

**STATE OF NEW HAMPSHIRE**  
**INFORMATION STATEMENT SUPPLEMENT**

**DATED MARCH 27, 2006**

**Information Statement Supplement.** *The following information is provided by the State of New Hampshire (the "State") to supplement the information contained in the State's most recent Information Statement dated December 6, 2005 (the "Information Statement"). The Information Statement is available on the New Hampshire Treasury Department website as Part II of the Official Statement entitled "State of New Hampshire General Obligation Capital Improvement Bonds 2005 Series C" and may be found at the following website address - <http://www.nh.gov/treasury/Divisions/DM/DMdocs.htm>. The headings set forth below correspond to the same headings in the Information Statement. This Supplement (the "Supplement") only sets forth additional information concerning the matters described below as of the date of this Supplement and is subject to change without notice.*

**Annual Report.** *The Information Statement and the State's **unaudited draft** Comprehensive Annual Financial Report for Fiscal Year 2005 are incorporated herein by reference, and along with this Supplement, are being filed on the date hereof with each Nationally Recognized Municipal Securities Information Repository ("NRMSIR") currently recognized under Securities and Exchange Commission Rule 15c2-12 (the "Rule"). For more information regarding the audited financial statements for Fiscal Year 2005, see "FINANCIAL STATEMENTS" below.*

**STATE FINANCES**

**Fiscal Year 2006-2007 Budget**

The following table compares on a cash basis, for the eight months ended February 28, 2006, General Fund and Education Fund unrestricted revenues for the Fiscal Years 2005 and 2006 and a comparison to the revenue estimates for Fiscal Year 2006. The revenue estimates reflected in the plan are based on those revenues defined in Chapter 176, Laws of 2005, the State budget law for Fiscal Year 2006. Due to the combined filing of the business profits tax and business enterprise tax, it is not possible to measure accurately the individual effects of each of these taxes. They should be evaluated in their entirety. All information in this table is preliminary and unaudited.

**GENERAL FUND AND EDUCATION FUND UNRESTRICTED REVENUES  
FOR THE EIGHT MONTHS ENDED FEBRUARY 28, 2006  
(Cash Basis-In Millions)**

Revenue Category	FY05	FY06	FY06	FY06 vs Plan		FY06 vs FY05	
	Actual	Actual	Plan	Variance	%Change	Variance	%Change
Business Profits Tax	\$ 87.9	\$ 108.0	\$114.8	\$(6.8)	(5.9)%	\$20.1	22.9%
Business Enterprise Tax	<u>132.8</u>	<u>158.6</u>	<u>109.4</u>	<u>49.2</u>	<u>45.0</u>	<u>25.8</u>	<u>19.4</u>
Subtotal	220.7	266.6	224.2	42.4	18.9	45.9	20.8
Meals & Rooms Tax	135.0	141.3	144.3	(3.0)	(2.1)	6.3	4.7
Tobacco Tax	67.0	98.6	98.5	0.1	0.1	31.6	47.2
Liquor Sales and Distribution	78.0	82.6	83.5	(0.9)	(1.1)	4.6	5.9
Interest & Dividends Tax	25.8	30.0	30.0	-	-	4.2	16.3
Insurance Tax	45.1	46.8	46.0	0.8	1.7	1.7	3.8
Communications Tax	45.4	47.1	47.3	(0.2)	(0.4)	1.7	3.7
Real Estate Transfer Tax	111.6	116.3	121.0	(4.7)	(3.9)	4.7	4.2
Estate and Legacy Tax	8.5	4.2	4.8	(0.6)	(12.5)	(4.3)	(50.6)
Transfers from Sweepstakes	42.9	44.2	43.5	0.7	1.6	1.3	3.0
Tobacco Settlement	0.5	0.5	-	0.5	100.0	-	-
Utility Property Tax	11.3	10.5	11.4	(0.9)	(7.9)	(0.8)	(7.1)
State Property Tax	0.2	-	-	-	-	(0.2)	(100.0)
Other	<u>82.7</u>	<u>86.9</u>	<u>87.6</u>	<u>(0.7)</u>	<u>(0.8)</u>	<u>4.2</u>	<u>5.1</u>
Subtotal	874.7	975.6	942.1	33.5	3.6	100.9	11.5
Net Medicaid Enhancement Revenues	123.1	73.4	72.6	0.8	1.1	(49.7)	(40.4)
Recoveries	<u>11.4</u>	<u>17.7</u>	<u>11.6</u>	<u>6.1</u>	<u>52.5</u>	<u>6.3</u>	<u>55.3</u>
Subtotal	1,009.2	1,066.7	1,026.3	40.4	3.9	57.5	5.7
Other Medicaid Enhancement Revenues to Fund Net Appropriations	<u>21.8</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(21.8)</u>	<u>(100.0)</u>
Total	<u>\$1,031.0</u>	<u>\$1,066.7</u>	<u>\$1,026.3</u>	<u>\$40.4</u>	<u>3.9%</u>	<u>\$35.7</u>	<u>3.5%</u>

Revenues for the first eight months of fiscal year 2006 are \$1,066.7 million, which is \$40.4 million or 3.9%, ahead of plan. Year-to-date revenue is ahead of fiscal year 2005 by \$35.7 million, or 3.5%, which can be attributed mainly to increased collections from aggregate business taxes and the Tobacco Tax. Business tax revenue exceeded the year-to-date plan by \$42.4 million and was \$45.9 million, or 20.8%, above fiscal year 2005.

## SCHOOL FUNDING

*Litigation.* In 2005, the Legislature passed House Bill 616, now known as 2005 New Hampshire Laws Chapter 257, as the new education funding bill. Chapter 257 provides funding to schools based on four types of aid and revenue from the statewide enhanced education tax. Chapter 257 does not generally provide aid to municipalities on a per pupil basis. The four types of aid are: local tax capacity aid, targeted per pupil aid, statewide enhanced education tax capacity aid, and transition grants. Chapter 257 also includes the statewide enhanced education tax which is assessed at a uniform rate across the State at a rate necessary to raise \$363.0 million. For fiscal year 2006, the total State education aid under Chapter 257 is more than \$819.0 million.

Two lawsuits were filed challenging the constitutionality of Chapter 257. The first is *City of Nashua v. State*, Docket No. 05-E-257, and the second is *Londonderry School District, et al. v. State*, Docket No. 05-E-406. Both of these suits were filed in August, 2005 in the Supreme Court. Both were dismissed from the Supreme Court with direction to the Superior Court that they be tried on an expedited basis.

Nashua's Petition included four general claims: 1) a challenge to Chapter 257 for not providing for an adequate education by failing to "relate the taxes raised by it to the cost of an adequate education," 2) a claim that Chapter 257's transition grants create disproportional and unequal taxes, 3) a claim challenging Chapter 257's "reliance upon three-year old data to fund the cost of an adequate education today," and 4) a claim questioning whether Chapter 257 requires the use of data from April, 2003 for 'Equalized Valuation With Utilities' in order to correctly calculate the education grants under Chapter 257.

Londonderry's Petition included the following four general claims: (1) an alleged facial challenge to HB 616 that "it fails to provide for an adequate education" because there is "nothing in the legislative record [that] would support a determination that the total funds to be distributed are 'lawfully and reasonably sufficient' to fulfill the State's constitutional obligation," (2) a claim that targeting aid to some municipalities has imposed on many of the remaining municipalities the burden of funding education through a local education tax, (3) a claim which asserts that HB 616 violates Part II, Article 5 because it results in property taxes that are not "proportional across the State" due to the transition grants, and (4) an equal protection claim.

The State moved to consolidate both cases but the Court allowed the cases to proceed on different tracks. The Nashua case was tried in mid-December 2005. The Londonderry case proceeded with a motion for summary judgment filed in January, 2006, with the State filing a timely response in February, 2006. On March 8, 2006, the Superior Court issued orders in both cases declaring Chapter 257 unconstitutional due to the State's failure to reasonably determine the cost of an adequate education. The Superior Court also found that the State has not defined an adequate education and has not enacted a constitutional accountability system.

The State is filing an assented-to motion to stay the effect of the orders pending a final decision by the Supreme Court. The State will file timely appeals of these orders with the New Hampshire Supreme Court by April 7, 2006.

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

## STATE INDEBTEDNESS

The State issued its \$75,000,000 General Obligation Capital Improvement Bonds, 2005 Series C, on December 20, 2005 for the purpose of financing various capital projects.

## LITIGATION

For additional information relating to litigation involving the State, see also Note 13 to the State's fiscal year 2005 unaudited financial statements, which are available as described below.

## FINANCIAL STATEMENTS

As described in the Information Statement under the heading "FINANCIAL STATEMENTS," the preparation and release of the audited financial statements for fiscal year 2005 has been delayed, in part, due to certain questions that have been raised with respect to the New Hampshire Retirement System (NHRS). These issues remain unresolved as of the date hereof and accordingly the State's audited financial statements for fiscal year 2005 are not yet available. The State has released its **unaudited** financial statements which are contained in the **unaudited draft** Comprehensive Annual Financial Report for Fiscal Year 2005, which is being filed on the date hereof with each NRMSIR.

The NHRS is typically included in the State's financial statements as a fiduciary component unit of the State. However, as a result of the issues relating to the NHRS described in the Information Statement under the heading "FINANCIAL STATEMENTS," the NHRS financial information has not been included in the unaudited draft Comprehensive Annual Financial Report for Fiscal Year 2005 referenced herein. The release date of the audited financial statements of the NHRS is unknown as of the date hereof.

**THE STATE OF NEW HAMPSHIRE**