment Act of 2009

On January 27, 2009, the Governor issued Executive Order 2009-1 creating the Office of Economic Stimulus ("OES"). On June 30, 2011 the office was discontinued. The OES was responsible for coordinating with State agencies to ensure all conditions of ARRA were met.

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

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

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

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

During fiscal year 2011 the State received additional direct program allocations through the ARRA for specific program purposes that are being administered through various State agencies. The unaudited schedule of Federal Awards for the year ended June 30, 2014 reflects total ARRA expenditures of approximately $12,771,029. Remaining balances of awarded funds are anticipated to be expended fully by calendar 2015.

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

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

Operating Budget Fiscal Years 2014 and 2015

General and Education Trust Funds. Chapters 143 and 144 of the Laws of 2013, the operating budget for fiscal years 2014 and 2015, were signed by the Governor and became law on June 28, 2013. The adopted budget assumes a $56.9 million surplus at June 30, 2013 to be carried forward as general fund revenue into fiscal year 2014. However, audited results for the year ended June 30, 2013, indicate that fiscal year 2013 closed with a $72.2 million surplus, which is $15.3 million more than previously assumed. This surplus was carried forward into fiscal year 2014 in the General Fund.

Total net appropriations (including estimated lapses) for the General and Education Trust Funds for fiscal years 2014 and 2015 as set forth in Chapter 143 and 144 of the Laws of 2013 are $2,287.2 million and $2,319.3 million, respectively. Lapse estimates are $50.0 million and $51.9 million for fiscal years 2014 and 2015, respectively. Audited fiscal year 2013 results indicate lapses were $61.1 million. Audited fiscal year 2014 results indicated lapses were approximately $59.4 million, which was $9.4 million above the estimate. Total net General and Education Trust Fund appropriations were budgeted at 3% greater than expenditures in the 2012-2013 biennium, amounting to an increase of $145.4 million over the biennium. Noteworthy funding and program changes in the 2014-2015 budgeted appropriations include:

- Increasing State support for public higher education by $66.4 million of general funds over the biennium. State funding for the Community College System was increased by $19.1 million (from $63.4 million in fiscal years 2012 and 2013 combined) to $82.5 million in fiscal years 2014 and 2015 combined, and State support for the University System was increased by $47.3 million (from $105.7 million in fiscal years 2012 and 2013 combined) to $153.0 million in fiscal years 2014 and 2015 combined.

- Restoring the use of revenue from the State's 529 college savings plan for distribution under a need-based scholarship program for New Hampshire students attending both public and private colleges within the State. During the 2012-2013 biennium, such revenue had been used to directly and primarily support the operations of the State's Community College and University Systems.

- Increasing support for the State's mental health system with the addition of $25.5 million in total funds over the biennium to add or expand existing program capabilities. The funding for these services adds capacity in all levels of the service system, in line with the recommendations of the State's 10-Year Plan for mental health. This 10-Year Plan was developed in 2008 by the State and mental health providers and advocates and progress had stalled due to the national recession. Mental health dollars budgeted for the 2014-2015 biennium of $382.7 million represent a total increase of $34.7 million over the 2013-2013 biennium. A portion of that increase will provide services at existing levels. In January of 2014, a judge approved a settlement agreement concerning *Dube, et al. v. Governor Margaret Wood Hassan* between the State and the United States Department of Justice which further enhances and expands mental health service capacity. On July 11, 2014, the Governor signed a bill (HB 1635) that appropriates an additional $9.1 million in the 2014-2015 biennium to satisfy the terms of the settlement agreement. See LITIGATION – *Dube, et al v. Governor Margaret Wood Hassan*.

- Increasing funding for uncompensated care payments to the State's hospitals by $52.4 million in total funds over the biennium. The amount budgeted for the 2014-2015 biennium, $154.5 million, compares to $102.1 million budgeted in the 2013-2013 biennium. Funding for uncompensated care payments was drastically reduced during the last biennium.

- Continuing the centralization of State human resources and other business functions under the Department of Administrative Services and continuing to move boards and commissions to one common licensing system, providing easier access to the public for information about licensed professionals.

- Doubling, from $1 million to $2 million, the research-and-development tax credit, to help businesses grow and continuing efforts to develop an online Business One Stop tool to make it easier for businesses to interact with State government and to reduce unnecessary duplication.

- Shoring up the State's public safety infrastructure, including funding the construction of a new women's prison in the capital budget, restoring the Children In Need of Services program, hiring additional state troopers, and replacing the loss of federal funds for Drug Task Force teams with State general funds.

As a result of converting to a new consolidated payroll system, the State has become aware of certain potential compliance concerns with Federal wage and hour regulations associated with the State's payroll processing procedures. An estimate of potential liability for the State related to these circumstances cannot be determined at this time.

MET Settlement. In May 2014, the State entered into a settlement agreement with 25 New Hampshire hospitals to settle (i) the hospitals' outstanding challenges to the constitutionality of the Medicaid Enhancement Tax (ii) claims that the hospitals had filed for refunds on their 2014 tax payments and (iii) to Medicaid rate reductions made in previous years. This agreement was put into place through legislation when the Governor signed SB 369 into law on June 30, 2014. As part of that legislation, certain modifications to the operating budget for fiscal years 2014 and 2015 were made, however, these changes did not result in a net impact on the adopted biennial budget. The changes are likely to increase General Fund expenditures in future biennial budgets. See MEDICAID PROGRAM. In each year of the biennium, the portion of MET revenue that was deposited as unrestricted revenue in the General Fund was changed to restricted revenue to be used to fund Medicaid provider payments. The amounts in fiscal year 2014 and 2015 were $72.2 million and $73.7 million, respectively. In conjunction with this, General Fund appropriations for provider payments were reduced by these same amounts with corresponding increases in other funded appropriations for provider payments. See LITIGATION – *Catholic Medical Center et al v. DRA.*

Budget Adjustments. Due to concerns regarding lower than anticipated tax revenue in fiscal year 2015 in the areas of business taxes and interest and dividends taxes (currently approximately $16.4 million below plan for the year), the State is taking measures to reduce fiscal year 2015 appropriations to state agencies in an amount of approximately $18.3 million. These reductions are primarily related to savings from vacant positions, travel, and deferred training, equipment and maintenance at State agencies. There are some impacts to municipal revenues through reduced payments from the Department of Education and Department of Environmental Services. This is in addition to steps already taken in an Executive Order issued by the Governor in May of 2014 requiring agencies to seek a waiver prior to hiring generally funded positions or purchase generally funded equipment or travel. Notably, overall year-to-date fiscal year 2015 revenue (including the month of October) was $1.3 million above the plan (0.2%) due to higher-than-anticipated meals and rooms, tobacco, insurance, and other taxes, as well as securities revenue. Furthermore, the New Hampshire Department of Health and Human Services (DHHS) has seen increased Medicaid caseloads due to changes in the calculation of Modified Adjusted Gross Income (MAGI) for the purpose of Medicaid eligibility determination which resulted from changes to the Patient Protection and Affordable Care Act of 2010 (PPACA) (which the DHHS estimates may have a General Fund impact of $21.4 million in fiscal year 2015). As a result, it is unlikely DHHS will meet its normal lapse expectation. However, DHHS is working to achieve savings in other areas of its budget, and there is a likelihood of high lapses in the Department of Education which will offset some of the losses at DHHS. The Governor's office is currently considering additional measures, including proposing legislation, to further reduce fiscal year 2015 appropriations by as much as $20 million, if necessary. No final decisions have yet been made as to the actual amount of any such proposed reductions or which appropriations will be proposed to be reduced. The recommended amount to be reduced will be based upon revenue estimates to be received later in fiscal year 2015.

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

On May 20, 2014, Chapter 17 of the Laws of 2014 ("Chapter 17") became law and increased the State's motor vehicle fuel fee by 4.2 cents per gallon beginning on July 1, 2014. This was the first increase in the State's motor vehicle fuel fee since 1991 and is expected to generate an additional $32-33 million of revenue annually. The proceeds of this increase are dedicated to certain infrastructure projects throughout the State, such as the continuation of the widening of Interstate 93, resurfacing and rehabilitation of secondary road ways, and rehabilitation and reconstruction of municipal bridges. The increase provided under Chapter 17 will expire once all debt service payments on general obligation bonds to be issued in fiscal years 2016 and 2017 to finance the I-93 widening project have been made.

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

Fiscal Year	Amount
2010	$30 million
2011	20 million
2012	26 million
2013	26 million
2014	15 million
2015	14 million

Fiscal Year 2015 Revenue Performance for the eight months ended February 28, 2015 (unaudited)

All information relating to fiscal year 2015 is unaudited, preliminary and subject to change.

Unrestricted revenue for the General and Education Trust Funds received for fiscal 2015 (cash basis) totaled $1,027.3 million, which was above plan by $34.5 million, or 3.5%, and above the prior year by $42.7 million, or 4.3%.

Some of the stronger revenue categories contributing to these favorable results include the following:

- Meals and Rooms Tax - $9.0 million (4.8%) above plan and $12.6 million (6.9%) above prior year.

- Tobacco Tax - $9.2 million (6.6%) above plan and $0.7 million (0.5%) above prior year.

- Real Estate Transfer Tax - $9.6 million (13.1%) above plan and $10.8 million (14.9%) above prior year.

Some of the unfavorable revenue categories offsetting the above favorable year to date results include the following:

- The Interest & Dividends Tax was $4.6 million (11.2%) below plan but$3.2 million (9.6%) above prior year.

- The Communications Tax was $2.2 million (5.3%) below plan but $0.3 million (0.8%) above prior year.

The Other net revenues are above Plan and prior year; however, a significant portion of this net increase is primarily deemed to be related to the timing of the receipt of the revenue rather than an increase in revenue for the year.

The following table presents a comparison of General Fund and Education Trust Fund unrestricted revenues for fiscal years 2013 through 2015. The information for fiscal years 2013 and 2014 is derived from the State's audited financial statements. The information for fiscal year 2015 is based on Chapters 143 and 144, Laws of 2013, the operating budget for the 2014-2015 biennium, as amended by Chapter 158, Laws of 2014, and in effect as of the date of this Information Statement.

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

	Actual Fiscal Year 2013			Actual Fiscal Year 2014			Operating Budget Fiscal Year 2015		
Revenue Category	**General**	**Education**	**Total**	**General**	**Education**	**Total**	**General**	**Education**	**Total**
Business Profits Tax	$ 267.1	$ 56.7	$ 323.8	$ 271.7	$ 58.4	$ 330.1	$ 280.9	$ 59.6	$ 340.5
Business Enterprise Tax	78.3	149.7	228.0	73.0	146.5	219.5	75.1	152.6	227.7
Subtotal	345.4	206.4	551.8	344.7	204.9	549.6	356.0	212.2	568.2
Meals and Rooms Tax	241.2	7.2	248.4	254.0	7.7	261.7	247.4	7.8	255.2
Tobacco Tax	126.2	79.7	205.9	130.3	89.8	220.1	121.9	84.2	206.1
Liquor Sales and Distribution	132.3	-	132.3	135.9	-	135.9	136.0	-	136.0
Interest & Dividends Tax	93.0	-	93.0	79.8	-	79.8	98.0	-	98.0
Insurance Tax	95.4	-	95.4	95.0	-	95.0	109.5	-	109.5
Communications Tax	57.4	-	57.4	59.3	-	59.3	62.5	-	62.5
Real Estate Transfer Tax	62.3	31.1	93.4	67.1	33.7	100.8	64.8	31.9	96.7
Securities Revenue	38.1	-	38.1	40.6	-	40.6	37.6	-	37.6
Transfers from Lottery Commission	-	74.3	74.3	-	72.4	72.4	-	77.3	77.3
Transfers from Racing & Charitable Gaming Commission	-	3.4	3.4	-	3.0	3.0	-	3.4	3.4
Tobacco Settlement	23.2	40.0	63.2	2.3	40.0	40.0	4.4	40.0	44.4
Utility Property Tax	-	33.2	33.2	-	35.8	35.8	-	35.4	35.4
State Property Tax	-	363.7	363.7	-	363.6	363.6	-	363.6	363.6
Other	141.7	-	141.7	108.6	-	108.6	113.8	6.7	120.5
Subtotal	1,356.2	839.0	2,195.2	1,317.6	850.9	2,168.5	1,351.9	862.5	2,214.4
Net Medicaid Enhancement Revenues	69.1	-	69.1	-	-	-	-	-	-
Recoveries	11.3	-	11.3	4.7	-	4.7	5.4	-	5.4
Subtotal	1,436.6	839.0	2,275.6	1,322.3	850.9	2,173.2	1,357.3	862.5	2,219.8
Executive Orders & Special Session Revenues	-	-	-	-	-	-	-	-	-
Total	$1,436.6	$839.0	$2,275.6	$1,322.3	$850.9	$2,173.2	$1,357.3	$862.5	$2,219.8

The following table compares on a cash basis, for the eight months ended February 28, 2015, General Fund and Education Trust Fund unrestricted revenues for the fiscal years 2014 and 2015 and a comparison to the revenue estimates from the fiscal year 2015 operating budget. Due to the combined filing of the business profits tax and business enterprise tax, it is not possible to measure accurately the individual effects of each of these taxes. They should be evaluated in their entirety. All of the fiscal year 2015 information in this table is preliminary, unaudited and subject to change. Further, because information in this table reflects cash receipts only, final audited numbers may differ to reflect appropriate accruals.

GENERAL AND EDUCATION TRUST FUNDS UNRESTRICTED REVENUES
FOR THE EIGHT MONTHS ENDED FEBRUARY 28, 2015
(Cash Basis - In Millions)

Revenue Category	FY 2014 Actual	Unaudited FY 2015 Actual	FY 2015 Plan	FY 2015 vs Plan Variance	FY 2015 vs Plan % Change	FY 2015 vs FY 2014 Variance	FY 2015 vs FY 2014 % Change
Business Profits Tax	$ 155.1	$ 162.8	$ 161.8	$ 1.0	0.6%	$5.1	5.0%
Business Enterprise Tax	109.8	107.2	108.0	(0.8)	-0.7	(2.6)	-2.4
Subtotal	264.9	270.0	269.8	0.2	0.1	5.1	1.9
Meals & Rooms Tax	182.4	195.0	186.0	9.0	4.8	12.6	6.9
Tobacco Tax	147.3	148.0	138.8	9.2	6.6	0.7	0.5
Transfer from Liquor Commission	95.0	96.7	94.7	2.0	2.1	1.7	1.8
Interest & Dividends Tax	33.3	36.5	41.1	(4.6)	-11.2	3.2	9.6
Insurance Tax	14.4	18.2	14.6	3.6	24.7	3.8	26.4
Communications Tax	38.9	39.2	41.4	(2.2)	-5.3	0.3	0.8
Real Estate Transfer Tax	72.3	83.1	73.5	9.6	13.1	10.8	14.9
Securities Revenue	14.7	15.3	13.7	1.6	11.7	0.6	4.1
Transfers from Lottery Commission	44.3	42.7	43.8	(1.1)	-2.5	(1.6)	-3.6
Transfers from Racing & Charitable Gaming Commission	.1.6	1.5	2.0	(0.5)	-2.5	(0.1)	-6.3
Tobacco Settlement	0.1	-	-	-	-	(0.1)	-100.0
Utility Property Tax	18.0	22.1	17.7	4.4	24.9	4.1	22.8
State Property Tax	-	-	-	-	-	-	-
Other	54.8	55.5	52.7	2.8	5.3	0.7	1.3
Subtotal	982.0	1,023.8	989.8	34.0	3.4	41.8	4.3
Net Medicaid Enhancement Tax (MET) Revenues	-	-	-	-	-	-	-
Recoveries	2.6	3.5	3.0	0.5	16.7	0.9	34.6
Total	$984.6	$1,027.3	$992.8	$34.5	3.5%	$42.7	4.3%

The following table presents a comparison of General Fund and Education Trust Fund appropriations net of estimated revenues for fiscal years 2013 through 2015. The information for fiscal years 2013 and 2014 is derived from the State's audited financial statements. The information for fiscal year 2015 is based only on Chapters 143 and 144, Laws of 2013, the operating budget for the 2014-2015 biennium, as amended by Chapter 158, Laws of 2014.

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

	Actual Audited Fiscal Year 2013*			Actual Audited Fiscal Year 2014			Operating Budget Fiscal Year 2015		
	General	**Education**	**Total**	**General**	**Education**	**Total**	**General**	**Education**	**Total**
Category									
General Government	$ 240.1	-	$ 240.1	$ 247.8	-	$ 247.8	$ 267.4	-	$ 267.4
Justice and Public Protection	197.8	-	197.8	210.5	-	210.5	225.4	-	225.4
Resource Protection and Development	26.5	-	26.5	17.0	-	17.0	33.4	-	33.4
Transportation	0.7	-	0.7	1.0	-	1.0	1.0	-	1.0
Health and Social Services	632.4	-	632.4	572.6	-	572.6	593.6	-	593.6
Education	168.7	959.1	1,127.8	203.1	954.3	1,157.4	218.3	961.7	1,180.0
Total	$1,266.2	$959.1	$2,225.3	$1,251.0	$954.3	$2,205.3	$1,339.1	$961.7	$2,300.8
Less:									
Appropriation Adjustments							(2.4)	-	(2.4)
Lapses							(51.9)	-	(51.9)
Total Net Appropriations							$1,284.8	$961.7	$2,246.5

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

The following table sets out the General Fund and Education Trust Fund undesignated fund balances and the amounts designated for the Revenue Stabilization Account for fiscal years 2013 through 2015. (Information for fiscal year 2012 can be found in the table on page 33.) The information for fiscal years 2013 and 2014 is derived from the State's audited financial statements. The information for fiscal year 2015 is based on Chapters 143 and 144, Laws of 2013, the operating budget for the 2014-2015, as amended by Chapter 158, Laws of 2014.

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

	Actual Audited Fiscal Year 2013			Actual Audited Fiscal Year 2014			Operating Budget Fiscal Year 2015		
	General	**Education**	**Total**	**General**	**Education**	**Total**	**General**	**Education**	**Total**
Undesignated Fund Balance, July 1	$ 13.8	$ 0.0	$ 13.8	$ 72.2	$ 0.0	$ 72.2	$ 26.7*	$ 0.0	$ 26.7*
Additions:									
Unrestricted Revenue	1,436.6	839.0	2,275.6	1,322.3	850.9	2,173.2	1,357.3	862.5	2,219.8
Executive Orders & Special Session Revenues	-	-	-	-	-	-	-	-	-
Total Additions	1,436.6	839.0	2,275.6	1,322.3	850.9	2,173.2	1,357.3	862.5	2,219.8
Deductions:									
Appropriations Net of Estimated Revenues	(1,325.5)	(961.4)	(2,286.9)	(1,305.4)	(959.3)	(2,264.7)	(1,339.1)	(961.7)	(2,300.8)
Appropriation Adjustments	-	-	-	-	-	-	2.4	-	2.4
Less Lapses	59.3	2.3	61.6	54.4	5.0	59.4	51.9	-	51.9
Total Net Appropriations	(1,266.2)	(959.1)	(2,225.3)	(1,251.0)	(954.3)	(2,205.3)	(1,284.8)	(961.7)	(2,246.5)
GAAP and Other Adjustments	9.3	(1.2)	8.1	-	-	-	-	-	-
Current Year Balance	179.7	(121.3)	58.4	52.4	(102.0)	(49.6)	72.5	(99.2)	(26.7)
Fund Balance Transfers (To)/From:									
Fish & Game Fund	-	-	-	(0.7)	-	(0.7)	-	-	-
Liquor Commission	-	-	-	-	-	-	-	-	-
Highway Fund	-	-	-	-	-	-	-	-	-
Education Trust Fund	(121.3)	121.3	-	(102.0)	102.0	-	(99.2)	99.2	-
Undesignated Fund Balance, June 30,	72.2	-	72.2	21.9*	-	21.9*	0.0	-	0.0
Reserved for Rainy Day Fund	9.3	-	9.3	9.3	-	9.3	9.3	-	9.3
Total Equity	$ 81.5	-	$ 81.5	$ 31.2	-	$ 31.2	$ 9.3	-	$ 9.3

* Note: The undesignated fund balance of $21.9 million at June 30, 2014 does not match the $26.7 million undesignated fund balance at July 1, 2014 because the June 30, 2014 amount is the actual balance and the July 1, 2014 amount is the adopted budget balance.

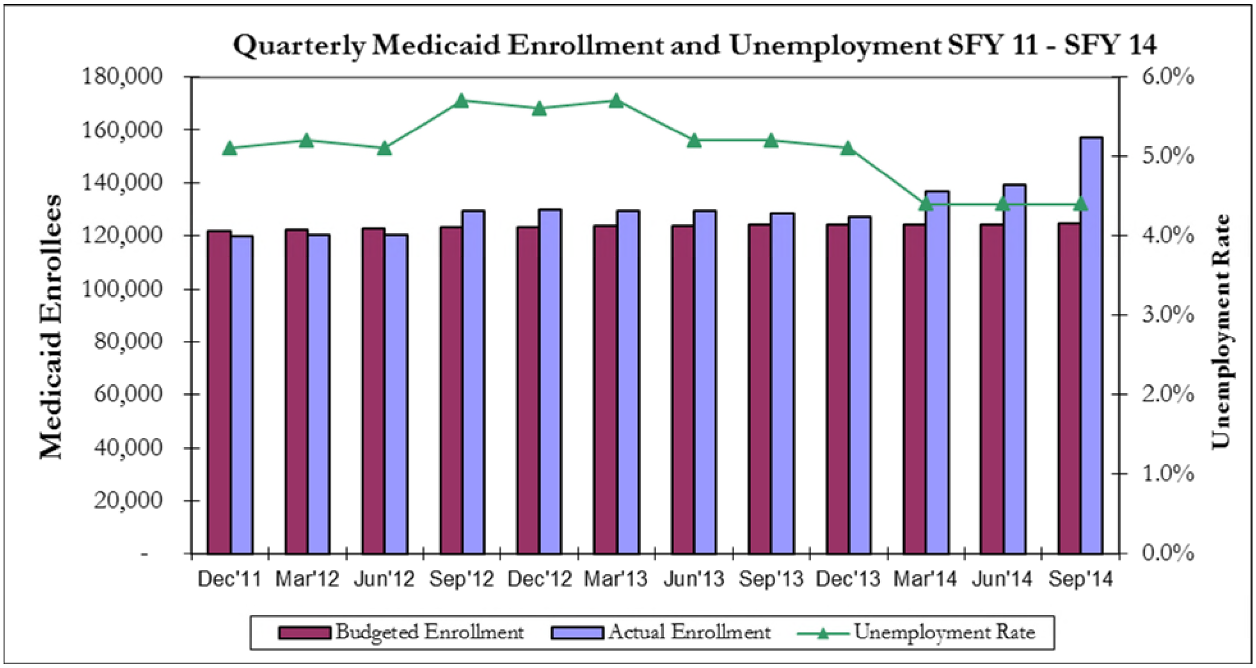
MEDICAID PROGRAM

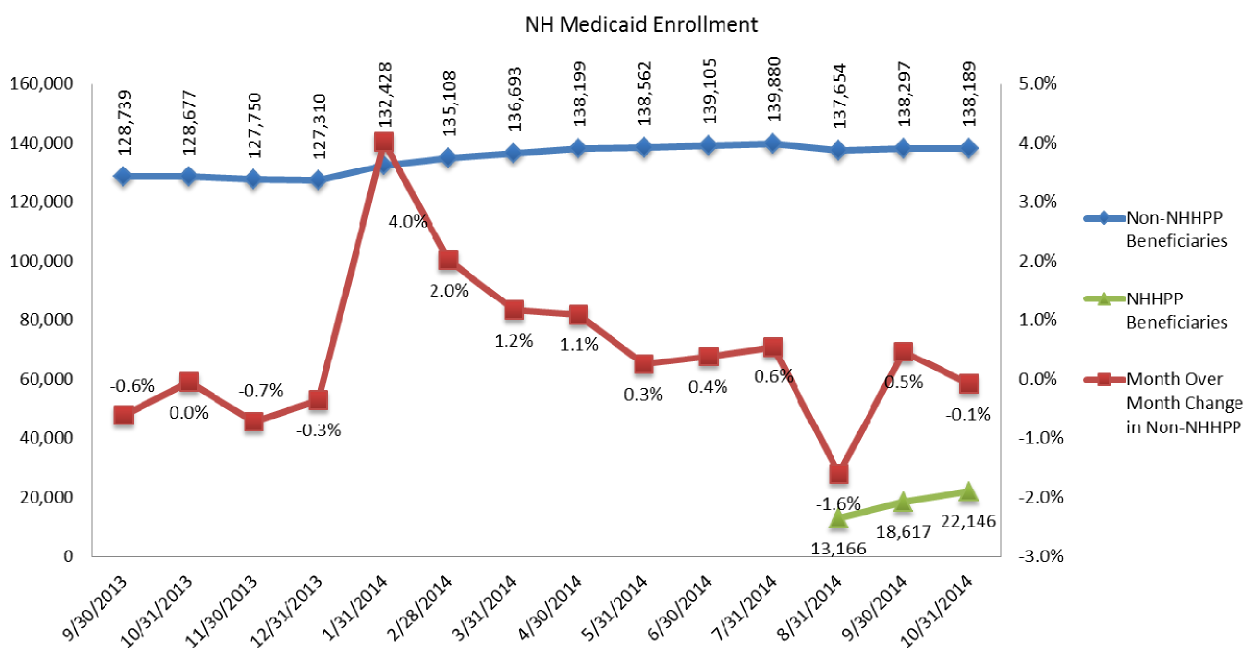
Background. Established in 1965, Medicaid is a joint federal-state program providing health care to eligible needy persons. Each state operates its Medicaid program within broad federal guidelines, in accordance with a customized State Plan approved by the federal Centers for Medicare & Medicaid Services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

Overview of New Hampshire Medicaid. Administered by DHHS, the New Hampshire Medicaid program (New Hampshire Medicaid) is a complex network that provides health care and psychosocial support coverage to an average of 132,000 persons per month during fiscal year 2014. New Hampshire Medicaid covers all or part of the health care costs of low-income children, pregnant women, parents with children, elders, and people with disabilities for medical and hospital services, nursing facility care, in-home support services and more. New Hampshire Medicaid expended a total of $1.4 billion in fiscal year 2014, or 27% of all State expenditures (State, federal, and other funds combined). Of total Medicaid spending 86.2% was attributable to payments made to Medicaid providers. Half (50%) of Medicaid spending during this period was covered by the federal government through matching funds.

New Hampshire Medicaid Financial Summary. Economic forces and State and federal regulations limit options for controlling Medicaid spending. Total provider payment expenditures are a function of enrollment volume, provider rates, and service utilization. Enrollment fluctuations result primarily from changes in the State economy, in particular the unemployment rate, and changes in policy at the State or federal level that impact Medicaid eligibility. With rising unemployment, falling income, and decreased availability of job-based insurance, more people turn to Medicaid for health care coverage. Historical data demonstrate that enrollment stabilizes, but does not necessarily decrease, as the unemployment rate decreases. The State's unemployment rate peaked at 7.1% in 2008. The rate has been slowly recovering and is at 4.4%, as of September 2014.

Policy Changes. Certain recent policy changes have impacted Medicaid enrollment. The enrollment count as of October 2014 is 160,335, which is an increase of approximately 28% versus enrollment in 2013. The 28% increase can be primarily attributed to the following: 1) an approximately 7% increase in enrollment attributable to the federal changes in eligibility criteria as part of the Modified Adjusted Gross Income (MAGI) methodology of PPACA, and 2) an approximately 17% increase due to the implementation of the New Hampshire Health Protection Program (NHHPP). The only significant change in enrollment since October 2014 has been continued increases in NHHPP enrollment, from 22,146 to 36,755 in February 2015. Increased enrollments related to MAGI were already experienced by October 2014.





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

[1] Available at: http://www.dhhs.nh.gov/ombp/documents/medicaidrates2010.pdf

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

The following table sets forth monthly expenditures for Medicaid covered medical services for fiscal year 2014. Included in these expenditures are the acute care, primary care, and preventive care services delivered by hospitals, physicians, and specialty care providers. Costs for the Care Management Program, effective December 1, 2013, are reported separately. Not included in these figures are Medicaid long-term care expenditures, primarily consisting of nursing home costs

Medicaid Provider Payments & Medicaid Care Management (Unaudited) - Fiscal Year 2014

(Provider Payments, Outpatient Hospital, Prescription Drugs, Care Management)

Paid Month	Fee-for-Service	Medicaid Care Management (MCM)	MCM Service Month	Total Expended
13-Jul	$29,803,809	$0		$29,803,809
13-Aug	49,438,554	0		49,438,554
13-Sep	40,280,037	0		40,280,037
13-Oct	33,593,181	0		33,593,181
13-Nov	40,463,629	0		40,463,629
13-Dec	24,149,456	0		24,149,456
14-Jan	18,530,576	0		18,530,576
14-Feb	14,264,827	0		14,264,827
14-Mar	16,644,878	33,084,735	13-Dec	49,729,613
14-Apr	14,233,117	34,166,092	14-Jan	48,399,209
14-May	19,504,711	35,565,923	14-Feb	55,070,634
14-Jun	22,969,176	32,163,963	14-Mar	55,133,139
Total Expended	**$323,875,951**	**$134,980,713**		**$458,856,664**
Adjusted Authorized Budget	**$338,729,994**	**$183,556,495**		**$522,286,489**
Excess Approp. brought forward to SFY 2015	**$14,854,043**	**$48,575,782**		**$63,429,825**

Fee for Service and Care Management – Fiscal Year 2015

Paid Month	Fee for Service	Medicaid Care Management (MCM)	MCM Service Month	Total Expense
14-Jul	$9,794,725	$41,279,749	Apr-14	$51,074,474
14-Aug	21,171,162	35,672,840	May-14	56,844,002
14-Sep	9,991,068	36,129,466	June-14	46,120,533
14-Oct	17,071,079	37,855,825	July-14	54,926,904
Total Expended	**$58,028,034**	**$150,937,880**		**$208,965,913**

Note: Both the fee-for-service and Care Management accounts are budgeted appropriations that shall not lapse until June 30, 2015. The fee for service account brought forward $14 million total funds and the Care Management account brought forward $48.6 million total funds. These funds have been used in fiscal year 2015 to satisfy incurred fiscal year 2014 program costs and were considered as of June 30, 2014 when calculating the GAAP basis accrual for the Medicaid Liability.

Medicaid Delivery System. Significant changes were made to New Hampshire Medicaid during the 2011 legislative session. Notably, Chapter 125, Laws of 2011 directed the current fee-for-service program be converted to a managed care delivery model. The Medicaid appropriations were reduced in anticipation of this conversion for the 2014-2015 biennium by $47.5 million total funds and $23.7 million general funds. Because Medicaid Care Management (MCM) was implemented later than the legislative budget originally estimated, DHHS estimates a reduction of $16 million in the originally estimated general fund savings over the biennium. Actuarial savings from MCM compared to the earlier fee for service model are being calculated by DHHS's actuary. An additional offset to the original savings projection is the unanticipated increase in Medicaid caseloads discussed previously, causing an unanticipated $21.4 million general fund expenditure.

The second phase of MCM, including long term care support services and mandatory enrollment for the currently optional population, is expected to be implemented in January 2016 for the elderly Choices For Independence program and June 2016 for nursing level of care services. The implementation date for the disabled population has yet to be determined.

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

In June of 2014, Meridian, one of the three contracted health plan providers, informed DHHS of its intent to exit the New Hampshire Medicaid market. In June and July of 2014, all 31,000 Medicaid members enrolled in the Meridian health plan were successfully transitioned to the two remaining health plans. Contracts with the remaining health plan providers expire in June 2015, at which point DHHS has the option to extend the contracts for two years or re-procure.

Medicaid Management Information System (MMIS). The State has replaced the automated system that processes Medicaid claims. The new MMIS system went live April 1, 2013 with the New Hampshire MMIS Health Enterprise System, administered under contract with the Xerox Corporation as the fiscal agent. State and contractor staff continue to identify and resolve implementation issues. The implementation plan included making estimated contingency payments to providers during the "black out" period between the "old" and "new" systems to provide a buffer during the transition period. Additional estimated payments were made to certain providers to cover claims processing delays once the system went live on April 1, 2013. Estimated contingency payments totaled approximately $56.3 million. These estimated contingency payments have been and will continue to be recouped as offsets during claims processing in future weekly payment cycles. As of September 30, 2014, the State had recouped $53.4 million and approximately $2.9 million of estimated contingency payments remained outstanding.

New Hampshire's Disproportionate Share Hospital (DSH) Program. The DSH Program was significantly redesigned in fiscal year 2011, due to new federal DSH regulations and requirements of Chapter 144:212, Laws of 2009. Hospitals received payments based on the amount of uncompensated care provided to patients with no form of insurance coverage, regardless of the amount of MET the individual hospital paid to the State. Previously, hospital DSH payments equaled the amount paid in MET. No changes were made to the State's definition of net patient services revenue or to the MET rate of 5.5% of that revenue.

In 2007, the Office of Inspector General (OIG) audited the New Hampshire DSH program and found that DSH payments made in federal fiscal year 2004 did not comply with hospital-specific disproportionate share hospital limits using Medicare cost principles of reimbursement. As a result, in December 2011, the State entered into an agreement with the U.S. Department of Health and Human Services, Centers for Medicare and Medicaid Services, to repay $35 million to the federal government over eight quarterly installments. Each installment, including the final installment for the quarter ended December 31, 2013, was paid on schedule. The State absorbed the lost revenues attributable to the DSH disallowance in fiscal years 2012 and 2013 through cost reductions in other areas of the overall Medicaid budget.

Since the 2010 redesign of the DSH program, implemented to comply with federal regulations noted above, the Legislature has reduced funding available for the DSH program. Pursuant to RSA 167:64, DSH funds were made available only to critical access hospitals up to 100% of each hospital's uncompensated care in the 2012-2013 biennium. For fiscal year 2014, in recognition of the amount of uncompensated care provided by all hospitals in New Hampshire, the Legislature increased DSH funding by $20 million in state funds, and limited payments made to critical access hospitals to 75% of uncompensated care. This funding level is expected to allow total DSH payments to both critical access and non-critical access hospitals of $92 million in fiscal year 2014, which also includes the expected additional federal funds.

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

State Fiscal Year	Uncompensated Care Payments
2009 paid	$178,040,743
2010 paid	195,457,290
2011 paid	207,698,608
2012 paid	48,735,473
2013 paid	52,889,190
2014 paid	92,020,821 (unaudited)

Chapter 158, Laws of 2014. The statute revises services taxable under the MET and clarifies that the Medicaid enhancement tax is a health care-related tax. The statute removes the application of the MET to special hospitals for rehabilitation. The statute also changes the payment schedule for the tax and the method for collecting overdue tax payments. It also provides for a phased in reduction in the rate of the tax.

As a result of the amendments, critical access hospitals would be reimbursed 75 percent of their uncompensated care costs, and noncritical care access hospitals would receive no more than 50 percent of their individual uncompensated care costs in fiscal years 2016 and 2017. The State's liability would be capped at $224 million in total payments that are shared with the federal government. Based on aggregate uncompensated care estimates, the State's liability is expected to increase between approximately $45 and $95 million for the 2016-2017 biennium as compared to fiscal year 2015, depending on actual levels of uncompensated care. In fiscal years 2018 and 2019, critical access hospitals would continue to be reimbursed 75 percent of their uncompensated care costs. Other acute care hospitals would receive no more than 55 percent of their uncompensated care costs, up to a cap of $241 million. The State's liability for fiscal years 2018 and 2019 is expected to range between approximately $35 million and $80 million, as compared to fiscal year 2015. The hospitals are guaranteed at least $175 million each year in DSH payments.

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

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

As a result, in January 2012, CMS issued a proposed rule designed to mitigate some of the unintended consequences of the uninsured definition put forth in the 2008 DSH final rule and to provide additional clarity on which costs can be considered uninsured costs for purposes of determining the hospital-specific limit. Under the proposed rule, NHH DSH revenue could claim approximately $12-15 million per year depending upon census and costs. The firm hired by CMS to conduct the federal reviews of State's DSH programs has advised New Hampshire that it has been auditing all of its clients' state programs utilizing the proposed rule guidelines. The firm is nearing completion of its audit of the federal fiscal year 2011 DSH Program. This is the first year that states may be required to recoup any overpayments and/or payout any underpayments. As a result of the audit and the finalized rule, which was issued on December 1, 2014, New Hampshire may revisit its DSH claiming and/or rules. This finalized rule, which differs from the proposed 2012 rule, is currently under review by the DHHS and its financial implications cannot be determined at this time.

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

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

Future Outlook. Recent federal activity has presented new opportunities and challenges for states. The Medicare Modernization Act of 2003, the Deficit Reduction Act of 2005, and PPACA imposed new requirements for states along with options in the areas of benefits, cost sharing, and long-term care. DHHS had previously estimated the impact of the Medicaid reforms in PPACA, including various costs and savings arising from, among others, adult Medicaid expansion, changes in CHIP federal funding and increases to primary care rates. In these earlier preliminary estimates, DHHS had estimated that in calendar year 2014 PPACA could add almost 30,000 new Medicaid enrollees which could increase to over 62,000 by calendar year 2019. Actual enrolments increased by 42,389 from December 2013 to December 2014. Federal funding for many PPACA reforms begins at 100% and reduces to 90% over time. Accordingly, DHHS had estimated that, for the expanded population, PPACA would initially decrease New Hampshire Medicaid costs by approximately $3 million in calendar year 2014 and would eventually increase costs by $8 million in calendar year 2019, as compared to program costs absent these reforms. Additionally, CHIP funding is currently authorized through September 30, 2015. Proposed reauthorization of the program includes an increase from 65% to 88% federal funding until 2019, potentially offsetting state general fund requirements by $10-$15 million each year beginning October 1, 2015 through September 30, 2019. If the CHIP program is not reauthorized, New Hampshire will draw down the remaining CHIP allotment authorized through federal fiscal year 2015.

Senate bill 413 established the NHHPP and authorized it through December 31, 2016. As of July 1, 2014, New Hampshire residents began applying for Medicaid insurance coverage that started on August 15, with 30,711 current NHHPP beneficiaries enrolled as of December 31, 2014. Adults who are working and have access to cost-effective insurance through their employer will be covered through their employer-sponsored insurance, with the State paying the employee's premiums and other costs of coverage in the Health Insurance Premium Program. Those who do not have access to cost-effective employer insurance will be enrolled in Medicaid managed care plans offered by Well Sense and New Hampshire Healthy Families in the Voluntary Bridge to Marketplace Program. (Some individuals may also voluntarily choose to enroll in a qualified health plan on the federal marketplace in 2014 if that option is determined to be cost-effective).

It is estimated that in fiscal year 2015, the State will receive $299 million in federal funds to provide private health insurance coverage to approximately 54,441 people newly eligible for the benefit. Fiscal year 2015 implementation costs are currently projected to total $15.8 million, of which $9.3 million will be funded by the federal government and $6.5 million will be funded by the State general fund While costs for services are 100% federally funded, administration and system development and implementation costs do have a general fund requirement. Administration costs are matched at 50% while system development and implementation costs receive an enhanced match of either 90% or 75%.

The case of *King v. Burwell* is now pending in the U.S. Supreme Court. Arguments were heard on March 4, 2015. The issue before the Court is whether under PPACA tax credits are limited to persons receiving coverage on state established health exchanges. New Hampshire and 33 other states chose to enroll individuals through the federal marketplace rather than establish a state exchange. The Court's decision could impact the viability of the federal marketplace in New Hampshire and in the other 33 states. A decision by the Court is expected in June 2015.

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 therefor, are wholly statutory.

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

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

Debt Statement

The table on the following page sets forth the long-term debt of the State outstanding as of June 30, 2014.

Debt Statement as of June 30, 2014
(In Thousands)

General Obligation Bonds:		
General Improvement	$677,546	
Highway	93,481	
University System of New Hampshire	185,379	
Total Direct General Obligation Debt		$956,406
Revenue Bonds:		
Turnpike System[1]	405,240	
GARVEE[2]	167,185	
Total Revenue Bond Debt		$572,425
Contingent (Guaranteed) Debt:		
Water Pollution and Waste Disposal Bonds issued by Political Subdivisions	1,160	
Business Finance Authority	59,903	
Local School District School Bonds	29,775	
Total Contingent Debt		$ 90,838
Total Debt		$1,619,669
Less: Self-Supporting and Contingent Debt:		
General Fund Self-Supporting Debt[3]	50,609	
Turnpike System Revenue Bonds	405,240	
Highway Fund	93,481	
GARVEE	167,185	
Water Pollution and Waste Disposal Bonds issued by Political Subdivisions	1,160	
Business Finance Authority	59,903	
Local School District School Bonds	29,775	
Liquor Commission	11,591	
School Building Aid	105,098	
Fish & Game	2,580	
Total Self-Supporting and Contingent Debt		$926,622
Total Net General Fund Debt[4]		$693,047

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

(1) 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.

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

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

(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 revenue.

In addition to the debt presented above, at June 30, 2014, the State had short and long-term capital leases outstanding of $619,000 and $1,723,000, respectively, 83% 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,				
	2010	**2011**	**2012**	**2013**	**2014**
Direct General Obligation Debt	$ 823,074	$ 938,998	$ 960,313	$ 963,224	$ 956,406
Contingent (Guaranteed) Debt	100,362	110,657	100,874	89,719	90,838
Less: Self-Supporting Debt	(298,393)	(396,227)	(375,895)	(358,149)	(354,197)
Total Net General Fund Debt	625,043	653,428	685,292	694,794	693,047
Per Capita Debt[(1)]:					
Direct General Obligation Bonds	$625	$712	$724	$729	$718
Net General Fund Debt	475	496	516	526	520
Ratio of Debt to Personal Income[(1)]					
Direct General Obligation Bonds	1.42%	1.55%	1.55%	1.48%	1.36%
Net General Fund Debt	1.08	1.08	1.10	1.07	0.99
Ratio of Debt to Estimated Full Value:					
Direct General Obligation Bonds	0.52%	0.61%	0.63%	0.63%	0.63%
Net General Fund Debt	0.40	0.42	0.45	0.46	0.46
General Fund Unrestricted Revenues					
Debt Service Expenditures[(2)]	1,426,310	1,385,200	1,376,600	1,441,600	1,436,618
Debt Service as a Percent of General	93,471	61,598	94,361	97,965	98,759
Fund Unrestricted Revenues	6.55%	4.45%	6.85%	6.80%	6.87%
Population (in thousands)	1,317	1,318	1,327	1,321	1,332
Total Personal Income (in millions)	57,898	60,480	62,076	64,885	70,180
Estimated Full Value (in thousands)	$156,933,999	$154,348,551	$151,695,430	$155,235,385	$155,235,385[(3)]

(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.
(3) Amount shown is for fiscal year 2013, the fiscal year 2014 amount will not be available until calendar 2015.

Rate of Debt Retirement[(1)]
as of June 30, 2014

	General Obligation Debt	Net General Fund Debt
5 years	44%	45%
10 years	78	78
15 years	95	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,				
	2010	**2011**	**2012**	**2013**	**2014**
Beginning Debt	$ 768,160	$ 823,074	$ 938,998	$ 960,313	$ 963,224
Bonds Issued	282,600	195,035	103,520	91,445	83,180
Total Net Debt	1,050,760	1,018,109	1,042,518	1,051,758	1,046,404
Less: Bonds Paid	74,296	30,746	82,205	88,543	89,998
Defeasance	153,390	48,365	-	-	-
Ending Debt	$ 823,074	$ 938,998	$ 960,313	$ 963,224	$ 956,406

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, 2014. The amounts shown for interest include the gross interest payable by the State with respect to its outstanding general obligation "Build America Bonds," which were outstanding in the amount of $135 million with expected subsidy payments of $21.4 million over the remaining life of the bonds as of June 30, 2014. Other than one minor withheld amount, which has since been rectified, prior to sequestration, the State had received interest subsidy payments from the federal government equal to 35% of the actual interest payable on such "Build America Bonds." Federal sequestration has cut a percentage of these direct pay subsidies for fiscal years 2013 and 2014 and is expected to cause further reductions in fiscal year 2015 and later. See STATE FINANCES – *State Revenues – Federal Sequestration.*

Direct General Obligation Debt
as of June 30, 2014[(1)]
(In Thousands)

Fiscal Year Ending June 30,	Principal	Interest	Total
2015	$ 89,963	$ 48,885	$ 138,849
2016	88,245	42,128	130,373
2017	87,445	36,094	123,539
2018	85,976	29,679	115,655
2019	83,732	25,469	109,201
2020	79,578	21,660	101,238
2021	67,444	18,150	85,595
2022	61,860	15,502	77,362
2023	52,601	12,813	65,415
2024	47,360	10,442	57,803
2025	44,112	8,463	52,576
2026	34,603	6,868	41,471
2027	31,599	5,423	37,022
2028	28,595	4,097	32,693
2029	21,417	2,875	24,293
2030	20,673	1,920	22,593
2031	12,639	1,127	13,766
2032	5,975	657	6,633
2033	7,417	431	7,848
2034	5,165	129	5,294
Total	$956,406	$292,812	$1,249,218

[(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.

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

In November 2010, the State entered into a line of credit with a bank for the State's commercial paper program. The State did not borrow under this program and the State terminated the program in February 2013. On March 28, 2012 the State issued a $50 million interfund note as a cash flow borrowing from its Clean Water State Revolving Fund. This borrowing was paid back with interest from operating cash on June 27, 2012. On March 4, 2015 the State issued a $50 million interfund note as a cash flow borrowing from its Clean Water State Revolving Fund. This borrowing was paid back from operating cash on March 18, 2015.

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

Authorized But Unissued Debt

As of June 30, 2014 the State had statutorily authorized but unissued direct general obligation debt in the total principal amount of $229.5 million, under various laws. This amount does not include the State's Turnpike System and GARVEE authorizations or statutorily authorized guarantees, nor its authority to issue bonds in lieu of all or a portion of the State's guarantee of bonds of the Pease Development Authority.

Chapter 58 of the Laws of 2005, the "Federal Highway Anticipation Bond Act," authorized the State to issue GARVEE bonds in an amount not to exceed $195 million with the approval of the Governor and Council. Chapter 193 of the Laws of 2012 authorized an additional $250 million of GARVEE bonds, for a total authorized amount of $445 million. GARVEE bonds are special obligations of the State secured by revenues consisting of federal aid for highways and other grants, loans and contributions from any governmental unit relating to projects to be financed under the statute. The statute authorized GARVEE bonds for the purpose of financing project costs related to the widening of Interstate 93 from Manchester to the Massachusetts border and any other federally aided highway project which the legislature may subsequently authorize to be funded under the statute. On November 18, 2010 the State issued GARVEE bonds in the amount of $80 million for financing projects related to such highway widening. Another $115 million of GARVEE bonds were issued on May 30, 2012 for the continued work on widening I-93, specifically, three identified construction projects associated with I-93 exits 2 and 3 in Salem and Windham, respectively, and an additional project subsequently authorized for engineering on I-93 widening from exit 3 north to the I-293 split in Manchester. The additional project was possible due to construction bid prices on the first three construction projects coming in under original estimates by nearly $10 million. Additionally, Chapter 231 of the Laws of 2010 authorized the issuance of an additional $45 million of GARVEE bonds for the purpose of financing a portion of the State's share of the replacement of the Memorial Bridge and Sarah Mildred Long Bridge, both located on the Seacoast between New Hampshire and Maine. The Memorial Bridge has been replaced and is in operation, with the cost split between the New Hampshire and Maine. New Hampshire did not use GARVEE bonds as a means of financing the construction cost of the Memorial Bridge. The New Hampshire Ten Year Transportation Improvement Plan 2015-2024, Chapter 326 of the Laws of 2014, modified RSA 228-A:2 to remove authorization of GARVEE bond authority for the purpose of replacing the Memorial Bridge and retained the authority to bond for the replacement of the Sarah Mildred Long Bridge, the widening of I-93 from Manchester to the Massachusetts border, and any other federally-aided highway project. Chapter 326 of the Laws of 2014 further identified approximately $88.5 million of anticipated GARVEE bonds for the construction of the Sarah Mildred Long Bridge ($77.5 million) and a portion of the I-93 project ($11 million).

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, 2014**	**Remaining Guarantee Capacity as of June 30, 2014**
Local Water Pollution Control Bonds	$50.0 million[(1)(2)]	$48.7 million
Local School Bonds	95.0 million[(1)(2)]	53.3 million
Local Superfund Site Bonds	20.0 million[(4)]	20.0 million[(3)]
Local Landfill and Waste Site Bonds	10.0 million[(1)(2)]	10.0 million
Business Finance Authority Bonds, Loans	95.0 million[(1)(4)]	32.8 million[(3)]
Pease Development Authority	105.0 million[(4)]	48.9 million[(3)]
Housing Finance Authority Child Care Loans	0.3 million[(1)(2)]	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 and Bonds Authorized

Capital budgets are adopted biennially during the odd-numbered legislative sessions in conjunction with the biennial operating budget schedule. Additionally, bond authorizations are periodically legislated outside the capital budget process. The following table sets out the State's capital budget appropriations and bonds authorized for the 2014-15 biennium.

Capital Appropriations and Bonds Authorized

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

Historically, the school building aid program has been funded from current revenues, however, payments for school building aid made in fiscal years 2009, 2010, and 2011 were bonded per enabling legislation arising outside of the 2008-2009 capital budget and the 2010-2011 capital budget. Specifically, Chapter 1 of the Laws of 2008 Special Session authorized up to $40 million of the 2009 building aid payments to be funded through bond proceeds. In December 2009, $40 million in bonds were issued to cover this payment. Subsequently, Chapter 144 of the Laws of 2009 authorized bonding school building aid for fiscal years 2010 and 2011 in the amounts of $44.9 million and $46.3 million, respectively. In March 2010, $44.9 million in bond anticipation notes were issued to fund the 2010 building aid payments. In August 2010, $91.2 million in bonds were issued to repay the $44.9 million in notes outstanding and to fund the final building aid bond authorization of $46.3 million to fund the 2011 aid payments. The law specifies that the debt service payments for school building aid bonding will be paid from meals and rooms tax revenues, although the bonds will be general obligations of the State. The General Fund unrestricted revenue estimate for meals and rooms tax is net of the amounts expected to be required for school building aid debt service payments. The Treasury operating budget includes a designation of a portion of meals and rooms tax revenues as restricted revenues sufficient to cover school building aid debt service.

Chapter 1 of the Laws of 2008 Special Legislative Session appropriated and authorized bonding of $10.0 million for the renovation of the Pease Community College System campus, which has been funded primarily through bond proceeds. The first $3.0 million appropriated is to be funded from the sale of the former community college campus location in Stratham. The next $5.0 million is to be funded $2.5 million from the sale of the Stratham campus and $2.5 million from college tuition and fees. The last $2.0 million is to be funded by the General Fund.

As of June 30, 2014, $10 million had been expended and general obligation bonds issued for this renovation project. On March 26, 2013, the Community College System and Juliet Marine Systems, Inc. ("Juliet Marine Systems") signed a purchase and sale agreement for the sale of the former Stratham campus to Juliet Marine Systems for $2,750,000. On May 15, 2013, the Governor and Executive Council approved the agreement and authorized the sale. On August 14, 2013, the Governor and Council approved an amendment to the purchase and sale agreement extending the due diligence period to December 31, 2013 and has subsequently approved further amendments extending the due diligence period to September 15, 2014 and the closing date to October 15, 2014. To date, this transaction has not closed.

Agencies, Authorities and Bonded or Guaranteed Indebtedness

Described below are the principal State agencies or programs for which the State (a) issues revenue bonds, (b) provides State guarantees of payments of indebtedness, or (c) issues general obligation bonds supported in whole or in part by restricted revenues, rather than taxes or unrestricted General Fund revenues. (A summary of the State guarantee programs is also provided under the caption "Authorized But Unissued Debt" above.) Also described briefly below are the other independent State authorities that issue revenue bonds and notes that do not constitute a debt or obligation of the State. Except as noted below, guarantee limits and remaining guarantee capacity provided in the narrative below are as of July 1, 2014.

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 $405.2 million of such bonds were outstanding as of June 30, 2014.

The University System of New Hampshire. The University System is a body politic and corporate created by State law under the control and supervision of a 27 member board of trustees. The board of trustees is entrusted with the management and control of all property comprising the University System and maintains the financial affairs of the University System separate and apart from the accounts of the State. Income received by the University System, except where specifically segregated, is retained by the University System for its general purposes. State statutes additionally provide for annual appropriations by the Legislature to be used for the general purposes of the University System. General obligation bonds issued by the State for the construction of capital improvements at the University System are supported by General Fund revenues. Approximately $185.4 million of such bonds were outstanding June 30, 2014. 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 Health and Education 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, 2014, $1.3 million of principal and interest was guaranteed under this program.

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

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

State Guaranteed Local School Bonds. The Governor with the advice and consent of the Council may agree to award an unconditional State guarantee for the payment of not more than $95 million of the principal and interest on bonds or notes issued by school districts for school projects of not less than $100,000 involving construction, enlargement or alteration of school buildings. The supervision of the guarantee program is the responsibility of the New Hampshire School Building Authority, consisting of the State Treasurer, the State Commissioner of Education and three members appointed by the Governor and Council. Guarantees may be awarded on either a split issue basis, where the payment of not in excess of 75% of the aggregate principal amount of bonds issued for a project and interest thereon may be guaranteed, or on a declining balance basis, where a specified percentage of the principal of and interest on each bond or note issued is guaranteed. The full faith and credit of the State are pledged to such guarantees. As of June 30, 2014, $41.7 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, 2014, all previously outstanding bonds guaranteed under this program had been paid.

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

In order to carry out its programs, the Authority was authorized to issue up to $25 million in principal amount of bonds as general obligations of the Authority, the principal of and interest on which is guaranteed by the State. The Authority issued $20 million State guaranteed bonds in November, 1992. In April, 2002, the Authority issued an additional $10 million of State guaranteed bonds, half of which were used to refund then outstanding 1992 bonds. The Authority issued an additional $10 million of State guaranteed bonds in December 2002 to refund an equal amount of then outstanding 1992 bonds. The last $1.3 million of then outstanding 1992 bonds was redeemed on November 1, 2003, leaving the Authority with a total balance of $20 million of outstanding bonds as of June 30, 2014.

The Authority is authorized 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; $ 2.34 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, 2014, $ 39.9 million of State guaranteed loans were outstanding under those Authority programs. The Authority expects that over the next five years it will seek Governor and Council approval of State bond and loan guarantees at or near the current outstanding amount.

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

Pease Development Authority. Pease Air Force Base in the Portsmouth area closed in October 1991. Under State legislation, the Pease Development Authority ("PDA") was established in 1990 to prepare a comprehensive plan and to implement all aspects of the plan including taking title to the property, marketing, and developing the property. As of June 30, 2014, the Pease International Tradeport had 4.4 million square feet of new or renovated office/R&D/manufacturing space with over 250 companies employing more than 8,300 people.

As of June 30, 2014, PDA is authorized to issue bonds, not exceeding in the aggregate $250.0 million, and the Governor and Council may award an unconditional State guarantee to secure up to $105.0 million in principal amount plus interest on those bonds. The remaining guarantee capacity at June 30, 2014 was $48.9 million. The $105.0 million unconditional State guarantee is made up of two separate statutory provisions, one of which is $35.0

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 $70.0 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 $30.0 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 $10.0 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 $10.0 million payment to the State on November 26, 2008. The PDA has subsequently repaid in full the $5.0 million State-guaranteed bond anticipation notes while recently renewing the $2.5 million State-guaranteed line of credit, which will mature not later than June 28, 2018.

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

In addition to the $105.0 million State guarantee discussed above, the State is authorized to issue up to $10.0 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 $5.0 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 $10.0 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 particular 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, 2014, 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 politic and corporate 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 an obligation of the State nor a pledge of the full faith and credit of the State. The NHRTA held its organizational meeting on September 30, 2007 and continues to meet on a monthly basis. There are no specific plans for debt issuance at this time.

STATE RETIREMENT SYSTEM

Overview

The State maintains a defined benefit pension plan, which is administered by the New Hampshire Retirement System ("NHRS" or "System"). The System administers one cost-sharing multiple-employer pension plan (the "Pension Plan") and four separate cost-sharing multiple-employer postemployment medical subsidy healthcare plans (the "Medical Subsidy Plans" and collectively, with the Pension Plan, the "Plans"). The Pension Plan covers effectively all State employees and all public primary and secondary teachers, law enforcement and fire service employees. Full-time employment is required to join the Plan. In addition, New Hampshire political subdivisions may elect to join the NHRS to cover their other employees. At June 30, 2014, there were approximately 48,307 active, 1,291 inactive vested, 8,102 inactive non-vested, and 31,054 retired members of the System. The System provides service, disability, death and vested deferred pension retirement benefits to its members and their beneficiaries.

The State and participating political subdivisions appropriate funding for the Plans based on percentage rates for each member's annual earnable compensation. These rates include a "normal contribution" rate and an "accrued liability contribution" rate and are based on biennial actuarial valuations. The Plan's unfunded liabilities are currently being 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, 2014 at note 11, 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, 2014 (the "2014 CAFR"), which report is also incorporated herein by reference and may be accessed at *http://admin.state.nh.us/accounting/*. The 2014 CAFR has also been filed with the EMMA and may be accessed at *http://emma.msrb.org*.

The System issues publicly available financial reports that may be obtained by requesting them in writing at 54 Regional Drive, Concord, NH 03301-8507 or from their web site at *www.nhrs.org*. Currently available reports include the System's Comprehensive Annual Financial Report for the year ended June 30, 2014 (the "2014 System CAFR"), which may be accessed at *http://www.nhrs.org/docs/default-source/cafr/nhrs-cafr-fy-2014.pdf?sfvrsn=8* and the Actuarial Valuation Report as of June 30, 2013 (the "2013 Actuarial Valuation"), which may be accessed at *http://www.nhrs.org/docs/default-source/actuarial/nhrs_june_30_2013_pension_valuation.pdf?sfvrsn=6*. The 2014 System CAFR and the 2013 Actuarial Valuation are incorporated herein by reference. Similar reports for prior years are also available from the System at the addresses set forth above or at *www.nhrs.org*.

The Board of Trustees (the "Board") accepted the 2013 Actuarial Valuation on February 11, 2014, and used that valuation to certify the employer contribution rates for the 2016-2017 biennium on September 9, 2014. By law, the Board was required to certify those rates no later than October 1, 2014.

The draft interim actuarial valuation as of June 30, 2014 was presented to the Board at its November 12, 2014 meeting. This is not a rate-setting valuation and is expected to be accepted later in the fiscal year. See *Results of Actuarial Valuations* below.

Financing

The financing of the System is provided through both member and employer contributions from the State and political subdivisions. The member contribution is set by State statute and prior to July 1, 2011 equaled 5% of payroll for State and political subdivision employees and teachers and 9.3% for police and firefighters. Effective for all State employees hired after June 30, 2009, the member rate is 7%. Effective July 1, 2011, the statutory member contributions equal 7% for all State and political subdivision employees and teachers, 11.55% for police members and 11.80% for fire service members. The employer contribution rate is based on a biennial actuarial valuation performed by an independent actuary and then certified by the NHRS Board of Trustees. The State Constitution provides that the employer contributions certified as payable to the System to fund the System's liabilities, as determined by "sound actuarial valuation and practice," shall be appropriated each fiscal year in the amount so certified.

On June 29, 2011, the Professional Firefighters of New Hampshire, New Hampshire Police Association, National Education Association – New Hampshire and State Employees Association of New Hampshire (Firefighters I) filed a Motion for a Temporary Restraining Order against the State in Merrimack County Superior Court seeking status quo on member contribution rates and recertification of fiscal year 2012 and 2013 employer contribution rates until such time as the Court could rule on the Petition for Declaratory and Injunctive Relief filed by the same petitioners on the same day. While the NHRS is not a named party in the suit, it would certainly be impacted by a final decision and the petitioners and the State have included the NHRS on correspondence and court orders as the case progresses. On January 6, 2012 the Superior Court ruled and on January 31, 2012 issued an Order dismissing both claims but offered the petitioners 30 days to amend their complaint to allow them to identify individual members who were vested as defined by the Court and consequently suffered a substantial impairment of a vested contract right due to the increase in member contribution rates. On February 24, 2012, the petitioners filed an amended complaint. In early July 2012, counsel for the parties filed a joint motion for interlocutory appeal in an attempt to expedite the issues under appeal to the New Hampshire Supreme Court. On September 26, 2012, the Supreme Court declined to accept the case, thereby returning it to the Superior Court for final disposition before being appealed to the New Hampshire Supreme Court On September 9, 2013 the Court issued an Order finding that it was unconstitutional to increase the level of contributions required from those Petitioners who were vested by virtue of the fact they had 10 years of creditable service as of the legislative enactment on July 1, 2011. In October 2013, both parties filed notices of appeal with the Supreme Court. On December 10, 2014, the New Hampshire Supreme Court found there was no unmistakable intent by the legislature to bind itself from prospectively changing the employee contribution rate, and the court found no constitutional violation. The case was remanded and the trial court dismissed the case on January 5, 2015.

In July, 2014, the Petitioners filed a related suit in Superior Court against the State and the NHRS seeking a return of any "excess contributions" already paid in the Firefighters I case if the Supreme Court finds for the Petitioners in that case. This suit has been stayed by the trial court pending the outcome in the Firefighters I case. In light of the Supreme Court's December 10, 2014 decision in Firefighters I, the Petitioners filed an assented to Motion for Voluntary Dismissal which the trial court granted on March 12, 2015.

See "NHRS Related Litigation" below.

The Pension Plan is divided into two membership groups. Group I consists of State and local employees and teachers. Group II consists of firefighters and police officers. The Medical Subsidy Plans consists of four groups: 1) State employees, 2) political subdivision employees, 3) teachers, and 4) police officers and firefighters. The State funds 100% of the employer cost for the Plans for all State employees and, prior to fiscal year 2010, the State funded 35% of the employer cost for teachers, firefighters and police officers employed by political subdivisions. Due to changes made in the 2009 legislative session, the State funded 30% of the employer cost for these three employee classes in fiscal year 2010 and 25% of the employer cost for such employees in fiscal year 2011. Pursuant to Chapter 224, Laws of 2011, effective July 1, 2011, the State no longer shares in the funding of local employer contributions, with the exception of $3.5 million that was paid in fiscal year 2012.

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

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

- Increasing the retirement age for employees and teachers from 60 to 65.

- Increasing the minimum retirement age for police and fire from 45 with 20 years of service to 50 with 25 years of service.

- Average final compensation (AFC) used to calculate pension benefits will be calculated using the highest five years' salary rather than the current highest three years' salary. In addition, compensation in excess of base pay in the final years of service will not be included. Caps have been defined for maximum retirement benefits.

Chapter 224:188, Laws of 2011 also required the Board of Trustees to recertify the employer rates for fiscal years 2012 and 2013 taking into consideration all the recent legislative changes and using the actuarial assumptions used by the Board when originally setting the fiscal year 2012 and 2013 rates (8.5% assumed rate of return and 4.5% assumed wage growth). The Board voted on June 14, 2011 that if rates for fiscal years 2012 and 2013 were to be recertified, it would use the new actuarial assumptions that it recently adopted to set the rates for fiscal years 2014 and 2015 (7.75% asumed rate of return and 3.75% assumed wage growth). The Board voted in a Special Meeting on

June 28, 2011 to seek an injunction to bar this section of law from taking effect, believing it unconstitutional for the legislature to require the Board to use certain actuarial assumptions. A Petition for Injunctive Relief was filed with the Merrimack County Superior Court on July 12, 2011. The Court denied the request and effective August 1, 2011, the Board recertified employer rates for fiscal years 2012 and 2013 as mandated by Chapter 244:188, Laws of 2011. In late September 2011, the Board decided not to pursue the recertification lawsuit following the assent of the New Hampshire Attorney General's office to file a particular type of withdrawal – referred to as neither party docket markings.

The Annual Required Contribution ("ARC") from the State to the NHRS 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.

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**	**Total**	**State Share % of Total**	**Local Share**	**Local Share % of Total**
2014	$377.3	100%	$80.8	$0.0	$80.8	21%	$296.5	79%
2013	299.5	100%	66.0	0.0	66.0	22%	233.5	78%
2012	303.5	100%	70.2	3.5	73.7	24%	229.8	76%
2011	307.5	100%	73.6	44.3	117.9	38%	189.6	62%
2010	302.2	100%	74.5	51.5	126.0	42%	176.2	58%
2009	261.5	75%	60.5	51.0	111.5	43%	150.0	57%
2008	249.9	75%	56.6	50.2	106.8	43%	143.1	57%
2007	178.6	100%	42.0	36.1	78.1	44%	100.5	56%
2006	170.8	100%	39.1	33.6	72.7	43%	98.1	57%
2005	133.1	100%	34.1	25.6	59.7	45%	73.4	55%

The budgeted State share of total employer contributions for fiscal year 2015 is approximately $75.5 million.

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

As a result of this changed practice and as reported in the June 30, 2008 interim actuarial valuation discussed below, only 75% of the ARC was contributed in fiscal years 2008 and 2009. While the State and all other employers had consistently paid 100% of the rates certified by the NHRS Board of Trustees, the rates certified by the NHRS Board of Trustees in 2005 with respect to fiscal years 2008 and 2009 did not include a separate component for the funding of the Medical Subsidy Plans. At the time such rates were certified in 2005, the NHRS Board of Trustees was not aware that the Pension Plan would only be credited with 75% of the ARC for fiscal years 2008 and 2009, as a result of the change in practice with respect to Medical Subsidy Plans described above, which first took effect in fiscal year 2008.

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

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

2005-2010 Experience Study

On March 8, 2011 the Board of Trustees accepted an actuarial experience study (the "2005-2010 Experience Study") for the period July 1, 2005 through June 30, 2010. The 2005-2010 Experience Study contains related information regarding the System and can be accessed in its entirety at ***http://www.nhrs.org/docs/default-source/actuarial/5-year-experience-study---march-2011.pdf?sfvrsn=4***. In addition to demographic and economic assumptions recommended by the System's actuary, significant recommendations included reducing the current 8.5% investment rate of return to within a range of 7.5% to 8.0% and reducing the current 4.5% assumed wage growth to within a range of 3.5% to 4.0%. The Board of Trustees voted on May 10, 2011 to adopt 7.75% as the assumed rate of return and 3.75% as the assumed wage growth for use in the 2011 Actuarial Valuation. The next experience study is scheduled for 2015 covering the period July 1, 2010 through June 30, 2015.

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; the June 30, 2011 actuarial valuation was used to determine the required contributions for fiscal years 2014 and 2015; and the 2013 Actuarial Valuation was used to set required contributions for fiscal years 2016 and 2017.

A draft interim valuation as of June 30, 2014 was prepared and presented to the Board on November 12, 2014. This interim valuation is for informational purposes only and will not be used to set employer contribution rates. Overall, plan experience was favorable. The funded ratio as of June 30, 2014 for the pension plan only increased to 60.7%, as compared to 56.7% as of June 30, 2013. The dollar-weighted rate of return for the year ending June 30, 2014 was 17.23% on the market value of assets and 12.28% for the actuarial value of assets, above the assumed rate of return of 7.75%, resulting in a recognized gain of $273 million (pension and medical subsidy combined). Total covered payroll increased by 0.25%, versus the assumed increase of 3.75%, resulting in pension liability gains (decrease in pension liability).

Actuarial Valuations can be viewed in their entirety at ***http://www.nhrs.org/funding-and-investments/reports-valuations/annual-report-archive***. Based on the 2013 Actuarial Valuation, the net assets available to pay benefits at actuarial value was reported to be $6,092.5 million. The market value of assets as of June 30, 2013 was approximately $335.5 million more than the actuarial value. The total pension accrued liability at June 30, 2013 was $10,708.8 million, resulting in an unfunded accrued actuarial liability ("UAAL") at June 30, 2013 of $4,638.1 million and a funded ratio of 56.7%. Because the UAAL is being funded at a level percent of payroll over a closed period (25 years remaining at June 30, 2014), it is expected that the UAAL will continue to increase until 2020 even if all assumptions are met. Effective July 1, 2007 the System's actuarial cost method changed from the open group aggregate cost method to the more widely used entry age normal cost method. The total liabilities since that date have been determined using the entry age normal actuarial cost method and a 30-year closed amortization of the unfunded accrued actuarial liability. Due to the fact that contributions for any particular fiscal year are determined by actuarial valuation performed up to four years prior to a particular year, the contributions that reflect the 30-year amortization began with fiscal year 2010.

The actuary for the Plans uses several actuarial assumptions including the investment return rate at 7.75% (and 3.75% for Medical Subsidy Plans for Governmental Accounting Standards Board ("GASB") reporting purposes) as of the 2011 Actuarial Valuation and the wage inflation rate at 3.75%. The actuary also uses so-called "smoothing," whereby the difference between the market value of assets and the actuarial value of assets is smoothed over the previous five years to offset the effects of volatility of market values in any single year. In addition, the NHRS uses a 20% "corridor" in order to prevent the smoothed value from varying too far from market. The use of the 20% corridor means that very large gains and losses (i.e., ones that would produce a smoothed value that is more than 20% higher or lower than the actual market value) will not be presumed to be completely transitory and will be reflected immediately in funding. The use of the corridor in the 2009 actuarial valuations for the Plans lowered the actuarial value of assets that would have been established in its absence and thus raised the ARC in fiscal years 2012 and 2013.

The NHRS medical subsidy UAAL decreased by approximately $17.2 million as of June 30, 2014 as compared to the UAAL as of June 30, 2013. This liability is separate and in addition to the State other postemployment benefits ("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 2013 Actuarial Valuation, which contains detailed information regarding the System's funding progress, employer contribution rates and actuarial information to be used for certain accounting reporting purposes. The assumptions for the investment rate of return and rate of payroll growth were changed following the acceptance of the five-year experience study to 7.75% and 3.75%, respectively. These assumptions were used for the 2011 valuation and for all subsequent valuations until the next five-year experience study, for the period from 2010 through 2015, is conducted. The assumptions for the investment rate of return and payroll growth used in the two prior valuations were 8.50% and 4.50%, respectively and were the assumptions used to determine the contributions required for fiscal years 2010 through 2013.

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	30 years From 7/1/2009	*
Asset valuation method	5-year smoothed market	5-year smoothed market
Actuarial Assumptions:		
Investment rate of return*	7.75%	3.75%
Projected salary increases*	4.15% to 24.55%	4.15% to 24.55%
**Includes Price Inflation at*	3.0%	3.0%
Rate of Payroll Growth	3.75%	3.75%
Valuation Health Care Trend Rate	N/A	N/A-The Medical Subsidy Plans provide a specific dollar subsidy to be used for health care. The subsidy increased 8.0% for fiscal year 2007 by statute. Effective July 1, 2008, the annual increase will be 0.0%.

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

Chapter 224, Laws of 2011, required the Board of Trustees to recertify the employer rates for fiscal years 2012 and 2013 applying changes adopted during the 2011 legislative session and using actuarial assumptions used by the Board when originally setting the rates in September 2010 for fiscal years 2012 and 2013. The Board recertified the employer rates effective August 1, 2011, and those recertified rates are shown below. The rates for fiscal years 2014 and 2015 were certified by the Board on September 11, 2012 following acceptance of the 2011 Actuarial Valuation on July 10, 2012, ahead of the October 1, 2012 statutory requirement. The rates for 2016 and 2017 were certified by the Board of Trustees on September 9, 2014.

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

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

The employer contribution rates are established at levels necessary to fund both the "normal" cost and the amortization of the UAAL. Most of the contribution rates relate to the UAAL amortization. For example, for fiscal years 2016 and 2017, the UAAL employer contribution rate for State Employees is 8.72%, for State police is 17.48% and State fire is 18.76%.

The remaining amortization of the UAAL, as a level percentage of payroll, over the current amortization period that ends in fiscal year 2039 will require increasing amounts of annual employer contributions. The draft interim valuation as of June 30, 2014 projects that the UAAL payment for the pension plan will increase from $271 million in fiscal year 2015 to $657 million in fiscal year 2039, the last year of the amortization period. This projection assumes a blended employer UAAL contribution rate of 10.43%. This projection assumes that all actuarial assumptions are exactly met. Actual experience will differ and the actual amounts to be contributed with respect to the UAAL amortization may be higher or lower than currently projected.

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. Fiscal year 2011 legislation authorized the transfer of all but funds needed to pay the temporary supplemental annuity payment due July 1, 2012 from the Special Account to the Pension Plan. Fiscal year 2012 legislation repealed the Special Account as of July 1, 2012. The purpose of the Special Account was to fund additional benefits, such as cost of living adjustments (COLAs). Special Account assets are not included in the Ten Year History of Pension Plan Funding Status table below for years prior to 2012.

NEW HAMPSHIRE RETIREMENT SYSTEM
TEN YEAR HISTORY OF PENSION PLAN FUNDING STATUS
FISCAL YEARS 2005-2014
(All Dollar Amounts in Thousands)

Actuarial Valuation Date (June 30)	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio
2014	$6,700,554	$11,045,174	$4,344,620	60.7%
2013	6,070,681	10,708,768	4,638,087	56.7
2012	5,817,882	10,361,600	4,543,718	56.1
2011	5,740,516	9,998,251	4,257,735	57.4
2010	5,233,838	8,953,932	3,720,094	58.5
2009	4,937,320	8,475,052	3,537,732	58.3
2008	5,302,034	7,821,316	2,519,282	67.8
2007	4,862,256	7,259,715	2,397,459	67.0
2006	3,928,270	6,402,875	2,474,605	61.4
2005	3,610,800	5,991,026	2,380,226	60.3

Note: Liabilities for fiscal years 2007-2014 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 2007-2014 and prior years are not informative.

Source: Information for fiscal year 2014 is derived from the draft interim actuarial valuation as of June 30, 2014, information for fiscal years 2007 through 2013 is derived from the System's fiscal years 2010 and 2013 CAFR; information for years prior to 2007 is derived from the System's actuarial valuation for each respective year.

NEW HAMPSHIRE RETIREMENT SYSTEM
TEN YEAR HISTORY OF MEDICAL SUBSIDY PLANS FUNDING STATUS
FISCAL YEARS 2005-2014
(All Dollar Amounts in Thousands)

Actuarial Valuation Date (June 30)	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio
2014	$21,246	$714,104	$692,858	3.0%
2013	21,823	731,872	710,049	3.0
2012	24,317	752,759	728,442	3.2
2011	33,218	777,572	744,354	4.3
2010	57,818	1,033,863	976,045	5.6
2009	176,800	673,390	496,590	26.3
2008	175,187	669,874	494,687	26.2
2007	156,976	638,410	481,434	24.6
2006	445,860	986,502	540,642	45.2
2005	445,918	930,675	484,757	47.9

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

Note: Liabilities for fiscal year 2007-2014 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 2007-2014 and prior years are not informative.

Source: Information for fiscal years 2007 through 2014 is derived from the System's fiscal years 2010 and 2014 CAFR; information for years prior to 2007 is derived from the System's actuarial valuation for each respective year.

Recent Changes to Pension Obligation Reporting

GASB Statements No. 67 and 68, issued on June 30, 2012, set forth new standards that will modify the accounting and financial reporting of the State's pension obligations. The new standards for governments that provide employee pension benefits will require the State to report in its statement of net position a net pension liability, defined as the difference between the total pension liability (the present value of projected benefit payments to employees based on their past service) and the assets (mostly investments reported at fair value) set aside in a trust and restricted for the payment of benefits to current employees, retirees and their beneficiaries. The new standards will require immediate recognition of more pension expense than is currently required. The rate used to discount projected benefit payments to their present value will be based on a single rate that reflects (a) the long-term expected rate of return on plan investments as long as the plan net position is projected under specified conditions to be sufficient to pay pensions of current employees and retirees and the pension plan assets are expected to be invested using a strategy to achieve that return and (b) a yield or index rate on tax-exempt 20-year AA-or-higher rated municipal bonds to the extent that the conditions for use of the long-term expected rate of return are not met. The new standards will be effective for the Pension Plan fiscal year 2014 and State's fiscal year 2015 financial statements. NHRS has reflected the new GASB 67 requirements in the fiscal year 2014 CAFR that was issued in December 2014.

Investments

RSA 100-A:15, I, provides separate and specific authorities to the Board 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 (the "Committee") conducted oversight and management of the investment program. Prior to January 1, 2009, the

Board served as the NHRS Investment Committee. On that date, the 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 appointed by the Chair of the Board. All are expected to have significant experience in institutional investment or finance.

State law requires that the Committee provide a comprehensive annual investment report. The report for the fiscal year ended June 30, 2014 was unanimously approved and accepted by the NHRS Board of Trustees at its December 8, 2014 regular meeting and may be accessed at *http://www.nhrs.org/docs/default-source/cair/nhrs-cair-fy-2014.pdf?sfvrsn=4* 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 most recently adopted by the Board on September 11, 2012, are as follows:

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

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

Annualized Investment Returns

	Percent of	**Periods Ending June 30, 2014**			
Asset Class	**Assets**	**1-Year**	**3-Years**	**5-Years**	**10-Years**
Total Fund	100.0%	17.6%	10.7%	13.5%	7.5%
Total Fund Custom Index		*18.4%*	*11.0%*	*13.3%*	*7.7%*
Domestic Equity	42.3%	24.9%	16.2%	18.9%	7.5%
*Domestic Equity Blended Benchmark**		*25.2%*	*16.5%*	*19.3%*	*8.2%*
Non-US Equity	20.5%	15.9%	4.8%	11.6%	7.6%
*Non-US Equity Blended Benchmark**		*21.8%*	*5.7%*	*11.1%*	*7.7%*
Fixed Income	21.6%	7.0%	5.8%	7.7%	6.7%
*Fixed Income Blended Benchmark**		*5.2%*	*4.2%*	*5.6%*	*5.2%*
Real Estate	8.9%	17.1%	13.3%	11.2%	9.0%
*Real Estate Blended Benchmark**		*11.8%*	*11.9%*	*10.2%*	*8.9%*
Alternative Investments	6.5%	12.7%	7.5%	8.1%	1.6%
*Alternative Investments Blended Benchmark**		*30.7%*	*20.2%*	*15.0%*	*11.3%*
Cash	0.2%	0.1%	0.1%	0.1%	1.7%
91 Day Treasury Bills		*0.0%*	*0.0%*	*0.1%*	*1.5%*

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

Ten Year History Actuarial Value vs. Market Value of Assets

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

The table below presents a ten year history of actuarial rates of return and asset values and market value 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. Prior to June 30, 2012, total plan assets included the Special Account assets that were available pursuant to RSA 100-A:16, II(h) to provide additional benefits such as cost-of-living adjustments. The Special Account was repealed in the 2011 legislative session. The Special Account assets were not used in calculating the funded ratios of the Pension and Medical Subsidy Plans prior to June 30, 2012 because those assets were not available to pay the corresponding liabilities. Accordingly, Special Account assets are not included in the Ten Year funding status tables found in the "Results of Actuarial Valuation" section for years prior to 2012.

New Hampshire Retirement System
Pension and Medical Subsidy
Actuarial Value vs. Market Value
Fiscal Years 2005 to 2014

Fiscal Year	Actuarial Rate of Return (Per Actuarial Valuation Reports)	Actuarial Value of Assets (in thousands)	Market Value Rate of Return (NHRS CAFRs)	Market Value of Assets (in thousands)
2014	12.28%	$6,721,799	17.6%	$7,414,062
2013	7.12	6,092,504	14.5	6,428,009
2012	3.22	5,846,570	0.9	5,774,343
2011	6.90	5,798,249	23.0	5,891,179
2010	6.48	5,569,341	12.9	4,898,339
2009	-3.87	5,353,453	-18.1	4,461,211
2008	9.52	5,701,579	-4.6	5,597,047
2007	12.85	5,272,358	16.0	5,967,916
2006	9.27	4,647,973	10.0	5,112,256
2005	1.25	4,322,614	10.1	4,728,590

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 has recovered to $7.4 billion as of June 30, 2014. (It should be noted that future contributions to the System will be based upon the actuarial value of the System's assets, not market value, and such actuarial values will differ from market value.) The System's investments returned 12.9% for the year ended June 30, 2010. Based on the System's current asset allocations and market index returns over the same period, the System's investment returns are consistent with investment market returns. For the twelve months ending June 30, 2011, the System's total fund investment return (at market) was 23%. The actuarial rate of return for the year ended June 30, 2011 was 6.9%, which resulted in recognition of an actuarial loss. For the twelve months ending June 30, 2012, the System's total fund investment return (at market) was 0.9%. The actuarial rate of return for the year ended June 30, 2012 was 3.22%, which resulted in recognition of an actuarial loss. For the twelve months ending June 30, 2013 and June 30, 2014, the System's total fund investment returns (at market) were 14.5% and 17.6%, respectively. For the six months ending December 31, 2014, the System's total fund investment return (at market) was 0.5%. The System is a long-term investor. No prediction can be made of the short-term or long-term investment prospects for the System's investment portfolio. The System's net position was valued at $7.4 billion as of December 31, 2014.

Medical Subsidy Plans

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

As required for its fiscal year 2007 implementation of GASB Statement No. 43, the System conducted an actuarial valuation dated June 30, 2007 of its Medical Subsidy Plans. As part of implementing GASB Statement No. 43, the System underwent a compliance review of its medical subsidy program. The compliance review made multiple recommendations that were unanimously adopted by the System's Board of Trustees in November 2007. These recommendations included: (1) seeking IRS approval to correct a series of transfers that occurred from fiscal years 1990 through 2000 by participating in the IRS Voluntary Correction Program (VCP) (if approved, by the IRS a transfer of at least $26.4 million would be made from the 401(h) medical subtrust to the pension reserve); (2) seeking ratification by corrective State legislation of the 33-1/3% employer contributions that were made and prospectively abide by the 25% statutory limitation; (3) eliminating the financial reporting of the $295 million Medical Special Account as part of the postemployment health benefit plans and reporting the $295 million as Pension Plan assets; and (4) establishing the appropriate subtrusts in the 401(h) account and reconstructing the accounting for those subtrusts as determined by legal counsel to be the Medical Subsidy Plans administered by the System. In addition, correcting a $17.7 million shortfall in the State Employee Group Medical Subsidy Plans that has been subsidized by contributions from the Political Subdivision Medical Subsidy Plans as more fully described in the next paragraph. All four of these items have been appropriately corrected.

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

- Correct a series of seven plan document failures where the System failed to timely adopt provisions to comply with certain requirements of the IRS code. The affected provisions covered minimum vesting standards, treatment of forfeitures, required minimum distributions, specified factors for actuarial equivalence, eligible rollover distributions, updated requirements for annual benefit limitations and updated requirements for annual addition limitations and definition of compensation. At its June 2011 meeting, the Board adopted policies correcting the plan document failure.

- From fiscal year 1990 through fiscal year 2000, $26.4 million was transferred from Special Account pension assets to the System's 401(h) medical subtrust. Pursuant to RSA 100-A:16, II(h), the Special

Account is established to provide funding for additional benefits such as cost-of living adjustments. The funding for the Special Account was provided from earnings over a target rate that exceeded the assumed rate of return. When the Medical Subsidy Plans were originally enacted, the intent was to ultimately fund the benefit from the Special Account using a series of transfers. Specific transfers were made to fund a health subsidy for certain pre-July 1, 1988 police officer and firefighter retirees. This transfer was not permissible under Internal Revenue Code Sections 401(h) and 420. The System has corrected this operational failure and that correction is reflected in the System's fiscal year 2010 financial statements. A total transfer of $89.5 million is reflected in the fiscal year 2010 financial statements as a net asset transfer from the Police Officer and Firefighter 401(h) subtrust to the Special Account. The $89.5 million transfer consists of the original $26.4 million transfer plus interest of $63.1 million from July 1, 1989 to June 30, 2010. The Special Account had a balance of $239.1 million at June 30, 2010. Additional information pertaining to the Special Account can be found in Note 6 of the 2010 System CAFR. Pursuant to Chapter 224, Laws of 2011, effective June 30, 2011, all assets in the Special Account are transferred to the main account of the pension trust, except for a holdback of approximately $20 million to fund legislatively approved temporary supplemental benefit allowances for political subdivision employees receiving medical subsidy benefits. These allowances have been paid and the remainder of the funds transferred to the main account of the pension trust. Legislation was passed in 2012 that repealed the Special Account effective July 1, 2012. Although State statutes provided that 25% of employer contributions be credited to the 401(h) subtrust, for the time period fiscal year 2001 through fiscal year 2007, 33 1/3% of employer contributions were actually credited to the 401(h) subtrust. Failure to follow the terms of the plan document (in this case the State statutes) was considered to be an "operational failure" under IRS Revenue Procedure 2006-27. This operational failure was corrected in fiscal year 2007 through legislation that ratified the 33 1/3% contributed during fiscal years 2001-2007.

- The System amended the plan documents to affirmatively state that effective as of July 1, 1989, the System will determine the amount of any benefit that is determined on the basis of actuarial assumptions by using the assumptions adopted by the Board of Trustees and also state that such benefits will not be subject to employer discretion. For benefits on or after July 1, 2007, the actuarial assumptions used will be those included in the proposed plan amendments. At its June 2011 meeting, the Board adopted policies correcting the plan document failure.

- The System received a favorable tax determination letter from the IRS dated March 9, 2011 in response to the Voluntary Correction Program filing from April 2008. To comply with GASB Statement No. 43, the System received opinions from its legal counsel about the statutory construction of the Medical Subsidy Plans. Counsel concluded the System administers four such plans: (1) Group II covering law enforcement and fire safety employees, (2) Teachers, (3) Employees of Political Subdivisions and (4) Employees of the State. These opinions resulted in a shift in the way the Medical Subsidy Plans have been defined, accounted for and valued since inception. In the course of restructuring the accounting in accordance with GASB Statement No. 43, it became apparent that contributions to the Political Subdivision Employee Group plan have subsidized medical benefits paid for the State Employee Group by approximately $17.5 million, including interest, since inception.

- The System received a favorable tax determination letter from the IRS dated June 18, 2014 regarding both the pension trust and the medical subsidy program as part of the five-year Cycle C filing.

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

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

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

The significant changes to the System's financial statements resulting from the medical subsidy compliance review delayed issuance of the System's fiscal 2007 audited financial statements until September 2008. The System issued timely financial statements for fiscal years 2008 through 2014 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://www.nhrs.org/funding-and-investments/reports-valuations/annual-report-archive*.

Other Medical Subsidy Issues

On July 1, 2014, a suit was filed in Superior Court related to a case previously filed against the State and the NHRS regarding the elimination of medical subsidy annual escalator as well as the elimination of the "Special Account" that served as the funding mechanism for the subsidy. It is not possible to predict the outcome of the case at this time. In light of the Supreme Court's January 16, 2015 decision in the American Federation of Teachers case, the Petitioners filed an assented to Motion for Voluntary Dismissal and the parties await the court's expected grant of the motion. See LITIGATION – *Professional Fire Fighters of New Hampshire et al. v. State of New Hampshire et al ("Firefighters III").*

GASB issued two proposed Exposure Drafts (ED) regarding the accounting and financial reporting of OPEB by state and local governments. The guidance proposed in these Exposure Drafts would significantly change how state and local governments calculate and report the annual costs and long-term obligation associated with OPEB. These EDs are expected to become effective for fiscal years 2017 and 2018.

NHRS Related Litigation

There is pending litigation related to the NHRS. See LITIGATION– *Professional Fire Fighters of New Hampshire, et al v. State of New Hampshire ("Firefighters II").*

Legislative Activity

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

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

The 2014 legislative session included, but was not limited to, legislation that:

- Allows the retirement system to make a lump sum payment of $15,000 or less to the next of kin of a deceased member when no probate proceedings are pending.
- Grants NHRS electronic access to a limited data set of death, marriage, and divorce information of members and beneficiaries held by the Division of Vital Records Administration for purposes of administering RSA 100-A.
- Repeals the optional benefit program available to eligible call, substitute, or volunteer firefighters.
- Authorizes the state Department of Administrative Services to determine the feasibility of contracting with a credit card issuer to establish a credit card affinity program in which the fees received by the State are dedicated to reducing the System's unfunded liability.

- Clarifies the definitions of terms used in RSA 100-A; establishes a procedure for assessing the true actuarial cost of service credit purchases; clarifies the ability to earn service credit while on a salary continuance plan; adds a penalty for employers who fail to submit required monthly data in a timely manner; and repeals obsolete provisions.

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

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

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

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

A detailed discussion of legislative activity for the 2013 and 2014 legislative sessions can be found in Note 6 of the 2014 System CAFR.

The 2015 Legislative session has begun and includes the adoption of the fiscal year 2016-2017 biennial budget. Additional legislative changes may be proposed during the session. NHRS cannot now predict what additional changes, if any, may be proposed or enacted into law.

HEALTH CARE COVERAGE FOR RETIRED EMPLOYEES

In addition to pensions, many state and local governmental employers provide 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.

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

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

In the past, eligible retirees did not contribute toward the cost of health care. However, effective July 1, 2009, retirees under the age of sixty-five contributed $65 per month and an additional $65 per month for spousal coverage. Starting on July 1, 2011, the premium contribution changed from this flat fee amount to twelve and half percent (12.5%) of the total monthly premium for each retiree, or twelve and half percent (12.5%) of the total monthly premium for a two-person plan if coverage includes a spouse. The premium contribution through December 31, 2014, is $114.14 per covered person per month. Effective January 1, 2015, the premium contribution will be $113.86 per covered person per month.

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

State retiree health benefits paid from the Fund, including administrative costs, totaled $71.6 million to cover 11,970 retirees and dependents in fiscal year 2014 on a pay-as-you-go (cash) basis. The State does not pre-fund OPEB costs. However, it does have authorization to establish a trust account in which resources are identified and accumulated for purposes of funding retiree health benefits. To date no funds have been paid into the trust.

In 2011, following a procurement process, the Department of Administrative Services retained The Segal Company ("Segal") to assist, among other matters, in the determination and valuation of the State OPEB Plan liability under GASB Statement No. 45. Segal provides to the State benefits consulting, claims auditing and actuarial services for the purposes of setting rates for its self-funded health and dental plans. The current complete State OPEB Plan liability actuarial valuation as of December 31, 2012, dated September 27, 2013, is posted to the State's website at *http://admin.state.nh.us*. GASB Statement No. 45 does not mandate the prefunding of postemployment benefit liabilities. The State currently plans to only partially fund (on a pay-as-you-go basis) the ARC for the State OPEB Plan, 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 estimated amount contributed and the change in the net State OPEB Plan obligation reported in the State's CAFR for fiscal year 2014 (dollar amounts in thousands):

Annual Required Contribution/OPEB Cost	$139,139
Interest on net OPEB obligation	34,456
Adjustment to annual required contribution	(28,278)
Annual OPEB cost	145,317
Contributions made (pay-as-you-go)	(52,647)
Increase in Net OPEB Obligation	92,670
Net OPEB Obligation - Beginning of Year	765,699
Net OPEB Obligation - End of Year	$858,369

The increase in net State OPEB Plan obligation is $92.7 million for the State's fiscal year 2014.

The ARC for fiscal year 2014 is $139.1 million and the pay-as-you-go contributions made in fiscal year 2014 were $52.6 million on an accrual basis. Those contributions do not include NHRS medical subsidy and other sources as presented in the table entitled "State Retiree Health Funding Sources - Cash Basis" on the following page. NHRS medical subsidy payments are not included because the related obligation is excluded from the calculation above. In addition, Retiree Drug Subsidies (RDS) are excluded pursuant to guidance promulgated by GASB Statement No. 45. Other small differences will exist because of timing between cash and accrual basis of accounting.

Retiree health costs for fiscal years 2014 and 2015 were and are budgeted to total $67.5 million and $69.5 million, respectively. Of such amounts, the General Fund provided and will provide funding for approximately $33.4 million and $34.5 million for fiscal year 2014 and 2015, respectively. The remaining funding will be provided by self-supporting agencies, NHRS medical subsidies and drug rebates and subsidies.

As of December 31, 2012, the most recent actuarial valuation date, the actuarial accrued liability ("AAL") for benefits was $1,857 million, with no actuarial value of assets, resulting in UAAL of $1,857 million, as compared with a UAAL as of December 31, 2010 of $2,258 million. The decrease in the AAL and UAAL from the December 31, 2010 valuation is attributable to specific changes made to pricing of the prescription drug program, changes in plan design and premium contributions, and overall favorable health claim experience. The new valuation report was performed using updated data, a payroll growth assumption of 3.75% (down from 4.50%) and changes to mortality, disability, turnover and retirement rates consistent with changes made by NHRS based on its June 30, 2010 experience study. This amount does not include the State's share of the UAAL from the NHRS Medical Subsidy plans discussed below. Legislation imposed changes to eligibility in 2011 to further reduce the future liability. All Group I employees hired after July 1, 2011 will effectively be provided coverage that will wrap-around Medicare coverage when they turn 65 if they retire from the State with 20 years of State service. The December 31, 2012 valuation does not reflect the impact of this legislative change, which is expected to reduce the overall liability.

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

As described above under "STATE RETIREMENT SYSTEM," the NHRS currently provides medical subsidy payments on behalf of a closed group of retirees. Funding for the medical subsidy payments is included as a percentage of the employer contribution rate and is applied to active employee payroll similar to employer pension contributions. The NHRS then makes subsidy payments to the medical subsidy plans on behalf of eligible State retirees to offset the cost of retiree health. The 2013 Actuarial Valuation includes valuation of the NHRS Medical Subsidy Plan as of June 30, 2013. At that date, the NHRS Medical Subsidy Plan was unfunded; amounts paid by the State to the NHRS Medical Subsidy Plan are paid back to the State by the NHRS in the form of subsidy payments. The UAAL of the NHRS Medical Subsidy Plan at June 30, 2013 for the State employee group was $81.5 million. Additionally, based on current payroll data, approximately twenty percent of the Police and Fire Group of the NHRS Medical Subsidy Plan relates to State police. Accordingly, the State's portion of the UAAL of the Police and Fire Group at June 30, 2013 would approximate $65.7 million. The 2013 Actuarial Valuation can be viewed in its entirety at *www.nhrs.org/documents/NHRS_June_30_2013_Pension_Valuation.pdf*. The draft interim valuation as of June 30, 2014 shows the corresponding UAALs for the State employees and Police and Fire Group to be approximately $77.8 million and $64.5 million, respectively.

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

State Retiree Health Funding Sources – 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
2014	$33.3	$16.3	$12.3	$10.5	$72.4	$71.6
2013	34.2	15.2	12.4	10.8	72.6	70.9
2012	33.8	15.7	14.3	12.5	76.3	73.5
2011	30.3	13.7	14.2	12.4	70.6	75.9
2010	34.7	15.2	14.4	10.5	74.8	72.4

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

Chapter 144:33, Laws of 2013, created the Commission to Review Retiree Health Care Benefits (the "Benefits Review Commission") to review and recommend cost effective retiree health plan models for individuals hired after July 1, 2013 in light of PPACA. The Benefits Review Commission met on a weekly basis and its report was issued November 15, 2013. This report demonstrated that the 30-year projection of the State's OPEB liability, assesed at $6.8 billion, should actually be lowered to $5.8 billion when taking into account changes the New Hampshire legislature made to retiree health benefits eligibility laws between 2003 and 2011. The Benefits Review Commission recommended additional research into a number of areas that might potentially limit the State's future OPEB liability. The Benefits Review Commission's report can be accessed at ***http://www.admin.state.nh.us/***.

STATE RETIREE HEALTH PLAN COMMISSION

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

JUDICIAL RETIREMENT PLAN

The New Hampshire Judicial Retirement Plan (the "Judicial Plan") was established on January 1, 2005 pursuant to RSA 100-C:2. The Judicial Plan is a defined benefit plan providing disability, death, and retirement protection for full-time Supreme Court, Superior Court, or Circuit court judges employed within the State. As of January 1, 2014, the date of the most recent actuarial valuation, there were 49 active participants and 61 retirees, beneficiaries and other persons due benefits.

In connection with the establishment of the plan, the State engaged a consultant to prepare an actuarial valuation as of January 1, 2005, based on the final plan provisions and reflecting an initial funding payment of $42.8 million, which amount was provided from the proceeds of general obligation bonds issued by the State. The initial valuation determined the total accrued liability of the plan as of January 1, 2005, to be $43,669,534 and the value of the net assets of the plan to be $42,800,000, which amount was equal to the proceeds of the State's bonds. This valuation resulted in an unfunded actuarial liability as of January 1, 2005, of $869,534. As of June 30, 2013, $8,560,000 of the bonds issued by the State for this purpose remained outstanding. The bonds mature in fiscal year 2015 and the average annual debt service due on the bonds is approximately $4.5 million.

Additional information pertaining to the Judicial Plan is contained in the State's audited financial statements for the year ended June 30, 2013, 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 2013 CAFR, which report is also incorporated herein by reference and may be accessed at *http://admin.state.nh.us/accounting/*. The 2013 CAFR has also been filed with the EMMA and 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.; Executive Director, 14 South Street, Concord, NH 03301. Currently available reports include the Judicial Plan's Financial Statements and Required Supplementary Information as of December 31, 2013, and 2012 (the "2013 Financial Statements"), and the most recent Actuarial Valuation Report dated as of January 1, 2014 (the "2014 Judicial Actuarial Valuation"). The 2013 Financial Statements and the 2014 Judicial Actuarial Valuation are incorporated herein by reference. Similar reports for prior years are also available from the Judicial Plan at the address set forth above.

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

New Hampshire Judicial Retirement Plan
Selected Actuarial Valuation Results

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	41.00	FY 12-13
2012	41,547,067	29,758,435	58	64.50	FY 14-15
2014	41,136,968	39,575,961	51	70.90	FY 16-17

The State contributions expected to be paid in the 2016-2017 biennium total $4.9 million. Chapter 257, Laws of 2011, extended the amortization period for the unfunded accrued liability from 15 to 30 years. An actuarial valuation using January 1, 2014 data was issued in July 2014.

The market value of assets as of the January 1 valuation dates is shown below.

January 1, 2008	$51,857,186
January 1, 2010	$36,678,291
January 1, 2012	$36,303,522
January 1, 2014	$43,938,985

The actuary for the Judicial Plan uses several actuarial assumptions in the 2014 Judicial Actuarial Valuation including the investment return rate at 7.0% and the wage inflation rate of zero for the next two years and 3.0% annually thereafter commencing in calendar year 2016. 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. However, the use of the corridor in the January 1, 2014, actuarial valuation for the Judicial Plan did not affect the actuarial value of assets that would have been established in its absence.

Employer contribution rates depend on all of the actuarial assumptions used in determining the contribution rates. The assumptions used in the 2014 Judicial Actuarial Valuation are set forth in Appendix B thereto. The following table sets forth a summary of certain assumptions used in the 2014 Judicial Actuarial Valuation.

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 to 12/31/2009
Equivalent single amortization period	30 years From 01/01/2010 to present
Asset valuation method	5-year smoothed market
Actuarial Assumptions:	
Investment rate of return	7.0% as of 01/01/2012 8.0% prior to 01/01/2012
Projected salary increases	3.0%

See "LITIGATION - *Cloutier v. State and Judicial Retirement System*" below for information pertaining to litigation regarding the Judicial Plan. According to the 2014 Judicial Actuarial Valuation, the result of the decision of judges that had elected by January 1, 2015, to receive benefits under the old plan will be a negative $1.9 million impact. Under a new law signed on July 11, 2014, those sitting and retired judges eligible to elect between plans have been sent letters requesting an election. Responses to those letters resulted in the calculation above.

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 9,200 employees in some thirty bargaining units. The employees of the University System, the Community College System of New Hampshire and the New Hampshire Retirement System are not classified state employees and are not included in any of these bargaining units. The sworn non-commissioned and commissioned employees of the Division of State Police are represented by the New Hampshire Troopers Association (the "NHTA"). Fish & Game Conservation Officers Fish & Game Conservation Officer Supervisors, Probation Parole Officers, Probation Parole Officer Supervisors and Liquor Enforcement Officers are represented by the New England Police Benevolent Association (the "NEPBA"). The Teamsters are the exclusive representative of the uniformed Corrections Officers and Corrections Corporals of the Department of Corrections.

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 Public Employee Labor Relations Board ("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 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 NEPBA or whether they would continue to be represented by their current union, the SEA. The Supreme Court based the decision upon the "contract bar" rule and remanded the case to the PELRB. The PELRB vacated the certifications of the Corrections units and both units were again represented by the SEA. In a subsequent election, the uniformed Corrections Officers again voted to be represented by the NEPBA and the uniformed Corrections Supervisors voted to remain with the SEA. Three other units formerly represented by the SEA voted to decertify the SEA and certify the NEPBA as their exclusive representative. Those units are Probation Parole Officers, Probation Parole Supervisors and Liquor Enforcement Officers. In 2014, the State Police Command Staff decertified from the SEA and joined the NHTA.

The State began negotiations with the SEA, NHTA, NEPBA and the Teamsters in October of 2014 and continues to negotiate with all four unions. Upon completion of this round of bargaining, the new collective bargaining agreements, once ratified by each of the four unions and funded by the State legislature, will remain in effect from July 1, 2015 through June 30, 2017.

LITIGATION

The State and certain of its agencies and employees are defendants in numerous lawsuits that assert claims regarding social welfare program funding, breach of contract, negligence, and 42 U.S.C. §1983. Although the Attorney General is unable to predict the ultimate outcome of the majority of these suits, the State believes that the likelihood of such litigation resulting, either individually or in the aggregate, in final judgments against the State which would materially affect its financial position is remote. Accordingly, no provision for the ultimate liability, if any, has been made in the State's financial statements.

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

Chase Home et al v. Division of Children, Youth and Families. In November 2007, seven residential childcare providers, which had previously sued the State to enforce administrative awards of higher rates but had lost that suit on procedural grounds, initiated a new suit in Merrimack County Superior Court against the Division of Children, Youth and Families ("DCYF"). The claims included (1) breach of contract, (2) breach of implied covenant of good faith and fair dealing, (3) unconstitutional taking, and (4) deprivation of rights under 42 U.S.C. §1983. Petitioners sought retroactive payment of more than $3 million as well as costs and attorneys' fees. The State filed a motion for summary judgment on the grounds that DCYF does not have a contractual relationship with the providers, and that it has not engaged in any unconstitutional taking of property. On December 5, 2008, Petitioners filed a motion to amend their complaint to state a separate claim based on statutory violations created by DCYF's statutory obligation to pay for residential childcare services provided under certain provisions of State law. A hearing on the parties' motions for summary judgment was heard on July 31, 2009. The Court denied the State's motion for summary judgment and granted in part the petitioner's motion giving collateral estoppel effect to the 2006 hearing officer's finding that there was sufficient money in the State budget to pay the three petitioners that had appealed in that year. In May 2010, the Court ruled in favor of Petitioners and found that the State had breached its contracts and that there was sufficient money appropriated in the years in question to pay the petitioners. The damages were found to be $3.5 million. Attorney's fees were denied as was a motion for reconsideration filed by the State. This matter was appealed by the State and the State's brief was filed on February 11, 2011. Oral argument was held on September 13, 2011. The Supreme Court issued a decision upholding the trial court's determination that there were valid contracts and holding DHHS liable for a judgment of $3,553,479.55 regarding the claims related to fiscal years 2004 through 2006. Calculation of allowable interest will add approximately $320,000 to the judgment. There are similar claims for some of the same providers pending in DHHS administrative appeals unit for fiscal years 2007 through 2010. The Department estimates the potential liability for the outstanding years is between $2 and $5 million (state portion only). DHHS has determined that it does not have an appropriation from which the judgment can be paid. On February 3, 2012, the judgment was submitted to the Legislature in accordance with RSA 491:8. The Legislature did not pass legislation to appropriate the funds to pay this judgment during the 2012 legislative session. However, $2.7 million was accrued for this judgment and is reflected as a liability in the State's audited fiscal year 2012 financial statements. HB 486-FN was introduced and adopted in 2013 to appropriate the funds to pay the judgment. The judgment was paid. The claims for 2007-2010 remain pending at the administrative level.

State of New Hampshire v. Phillip Morris USA, RJ Reynolds, Inc. and Lorillard Tobacco Company. This matter is a petition for a declaratory order. Defendants are signatories to the Tobacco Master Settlement Agreement under which Defendants are required to make annual payments to all of the states, including the State of New Hampshire. The annual payments received since 2006 have been approximately $5 million below the required amount. On June 5, 2006, the Superior Court ordered the case to arbitration under the terms of the Master Settlement Agreement. A notice of appeal was filed to the New Hampshire Supreme Court on August 11, 2006. Briefs were filed and oral argument occurred in March, 2007. The Supreme Court affirmed the ruling of the Superior Court on June 22, 2007. The arbitration process for all states began on July 1, 2010, and is expected to last at least two years. The tobacco companies are seeking recovery of up to the entire annual payment of approximately $50 million made to the State under the MSA. The tobacco companies have identified thirty-five states they claim failed to "diligent enforce" their obligations under the MSA, including New Hampshire. The arbitration will begin April 23, 2012 with a presentation of facts and issues common to all the individual state cases. Individual state hearings are scheduled to begin May 21, 2012 and will continue at least through 2012. New Hampshire's hearing, scheduled for November, 2012, was postponed. Since that time, some states, including New Hampshire, have joined in a settlement agreement which has been submitted to the New Hampshire Legislature and was approved in March 2013. The settlement resolves the diligent enforcement dispute with the settling states through 2015. Under the terms of the settlement, the tobacco companies accepted a reduction in their claim for a non-participating manufacturer (NPM) adjustment against the settling states. The settlement resulted in the release by the tobacco companies of approximately $63.2 million to New Hampshire from the disputed payments account. In exchange, New Hampshire's 2013 annual tobacco payment was reduced by approximately $42.4 million, and its annual payment will be reduced through 2017 by approximately $4 million, as payment for its share of the settlement agreement. An additional reduction in the State's annual payment is possible in 2014 and 2015 based upon a deficiency in escrow payments as determined by a comparison of escrow deposits and State excise tax paid. It is not possible to predict the outcome of the 2014-2015 payments at this time. Any such reduction will come from the 2016 annual payment. This matter is now concluded.

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

By letter dated July 9, 2007, DHHS received a final report from OIG regarding an audit of DSH payments during federal fiscal year 2004. See MEDICAID PROGRAM. The report found that the $35,325,468 federal share for federal fiscal year 2004 was unallowable on the grounds that the State's cost to charge ratio was inflated. The report recommended that the federal share be refunded and that the State work with CMS to review DSH payments claimed after the audit period and refund any overpayments. DHHS responded to CMS regarding the report on August 8, 2007. Based on DHHS's response to a previously transmitted draft report, the OIG reduced the amount it recommended for repayment in the July 9, 2007 final report by approximately $9 million. The draft report had recommended repayment of $44,418,237.00. In October 2009, DHHS received a Notice of Disallowance from

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

Cloutier v. State and Judicial Retirement System. In this matter, former Judge Cloutier challenges RSA 100-C, Judicial Retirement Plan, enacted in 2003. The Judicial Retirement Plan created by RSA 100-C limits a judge's retirement to 75% of the salary earned in the judge's last year of service, instead of 75% of the current salary level that was in effect prior to July 1, 2003 when RSA 100-C took effect. Plaintiff argued that he was a permanent employee when the statutory change was made and therefore he had a vested right in the retirement benefits that existed prior to July 1, 2003. The parties agreed to submit the case on pleadings with an agreed-to statement of facts. Six more retired judges intervened as plaintiffs in the case. The parties filed cross motions for summary judgment. On September 14, 2010, the Superior Court granted summary judgment for Plaintiffs, and found that RSA 100-C is unconstitutional as applied to the judges who accepted their positions before the statutory change to the retirement system. The State appealed and it, the Board of Trustees for the Judicial Retirement Plan (the "Judicial Board"), and Plaintiffs filed their briefs. The case was argued before a substitute panel of the New Hampshire Supreme Court on August 26, 2011. The New Hampshire Supreme Court issued a decision, affirming in part, reversing in part, and remanding the case. The court held that RSA chapter 100-C impairs the obligations entered into under the prior retirement statutes, but remanded the issue of whether the contractual impairment is offset by any compensating benefits under RSA chapter 100-C. A status conference was held and expert reports were due in September, 2012. Briefs on the merits are due from all parties in November, 2012. The Petitioners and the Judicial Board disclosed expert reports in September, 2012, after which the parties agreed that additional time was necessary to review those reports and disclose any additional expert reports. The State obtained an expert witness who reviewed the expert reports. The Judicial Board disclosed a supplemental expert report in January 2013, and Petitioners disclosed a supplemental expert report in February 2013. The Court granted Plaintiffs' motion for summary judgment finding that RSA 100-C substantially impaired Plaintiffs' vested rights under the prior retirement statutes. The Court ruled that Plaintiffs could elect to receive future benefits under the prior retirement statutes but they would have to reimburse the Judicial Retirement Plan for the excess amount of benefits they had received to date under RSA 100-C. Five plaintiffs elected to continue receiving benefits under RSA 100-C, one plaintiff elected to receive benefits under the prior retirement statutes and one settled with the Judicial Retirement Plan incorporating an election to return to the prior retirement system. The Court denied Plaintiffs' request for attorneys' fees, but awarded Plaintiffs $18,812 in costs. Neither party appealed and this case is now concluded.

American Federation of Teachers - New Hampshire, et al v. State, Retirement System et al. ("American Federation of Teachers"). In this matter, a group of 12 plaintiffs, seeking class certification for all of the other New Hampshire retirees, filed suit on August 7, 2009, challenging the changes to the retirement system made pursuant to 2008 N.H. Laws Chapter 300, that affect (1) earnable compensation; (2) COLA payments; and (3) medical subsidies. Plaintiffs also sought class certification for all other New Hampshire retirees eligible for State retirement benefits. In July 2010, Plaintiffs were allowed to amend their petition. The parties filed cross motions for summary judgment on December 5, 2010. In January 2011, the Superior Court issued an order indicating that it would defer ruling on the parties' summary judgment motions until the class certification process was complete. Plaintiffs withdrew their request for class certification, and the New Hampshire Superior Court approved an interlocutory appeal without ruling to the New Hampshire Supreme Court. The Supreme Court has declined to accept the interlocutory appeal. In July 2013, the Superior Court issued an order holding that the Contracts Clause applies to employees who are vested in the retirement system (10 years), and the law is unconstitutional as to them. The Court found that the COLA benefit was not contractually protected, and found that aspect of the law constitutional. The Court also found that the modification to the special account (removing the funding for medical subsidies) was necessary to serve a substantial public interest, and therefore does not violate the Constitution. On November 18, 2013, the court denied the plaintiffs' motion to reconsider, and on December 3, 2013, the State filed a notice of appeal with the New Hampshire Supreme Court. On December 19, 2013, the plaintiffs filed a cross appeal. On January 16, 2015, the Supreme Court ruled in favor of the State, and reversed the trial court's decision regarding earnable compensation, and further upheld the trial court's decision regarding COLA payments and medical subsidies. On remand from the Supreme Court, the trial court entered judgment for the State. This matter is now concluded.

Leighton, et al v. State of New Hampshire. This matter challenges the constitutionality of RSA 77:39, the State's 10% tax on gambling winnings. Plaintiffs brought this as a class action, but the State objected to it being certified as a class action, and the court has not yet ruled on that issue. The parties filed a joint interlocutory transfer without ruling in the Supreme Court, which was denied on February 23, 2011. The case has returned to superior court and is scheduled for a structuring conference on April 11, 2011. The parties agreed that the case can be decided on cross-motions for summary judgment. The State agreed to settle Plaintiff Leighton's claims for $260,300, but the remaining gambler plaintiff's (Willey's) claims remain. After the State settled Plaintiff Leighton's claims, a new lottery winner joined the case as a plaintiff. The parties filed cross motions for summary judgment. In October 2011, the trial court denied the Plaintiffs' motion for summary judgment. The court granted, in part, the State's cross-motion for summary judgment with respect to the plaintiffs' facial challenge to the statute and denied the State's motion, in part, finding that there was a question of fact as to whether Willey was a "professional gambler**."** Willey has since conceded that he is not a "professional gambler" under the legal test articulated by the court in its summary judgment order. Plaintiffs attempted to find a professional gambler to intervene in the case, but were unsuccessful. In June 2012, the declaratory judgment statute, RSA 491:22, was amended. Plaintiffs claim that the amendment provides them with standing to challenge the Gambling Winnings Tax as an occupation tax even if they are not professional gamblers. The parties agreed to continue the bench trial and file cross-motions for summary judgment. Plaintiffs filed a motion for summary judgment in September, 2012 and the State's objection and cross-motion was filed in October, 2012. The court granted the State's motion for summary judgment, and Plaintiffs have appealed to the Supreme Court. The Supreme Court issued an opinion on June 13, 2014 affirming the trial court's decision. Plaintiffs filed a motion for limited reconsideration which was denied on July 10, 2014. This matter is now concluded.

Walker Digital, LLC v. Multi-State Lottery Assoc. This matter, filed in the United States District Court of Delaware, alleges patent infringement against the Multi-State Lottery Association ("MUSL") regarding the Power Play and Megaplier games. MUSL believes the action is without merit, has responded to the lawsuit, and is taking actions to defend itself in this matter. The New Hampshire Lottery Commission is not named as a party to this lawsuit but is a member of MUSL. The Multi-State Lottery Association entered into an agreement with Walker Digital, LLC to purchase the disputed patents. The State has been informed that the litigation has been dismissed with prejudice. This matter is now concluded.

Professional Firefighters, et al v. State of New Hampshire ("Firefighters I"). This matter is an action challenging 2011 New Hampshire Laws Chapter 224, Sections 172 and 188, also known as House Bill 2 ("HB 2"). Section 172 modified the contribution rate of employee members of the NHRS. Section 188 required NHRS to recertify rates for employers based upon changes made to the retirement statute, RSA 100-A. NHRS issued recertified employer rates in August 2011. Petitioners allege the following claims: Section 188 violates Part I, Art. 36-a of the New Hampshire Constitution; Section 172 violates the Contract Clause of the New Hampshire Constitution and the United States Constitution; Section 172 violates Part I, Art. 12 of the New Hampshire Constitution (takings); Sections 172 and 188 violate Part I, Art. 12 of the New Hampshire Constitution (equal protection); Section 172 violates the takings clause of the United States Constitution; and Sections 172 and 188 violate Part II, Art. 5, of the New Hampshire Constitution. Petitioners also seek relief under 42 U.S.C. §1983 against the Commissioner of Administrative Services for alleged violations of Petitioners' rights under the Contract and Taking Clauses of the United States Constitution. A preliminary hearing was held on July 14, 2011, after which the Court allowed Petitioners to file an amended complaint. The State filed a Motion to Dismiss the amended complaint, and Petitioners objected. On January 6, 2012 (issued January 31, 2012), the Court ruled that the increase in member contributions is unconstitutional as to those members who are "vested" as that term is defined in the retirement statute (10 years in the retirement system). The Court dismissed the lawsuit, however, on the grounds that Petitioners did not allege they are "vested employees." The Court's dismissal was without prejudice and allowed Petitioners to file an amended petition by March 1, 2012. The Court also dismissed the request to enjoin the recertification of employer contribution rates, stating that members do not have standing to challenge the employer contribution rate. Petitioners filed a second amended petition on February 24, 2012, and the State filed a renewed motion to dismiss. The Superior Court denied the State's motion to dismiss, and granted the parties' joint motion for interlocutory appeal. The New Hampshire Supreme Court declined to accept the interlocutory appeal. The parties filed cross motions for summary judgment on the issue of whether the increase in the employee contribution is constitutional. In September, 2013, the Court granted summary judgment for Petitioners to the extent they are vested in the retirement system (ten years). The Court ruled that vested members have a contractual interest in their contribution rates, and legislative changes cannot substantially impair those rights. On July 11, 2014, the plaintiffs filed a new related lawsuit (*Firefighters IV*) seeking payment of the additional employee contributions paid under HB 2. In October 2013, both parties filed notices of appeal with the Supreme Court. On December 10, 2014, the New Hampshire Supreme Court found there was no unmistakable intent by the legislature to bind itself from prospectively changing the employee contribution rate, and the court found no constitutional violation and remanded the case to the trial court for entry of judgment. On remand from the Supreme Court, the trial court entered judgment for the State. This matter is now concluded.

Professional Fire Fighters of New Hampshire, et al v. State of New Hampshire ("Firefighters II"). This suit challenges other portions of HB 2 that affect the State Retirement System. Petitioners challenge Section 161 (definition of Earnable Compensation), Section 163 (definition of Average Final Compensation), Section 164 (Maximum Retirement Benefit), Section 166 (Age Multiplier to calculate benefit), and Section 186 (repeal of disability exception from the gainful occupation reduction provision) of HB 2. Petitioners seek an order finding HB 2 is unconstitutional under the Contracts and Takings Clauses of both the New Hampshire Constitution and the United States Constitution. Petitioners also sought injunctive relief, payment of damages and attorneys' fees. The issues raised in this lawsuit are similar to the issues raised in *Firefighters I (*see *Professional Firefighters, et al v. State of New Hampshire (Firefighters I)* above). The trial court issued a preliminary order in May 2013, which held that employees have a contractual interest in their retirement benefit when they become "permanent employees" (approximately 1 year into employment). The Court found there is a factual question on whether the changes to the law resulted in a "substantial impairment" and did not issue an injunction. The case had been stayed pending the outcome of *Firefighters I* and *American Federation of Teachers*. In light of the Supreme Court's decisions in those cases, the trial court has scheduled a status conference for April 23, 2015. It is not possible to predict the outcome of this matter at this time.

Professional Fire Fighters of New Hampshire et al. v. State of New Hampshire et al. ("Firefighters III"). This suit arises out of the 2009 changes to the retirement system at issue in the American Federation of Teachers case. The plaintiffs argue that the transfer of $250 million from the "Special Account" and changes to COLA payments are unconstitutional under the Contract Clause. In light of the Supreme Court's decisions in *Firefighters I* and *American Federation of Teachers*, the plaintiffs filed a voluntary dismissal of the lawsuit. This matter is now concluded.

Anderson v. Lagos. In September 2012, the State and the NHRS were named in a third lawsuit related to HB 2 that was filed in Merrimack County Superior Court. A group of four NHRS retirees sought declaratory relief and a temporary injunction against the HB 2 provision, as amended by 2012 New Hampshire Laws Chapter 244, that generally limits an NHRS retiree from working more than 32 hours a week for NHRS participating employers. Petitioners challenge that provision on the basis that it results in an unconstitutional impairment of the retirees' contract rights as of their respective retirement dates prior to the passage of HB 2. A hearing was held on September 18, 2012, and the temporary injunction was not granted. Petitioners were allowed to submit a memorandum of law to which the State responded. A second hearing was held and the Superior Court denied the request for a temporary injunction. Cross motions for summary judgment were filed and, in August 2013, the Court granted the State's motion and denied plaintiffs. The Court found that Petitioners were never vested with the rights of part-time or full-time police officers. Petitioners appealed to the Supreme Court and the Supreme Court issued an order on September 20, 2014, affirming the decision of the trial court. This matter is now closed.

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

Dube, et al. v. Governor Margaret Wood Hassan (formerly *United States Department of Justice's Investigation of the State's Mental Health Services Delivery System*). On April 7, 2011, the United States Department of Justice ("USDOJ") issued a letter finding that the State failed to comply with aspects of the Americans with Disabilities Act, 42 U.S.C. §§ 12131-12134 (Part A), by not providing services for individuals with mental illness that allow them to live in the most integrated community-based settlings appropriate for their needs. The USDOJ's findings were based on an investigation it performed of New Hampshire's mental health services system over a four month period. On December 6, 2011, the State issued a formal response to the USDOJ findings. The response describes the basis for the State's disagreement with the USDOJ's findings, and asks the USDOJ to withdraw its findings. In a companion matter, on February 9, 2012, six State residents who have received mental health services from either New Hampshire Hospital or Glencliff Home filed a class action lawsuit in the U.S. District Court alleging New Hampshire has failed to provide adequate community-based mental health services. This case is *Ellsworth, et al. v. Governor John Lynch, et al*. USDOJ joined this lawsuit as a plaintiff. Motions and objections to class certification were filed in January 2013 and March 2013 and, in September 2013, the Court granted class certification. The State appealed this decision to the First Circuit Court of Appeals. Settlement discussions are ongoing. As a result, the parties filed stays of both the District Court case and the First Circuit case for 60 days. On December 19, 2013, the parties reached a settlement. A hearing on the settlement was held on February 12, 2014, and the Court approved the settlement agreement at the hearing. The parties agreed to dismiss the appeal to the First Circuit and matter was dismissed by the First Circuit on March 14, 2014. The settlement includes new and additional community-based services for individuals with serious mental illness. The estimated increase in General Fund expenditures for fiscal years 2014-2015 is approximately $6 million. In fiscal years 2016-2017, the expected increase in General Fund expenditures is approximately $23.7 million. The State has also agreed to pay the plaintiffs $2.4 million for legal fees and expenses. Funding for the additional services was requested in HB 1635, which passed both the House and Senate and has been signed by the Governor. This matter is now concluded.

Catholic Medical Center, et al. v. DRA. Catholic Medical Center ("CMC"), Exeter Hospital ("Exeter"), Northeast Rehabilitation Hospital ("Northeast Rehab") and St. Joseph's Hospital ("St. Joseph's") filed three separate lawsuits challenging the constitutionality, both facially and as applied, of RSA 84-A, the Medicaid Enhancement Tax ("MET"). The hospitals claim the MET tax is unconstitutional under both state and federal law because: (1) it taxes hospitals for net patient services revenue (NPSR) but does not tax other medical entities for the same revenue; and (2) there is an alleged different rate of taxation assessed between the hospitals and rehabilitation hospitals. Each hospital seeks full reimbursement of the tax it paid in fiscal year 2011. These respective amounts are: CMC - $12,521,429; Exeter - $10,269,562; Northeast Rehab - $1,480,632; and St. Joseph's - $8,693,811. The parties to the CMC litigation settled the 2011 claims and agreed that the remainder of the case would be only for fiscal year 2014 and beyond. The amount at issue for fiscal year 2014 is approximately $200 million. The Northeast Rehab case is still separate but the parties in that case have also agreed to an agreed stipulation of facts and will litigate the case through cross-motions for summary judgment. After the parties filed cross motions for summary judgment, on February 7, 2014, the trial court in the Northeast Rehab case found a portion of the tax (revenue from outpatient hospital services) to be unconstitutional. It implicitly found the State's taxation of inpatient treatment to be constitutional. Finally, the trial court held that the MET did not constitute a double tax of for-profit hospitals. Both parties appealed this decision. On April 8, 2014, the trial court in the CMC case found the entire tax (inpatient and outpatient hospital services) unconstitutional.

The State entered into a global settlement with 25 hospitals including CMC, Exeter and Northeast Rehab. Litigation with these three hospitals will be stayed pending federal approval of changes to the State's distribution of DSH payments. Dismissal of the litigation will not occur until after the settlement is implemented, which may take several years. St. Joseph's did not agree to the settlement, and is the only remaining active litigant in the MET litigation challenging the constitutionality of the 2011 MET statute. On September 15, 2014, the court issued an order temporarily staying the proceedings for six months pending CMS's review of the amended State plan. CMS has approved the State's plan, and the State has requested that CMC and Exeter withdraw from the litigation. Once the stay is lifted, the litigation will proceed against St. Joseph's, at which time the issue of mootness will be addressed. It is not possible to predict the outcome of this case at this time.

St. Joseph's Hospital v. DRA. On October 15, 2014, St. Joseph's filed a new lawsuit challenging the constitutionality of both the 2014 changes to the MET and the previous law. The plaintiff also claims that the revisions to the law do not apply because it paid the tax before the changes went into effect, and seeks a full tax refund for its fiscal year 2014 MET of $9,379,356. This complaint is derivative of a lawsuit previously filed captioned *Catholic Medical Center, et al. v. DRA*. The State has filed its answer, denying the plaintiff's claim that the law (both in its original form and as amended) is unconstitutional. The parties have filed a case management proposal, requesting that trial be scheduled in January 2016. The case is in its preliminary stages, and no court proceedings have yet been scheduled.

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

A hearing was held on the State's Motion to Dismiss on October 10, 2008. By an order dated November 17, 2008, the Court denied the State's Motion to Dismiss with regard to Plaintiff's claims of breach of contract, estoppel, breach of implied covenant of good faith and fair dealing, and inverse condemnation. On or about December 30, 2008, the State filed a Motion for Summary Judgment on all of Plaintiff's claims. On April 17, 2009, the Court issued an order granting the State's Motion for Summary Judgment in full, and entered judgment in favor of the State. Following a denial of Plaintiff's Motion for Reconsideration, Plaintiff filed an appeal with the New Hampshire Supreme Court. The Court issued an interim order on June 25, 2010 remanding the case back to the trial court for a ruling on whether Plaintiff has standing to bring the lawsuit. A hearing was held on the issue of whether the parties intended to release Plaintiff's claims when Plaintiff assigned the lease to a third party. The trial court issued an order ruling that Plaintiff has standing to seek reformation of the lease. The State has appealed that decision to the Supreme Court. Briefs were filed in June, 2012, with issues combined from the Plaintiff's 2009 and 2012 appeals. Oral argument on both the 2009 and 2012 appeals was held on September 13, 2012. In April 2013, the Supreme Court affirmed in part, reversed in part, vacated in part, and remanded the case to the Superior Court for trial on the issues of estoppels and reformation of contract. On July 10, 2014, the Superior Court issued an order on the merits. The Court reformed the lease contract to make the leasehold boundary coterminous with the State's property boundary, but denied the Plaintiff's claim for estoppel and inverse condemnation, and did not award any damages to the Plaintiff. Neither party appealed. This matter is now closed..

Gary Dube et al. v. State of New Hampshire et al. Harbor Homes, Inc. ("Harbor Homes"), a provider of Medicaid-funded community mental health services, and four individuals who had been receiving services from Harbor Homes prior to June 30, 2011 sued the State and DHHS, challenging the State's decision to consolidate delivery of community mental health services in the approved community mental health program for Region 6. The core issue is whether the State rules requiring an interagency agreement with a community mental health program is a reasonable qualification in order to qualify as a community mental health provider of Medicaid-funded services. On January 25, 2012, the Court issued an order granting, in part, the State's Motion for Summary Judgment, but left open the plaintiffs' claim whether the State violated Harbor Homes' due process rights with respect to the Greater Nashua Mental Health Center's refusal to enter into a new interagency agreement upon expiration of the prior agreement. On August 2, 2012, the Court issued an order granting the State's motion for summary judgment on Plaintiff's due process claim. On August 31, 2012, the plaintiffs filed a motion for voluntary non-suit without prejudice of the remaining claims. That motion was granted and the plaintiffs filed an appeal of the issues decided in the two motions for summary judgment. Briefs were filed with the Supreme Court. On June 18, 2014, the Supreme Court concluded that the rule requiring an interagency agreement is not a reasonable qualification requirement, reversed the trial court's grant of summary judgment and remanded it to the trial court. A status conference is scheduled for September 2, 2014. The plaintiffs have also filed a new lawsuit for declaratory and injunctive relief, which simply reasserts the same claims as are made in the case remanded to the Superior Court. It is not possible to predict the outcome of this case at this time. The State has settled with the individual plaintiffs, agreeing to allow them to receive functional support services from Harbor Homes, and payments of $160,000 in attorney's fees and $2,500 in costs. The parties filed cross motions for entry of judgment, and on February 10, 2015, the trial court partially dismissed the lawsuit on the grounds of mootness, but found that because Harbor Homes was not a party to the settlement, its claim under Count II for injunctive relief and attorneys fees was not rendered moot. It further declined to enter judgment for Harbor Homes.

Harbor Homes v. DHHS. Harbor Homes filed a separate breach of contract and procedural due process lawsuit. This complaint is derivative of a lawsuit previously filed in Merrimack Superior Court on June 28, 2011, *Dube et al. v. State of New Hampshire et al*. DHHS filed a motion to dismiss on August 28, 2014, to which Harbor Homes has objected. Harbor Homes also filed an amended complaint, to add claims against Commissioner Toumpas in his individual capacity. A motion to dismiss the amended complaint has also been filed, and the plaintiff has objected. A hearing on the motions to dismiss was held on March 23, 2015. It is not possible to predict the outcome of these cases at this time.

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

Aranosian Oil Co., et al. v. State. Several independent oil dealers brought a petition for declaratory judgment and equitable relief seeking to recover money they previously paid into the Oil Discharge and Disposal Fund ("ODD Fund") in the event the State prevails in the matter of *State v. Hess et al*. The petition argues that the fees paid into the ODD fund are unconstitutional, and also argues theories of unjust enrichment and equitable right of subrogation. The petition is identical to one brought previously by a number of the same plaintiffs, which was dismissed by the Superior Court on the issue of ripeness. Plaintiffs allege damages of approximately $17.8 million. Trial occurred on May 30, 2014 and the trial court issued a decision denying the plaintiff's claims against the State. The plaintiffs have appealed, and briefs will be filed by the end of April 2015. Oral argument has not been scheduled. It is not possible to predict the outcome of this case at this time.

White Mountain Communications Co. v. New Hampshire Department of Administrative Services, et al. This is a civil action initiated by a general contractor against the Department of Administrative Services ("DAS"), Department of Resources and Economic Development ("DRED") and two DAS employees, regarding a contract to construct of four mountaintop communication facilities. The plaintiff is alleging that the State breached its contract with the plaintiff by improperly terminating the construction contract in February of 2012 without just cause. The plaintiff has also made claims for unjust enrichment, fraud and breach of the implied covenant of good faith and recently filed several claims against its surety. The defendants filed cross claims against the plaintiff in this matter. The surety has moved to dismiss the plaintiff's claims and a decision on that motion is pending. The parties and court have agreed not to set a new discovery and trial deadline until the motion to dismiss has been decided. The parties have also discussed renewing settlement discussions. The State has not yet made an offer in this matter. The plaintiff and its surety made a combined demand of approximately $1.3 million. However, the plaintiff disclosed an expert in the administrative appeal who estimated total damages to be approximately $2.5 million. Additionally, the plaintiff has amended its complaint to add its surety as a party. Trial is scheduled for August 2015, and a mediation is scheduled for April 2015. The surety recently added three new (non-State) parties to the case which may delay the April mediation and August trial date. It is not possible to predict the outcome of this case at this time.

Law Warehouses, Inc. v. New Hampshire State Liquor Commission. Law Warehouses Inc. ("LWI") has provided warehousing services to the New Hampshire State Liquor Commission ("NHSLC"). The parties' most recent contract ended on October 31, 2013. In March 2012, the NHSLC issued a Request for Proposals (RFP) requesting bids for a 20-year warehousing services contract to begin upon the expiration of its current contract with LWI. In June 2012, LWI and four other vendors submitted bids under the RFP. On November 20, 2012, following a thorough review of each bid, the NHSLC awarded the warehousing contract to Exel, Inc. ("Exel"). LWI finished third under the NHSLC's bid scoring system. LWI did not participate in the protest process outlined in the RFP, but instead, on February 27, 2013, filed a civil action requesting that the court preliminarily enjoin performance of the contract between the NHSLC and Exel and order that a new bidding process take place. LWI contends that the NHSLC improperly modified the RFP in favor of Exel's bid in violation of New Hampshire's competitive bidding laws. The NHSLC has filed a motion to dismiss for improper venue. The motion to dismiss was denied as was the preliminary injunction. In September, LWI filed a petition for original jurisdiction with the Supreme Court to which the State objected. The Supreme Court denied LWI's petition for original jurisdiction. NHSLC filed a motion for summary judgment on January 31, 2014. On October 28, 2014, the trial court ruled that LWI's tort damage claims were capped at $475,000, and granted the motion regarding equitable claims. The trial court denied summary judgment and concluded that LWI's promissory estoppel and tort claims would proceed to trial. At trial, the court will rule on the promissory estoppel claim and the State's sovereign immunity defense, and the jury will decide the tort claims. The Court reserved the issue of whether it will hold a pre-trial evidentiary hearing on the issue of immunity. Trial is scheduled for May 2015. It is not possible to predict the outcome of this case at this time.

XTL-NH, Inc. v. New Hampshire State Liquor Commission and Exel Inc. In March 2012, the NHSLC issued an RFP requesting bids for a 20-year warehousing services contract. In June 2012, XTL-NH, Inc. ("XTL") and four other vendors submitted bids under the RFP. On November 20, 2012, following a thorough review of each bid, the NHSLC awarded the warehousing contract to Exel, Inc. ("Exel"). XTL finished second under the NHSLC's bid scoring system. XTL participated in the two-level protest process outlined in the RFP. On March 8, 2013, the

NHSLC denied XTL's protest. On March 12, 2013, XTL filed a civil action requesting that the Court enjoin performance of the contract between NHSLC and Exel and order the NHSLC to award the contract to XTL. XTL contends that as the lowest responsible bidder, it is entitled to the contract. Further, XTL argues that NHSLC improperly modified the RFP to favor Exel's bid in violation of New Hampshire's competitive bidding laws. The injunction was denied. Trial is scheduled for January 2015. On April 4, 2014, the NHSLC filed a motion for summary judgment contending that: XTL's requests for injunctive relief and monetary damages were barred by sovereign immunity and that XTL was not entitled to lost profits or attorneys' fees. On July 16, 2014, the Court ruled on the NHSLC's motion for summary judgment. The Court found that XTL cannot obtain injunctive relief or attorneys' fees in this matter, but that XTL can seek monetary damages, including lost profits. Trial is scheduled for October 2015. It is not possible to predict the outcome of this case at this time.

TLT Construction Corp. In late May 2012, the Bureau of Public Works (BPW) terminated TLT Construction Corp. (TLT) on a $24 million contract for a construction project for the construction of the Pembroke Regional Training Institute and Barracks of the N.H. Army National Guard. DOJ has retained Stan Martin from Duane Morris LLP as its outside counsel. TLT has filed administrative appeals of the termination with the Department of Administrative Services and the Department of Transportation, but those matters had been stayed pending negotiations to resolve the dispute. Stipulations of dismissals have been filed in the two administrative proceedings. Lawsuits were filed in superior court, but docket markings have been filed ending those matters. The State entered into a settlement agreement with TLT, pursuant to which the State paid approximately $400,000. The State also entered into settlement agreements with various subcontractors pursuant to which the State paid a total of approximately $1.5 million. The last remaining issues relating to various pieces of missing steel and pieces of steel that the State claims are defective have been resolved with a payment to the State of $813. This matter is now closed.

Wallace et al. v. State of NH DHHS. In August 2013, 13 people who receive long-term services pursuant to Medicaid waivers through Area Agencies (the ten agencies throughout the State with which the State contracts to provide such services to individuals with disabilities), nine Area Agencies (providers of such services), and Community Support Network (an advocacy group that represents the interests of the other plaintiffs) initiated a lawsuit, against the State of New Hampshire and DHHS. Plaintiffs seek a declaration that RSA 126-A:5, XIX, which directs DHHS to implement a managed care system for delivery of Medicaid-funded services, is not intended to include long-term care services provided to developmentally disabled persons and those with acquired brain disorders. The case may have an impact on budget assumptions for savings in fiscal year 2015 or later years, although the impact of a decision for plaintiffs has not been calculated. No discovery has been exchanged and preliminary motions dispositive motions have been filed. Oral argument on the parties' cross-motions for summary judgment is scheduled for April 4, 2014. On May 22, 2014, the trial court ruled that the plaintiffs' cause of action is barred by sovereign immunity, but granted the plaintiffs leave to file an amended complaint to correct the deficiencies. The plaintiffs filed an amended complaint on June 23, 2014, which added claims for violation of separation of powers, breach of contract, and violation of Section 504 of the federal Rehabilitation Act, 29 U.S.C. 794. The defendants moved to dismiss the three new claims for failure to state a claim and moved to dismiss the original claim as barred by sovereign immunity. The plaintiffs objected and moved for summary judgment on all claims, to which the State has objected. The Court granted the State's motion to dismiss the amended complaint, but is allowing the plaintiffs to amend their complaint one more time. The plaintiffs filed a second amended complaint to which the State has moved to dismiss. It is not possible to predict the outcome of this case at this time.

Frisbie Memorial Hospital et al. v. Toumpas. Six hospitals, Frisbie, Wentworth-Douglas, Exeter, LRGH, Southern NH, and St. Joseph's, filed suit on October 10, 2013 in Strafford Superior Court against DHHS claiming that the 2008 rate reductions to inpatient and outpatient hospital rates are void due to lack of proper notice, for failure to submit a state plan amendment ("SPA"), and for failure to provide opportunity for comments before the changes were made. The plaintiffs claim they are entitled to payment at higher rates under the existing state plan language for the period July 1, 2008 to November 19, 2010 (the effective date of the SPA approved by CMS). The plaintiffs assert damages of approximately twenty million dollars. A motion to dismiss has been filed on behalf of the State. On June 23, 2014, the plaintiffs filed a motion to stay to provide time to implement the MET settlement (see *Catholic Medical Center et al v. DRA*). In addition, because St. Joseph's was not a party to the MET settlement, the stay is designed to provide St. Joseph's time to obtain new legal counsel, and determine if it will continue with the litigation on its own. The matter remains stayed. Pursuant to the settlement agreement with twenty-five hospitals, any judgment against the State from litigation brought by St. Joseph's will be paid by the settling hospitals, up to a cap of $4.5 million. Although it is not expected that the claim by St. Joseph's will exceed $4.5 million, it is not possible to predict the outcome of this case at this time.

Frisbie Memorial Hospital et al v. Sebelius. Six hospitals, Frisbie, Wentworth-Douglas, Exeter, LRGH, Southern NH, and St. Joseph's, filed suit on October 10, 2013 in federal court in an Administrative Procedures Act challenge to CMS's approval of two SPAs submitted in 2010 that authorized the State to add the current 2008 rates for inpatient and outpatient care. The plaintiffs allege that the notice of these proposed SPAs did not state that these rates would be embedded in these SPAs. The State is not a defendant in this lawsuit. These SPAs, however, are important to the State and the State will seek permission to intervene. If the plaintiffs are successful, additional claims would likely be made against the State for the period from November 2010 until March 20, 2012. The court granted the State's motion to intervene as an interested party. On June 23, 2014, the plaintiffs filed a motion to stay to provide time to implement the MET settlement (see *Catholic Medical Center et al v. DRA*). In addition, because St. Joseph's was not a party to the MET settlement, the stay is designed to provide St. Joseph's time to obtain new legal counsel, and determine if it will continue with the litigation on its own. The stay remains in effect. Pursuant to the settlement agreement with twenty-five hospitals, any judgment against the State from litigation brought by St. Joseph's will be paid by the settling hospitals, up to a cap of $4.5 million. Although it is not expected that the claim by St. Joseph's will exceed $4.5 million, it is not possible to predict the outcome of this case at this time.

Carrie Hendrick v DHHS. The complaint, filed on June 19, 2014, by New Hampshire Legal Assistance ("NHLA") as a class action in Merrimack County Superior Court, is regarding DHHS's treatment of social security income ("SSI") as household countable income for eligibility and calculation of TANF grants. NHLA seeks a declaratory judgment that DHHS not include the named plaintiff's children (SSI recipients) in her household assistance group. The plaintiff also challenges the validity of the applicable administrative rule (He-W 654.04(c)) and seeks a permanent injunction. SB 198, effective January 13, 2012, changed State law to count children receiving SSI in the family assistance group. The parties have filed cross motions for summary judgment, but no hearing has been scheduled. Trial is scheduled for November 2015. It is not possible to predict the outcome of this case at this time.

Katherine Frederick v. DHHS. The complaint, filed on September 21, 2014, alleges that the plaintiff suffered damages as a result of DHHS's failure to allow the plaintiff to breastfeed her child. She alleges wrongful discharge and violations of 29 U.S.C. §207(r), 29 U.S.C. §215(a)(3), the Family Medical Leave Act, Title VII, and RSA 275-E. It is not known at this stage how much the plaintiff is seeking in damages. It is not possible to predict the outcome of this case at this time.

Wendy Lawrence v. New Hampshire State Police. The complaint, brought on behalf of estate of Wendy Lawrence arises from an officer-involved shooting after Ms. Lawrence fled from State Police during a traffic stop in September 2013. The complaints include 42 USC §1983 claims and a wrongful death claim. A scheduling conference is scheduled for April 27, 2015. It is not possible to predict the outcome of this case at this time.

FINANCIAL STATEMENTS

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

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

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

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

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

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

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

Fiscal Year 2013. The State received an unqualified auditor's opinion on its financial statements for the fiscal year ended June 30, 2013. These statements were distributed on December 31, 2013 in compliance with legally mandated filing requirements. The State's financial statements for the fiscal year ended June 30, 2013 and the report of the State's independent auditors with respect thereto have been filed with the Municipal Securities Rulemaking Board under Securities and Exchange Commission Rule 15c2-12. The audited financial statements can be viewed in their entirety at *http://admin.state.nh.us/accounting/annual_financial_reports.asp*.

The State receives federal grants, which are subject to review and audit by the grantor agencies. Access to these resources is generally conditional upon compliance with terms and conditions of grant agreements and applicable regulations, including expenditure of resources for allowable purposes. Any disallowances resulting from audits may become the liability of the State. Although the amount of expenditures that may be disallowed by the grantor agencies cannot be determined at this time, the State is aware of federal-reimbursed costs as of June 30, 2013 which were questioned by the State's auditors and are still being resolved by the respective State and Federal

Agencies. The questioned costs as of June 30, 2013 are outlined in the Single Audit of Federal Financial Assistance Programs Report issued in March 2014.

Although the fiscal year 2013 Single Audit of Federal Financial Assistance Programs identified minimal questioned costs, approximately $8.7 million of questioned costs related to fiscal years 2010-2012 remained unresolved. New Hampshire Hospital (NHH) had questioned costs of $8.4 million in 2011 related to disproportionate share hospital cost recoupment. The ultimate liability or additional federal revenue is dependent on language in federal Medicaid rules pending final issuance. In the event that an unfavorable determination is made regarding the NHH 2011 questioned costs, additional costs in years subsequent to 2011 may also be questioned. Additional compliance findings (material weaknesses and significant deficiencies) which did not result in questioned costs were also identified during the audit and can be found within the audit report located on the State's website at *http://admin.state.nh.us/accounting/FY%2013/Single%20Audit%20Report.pdf*.

In April 2014, the State received a management letter from KPMG detailing concerns identified during the fiscal year 2013 audit. The letter identified an internal control weakness in that the State did not obtain a Service Organizations Controls Report (SOC-1) from the two service organizations that processed Medicaid claims during fiscal year 2013, leading to potential exposure in processing Medicaid claims. This weakness did not rise to the level of material weakness. The State has coordinated to have a SOC-1 performed for the organization processing Medicaid claims for fiscal year 2014 and has taken steps to monitor SOC-1 reporting in the future. The management letter is available at *http://www.gencourt.state.nh.us/LBA/AuditReports/contractedaudits.aspx*.

Fiscal Year 2014. The State issued the financial statements for the fiscal year ended June 30, 2014 on December 31, 2014 with an unqualified auditor's opinion from KPMG. The State expects to receive a statewide management letter from KPMG detailing concerns identified during the fiscal year 2014 audit. The State expects the management letter to identify as significant certain Payroll and Human Resources Control deficiencies and a deficiency in the Reporting of Jointly Owned Highway Capital Assets. It also noted other findings (not Material Weaknesses or Significant Deficiencies). In reference to the Payroll and Human Resources Control deficiency, the State continues to experience post-implementation challenges as a result of the new payroll system implemented in February 2013 which have been compounded by the decentralized human resources and payroll practices throughout State government. The State has remedied some of these issues already and continues to work diligently on the remaining issues identified. The State has also taken measures to address the Capital Asset Reporting deficiency.

In the audit of the Liquor Commission, the State expects the auditors to identify a material weakness and several significant deficiencies regarding financial management and certain internal controls. Recently, the State has experienced significant turnover of Liquor Commission financial personnel but it continues to pursue internal control improvement efforts.

The State expects the final fiscal year 2014 management letter to be made public in April 2015.

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

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. Due to the inability to predict all factors that may affect future decisions, actions, events or financial circumstances, actual results may differ 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 is 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

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, William F. Dwyer, State Treasurer, State House Annex, Concord, New Hampshire.

EXHIBIT A

STATE OF NEW HAMPSHIRE

AUDITED FINANCIAL STATEMENTS

FOR FISCAL YEAR 2014

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

AM 47495502.6