

SUPPLEMENT DATED FEBRUARY 13, 2020
TO
PRELIMINARY OFFICIAL STATEMENT DATED FEBRUARY 12, 2020
RELATING TO
\$80,000,000*
STATE OF NEW HAMPSHIRE
GENERAL OBLIGATION CAPITAL IMPROVEMENT BONDS
2020 SERIES A

The Official Notice of Sale attached as Appendix C to the Preliminary Official Statement dated February 12, 2020 (the “Preliminary Official Statement”) relating to the above-referenced bonds of the State of New Hampshire (the “Bonds”) is hereby amended in the last sentence of the first paragraph on page C-1 under the heading **Description of the Bonds** to clarify that interest on the Bonds will be payable on June 1 and December 1 commencing June 1, 2020.

THE STATE OF NEW HAMPSHIRE

* Preliminary, subject to change.

PRELIMINARY OFFICIAL STATEMENT DATED FEBRUARY 12, 2020

NEW ISSUE – Book Entry Only

Ratings: Fitch Ratings: AA+
Moody's: Aa1
S&P: AA
(See "RATINGS")

In the opinion of Locke Lord LLP, Bond Counsel, based upon an analysis of existing law and assuming, among other matters, compliance with certain covenants, interest on the Bonds is excluded from gross income for federal income tax purposes under the Internal Revenue Code of 1986, as amended (the "Code"). Interest on the Bonds will not be included in computing the alternative minimum taxable income of individuals. Under existing law, interest on the Bonds is exempt from the New Hampshire personal income tax on interest and dividends. Bond Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the Bonds. See "TAX EXEMPTION" and Appendix A herein.



\$80,000,000
STATE OF NEW HAMPSHIRE
GENERAL OBLIGATION CAPITAL IMPROVEMENT BONDS
2020 SERIES A

Dated: Date of Delivery

Due: as shown on the inside cover hereof

The Bonds will be issued as fully registered bonds, registered in the name of Cede & Co., as nominee for The Depository Trust Company ("DTC"). Purchases of beneficial interests in the Bonds will be made in book-entry form (without certificates) in the denomination of \$5,000 or any integral multiple thereof. (See "THE BONDS--Book-Entry Only System" herein.)

Interest on the Bonds will be payable semiannually on June 1 and December 1 of each year, commencing June 1, 2020, until maturity. The Bonds are subject to redemption prior to maturity as provided herein.

The Bonds are offered for sale in accordance with the Official Notice of Sale dated February 12, 2020 to which reference is made for the conditions of such sale.

The Bonds are offered when, as and if issued by the State, subject to receipt of the final approving opinion of Locke Lord LLP, Boston, Massachusetts, Bond Counsel, and to certain other conditions referred to in the Official Notice of Sale. Public Resources Advisory Group has acted as Financial Advisor to the State with respect to the Bonds. Delivery of the Bonds to DTC or its custodial agent is expected on or about March 5, 2020.

February __, 2020

* Preliminary, subject to change.

\$80,000,000*
STATE OF NEW HAMPSHIRE
General Obligation
Capital Improvement Bonds
2020 Series A

<u>Due</u> <u>December 1</u>	<u>Principal</u> <u>Amount*</u>	<u>Interest</u> <u>Rate</u>	<u>Price or</u> <u>Yield</u>	<u>CUSIP†</u> <u>644682</u>	<u>Due</u> <u>December 1</u>	<u>Principal</u> <u>Amount*</u>	<u>Interest</u> <u>Rate</u>	<u>Price or</u> <u>Yield</u>	<u>CUSIP*</u> <u>644682</u>
2020	\$4,800,000				2030	\$3,200,000			
2021	4,800,000				2031	3,200,000			
2022	4,800,000				2032	3,200,000			
2023	4,800,000				2033	3,200,000			
2024	4,800,000				2034	3,200,000			
2025	4,800,000				2035	3,200,000			
2026	4,800,000				2036	3,200,000			
2027	4,800,000				2037	3,200,000			
2028	4,800,000				2038	3,200,000			
2029	4,800,000				2039	3,200,000			

*Preliminary, subject to change.

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No dealer, broker, salesperson or other person has been authorized by the State of New Hampshire to give any information or to make any representations with respect to the State or the Bonds, other than those contained in this Official Statement, and, if given or made, such other information or representations must not be relied upon as having been authorized by the State of New Hampshire. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the Bonds by any person in any jurisdiction in which it is unlawful for such person to make an offer, solicitation or sale. This Official Statement is not to be construed as a contract or agreement between the State of New Hampshire and the purchasers or owners of any of the Bonds. The information and expressions of opinion in this Official Statement are subject to change without notice, and neither the delivery of this Official Statement or any sale made under it will, under any circumstances, create any implication that there has been no change in the affairs of the State of New Hampshire since the date of this Official Statement.

This Official Statement contains forecasts, projections and estimates that are based on current expectations. In light of the important factors that may materially affect the financial condition of the State of New Hampshire generally and other economic and financial matters, the inclusion in this Official Statement of such forecasts, projections and estimates should not be regarded as a representation by the State that such forecasts, projections and estimates will occur. Such forecasts, projections and estimates are not intended as representations of fact or guarantees of results.

This Official Statement also 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 of New Hampshire and various state agencies and authorities, receipt of federal grants, litigation, arbitration, force majeure events and various other factors that are beyond the control of the State and its various agencies and authorities. Because of the inability to predict all factors that may affect future decisions, actions, events or financial circumstances, what actually happens may be different from what is set forth in such forward-looking statements. Forward-looking statements are indicated by use of such words as “may,” “will,” “should,” “intends,” “expects,” “believes,” “anticipates,” “estimates” and other similar words.

All quotations from and summaries and explanations of provisions of law and documents herein do not purport to be complete, and reference is made to such laws and documents for full and complete statements of their provisions. Any statements made in this Official Statement involving estimates or matters of opinion, whether or not expressly so stated, are intended merely as estimates or opinion and not as representations of fact. This Official Statement speaks as of its date except where specifically noted otherwise and is subject to change without notice. Neither the delivery of this Official Statement, any sale made hereunder, nor any filing of this Official Statement shall under any circumstances create an implication that there has been no change in the affairs of the State of New Hampshire since the date of this Official Statement or imply that any information herein is accurate or complete as of any later date.

Third parties may engage in transactions that stabilize, maintain or otherwise affect the price of the Bonds, including transactions to (i) over-allot in arranging the sales of the Bonds and (ii) makes purchases in sales of the Bonds for long or short accounts on a when-issued basis or otherwise, at such prices, in such amounts and in a manner beyond the State’s control. Such stabilization, if commenced, may be discontinued at any time.

References to web site addresses presented herein are for informational purposes only and may be in the form of a hyperlink solely for the reader’s convenience. Unless specified otherwise, such web sites and the information or links contained therein are not incorporated into, and are not part of, this Official Statement.

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PART II. STATE OF NEW HAMPSHIRE INFORMATION STATEMENT DATED FEBRUARY 12, 2020

Statement pursuant to New Hampshire Revised Statutes Annotated 421-B:20:

In making an investment decision investors must rely on their own examination of the issuer and the terms of the offering, including the merits and risks involved. These securities have not been recommended by any federal or state securities commission or regulatory authority. Furthermore, the foregoing authorities have not confirmed the accuracy or determined the adequacy of this document. Any representation to the contrary is a criminal offense.

STATE OF NEW HAMPSHIRE

Governor

Christopher T. Sununu

Executive Council

Michael J. Cryans
Andru Volinsky
Russell E. Prescott
Theodore L. Gatsas
Debora B. Pignatelli

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OFFICIAL STATEMENT
OF
THE STATE OF NEW HAMPSHIRE

\$80,000,000*
GENERAL OBLIGATION CAPITAL IMPROVEMENT BONDS
2020 SERIES A

PART I: INFORMATION CONCERNING THE BONDS

This Official Statement, including the cover page, is provided for the purpose of presenting certain information relating to the State of New Hampshire (the “State”) in connection with the sale of \$80,000,000* aggregate principal amount of its General Obligation Capital Improvement Bonds, 2020 Series A (the “Bonds”).

This Official Statement consists of two parts: Part I (including the cover and Appendices A, B and C) and Part II, the State’s Information Statement dated February 12, 2020 (the “Information Statement”). The Information Statement will be provided to the Municipal Securities Rulemaking Board (“MSRB”) for purposes of SEC Rule 15c2-12. The Information Statement incorporates by reference as Exhibit A the State’s audited financial statements for fiscal year 2019, which have been provided to the MSRB. All information contained in this Official Statement and the Information Statement pertaining to fiscal year 2020 or later is preliminary, unaudited and subject to change.

THE BONDS

Description of the Bonds

The Bonds will be dated their date of delivery and will bear interest (calculated on a 30/360 day basis) and will be payable semiannually on June 1 and December 1 of each year, commencing June 1, 2020, until maturity. The record date with respect to each payment of interest shall be the fifteenth day of the month preceding such interest payment date; provided that if such date is not a business day, the record date shall be the next succeeding business day. The Bonds will mature on the dates and in the principal amounts and bear interest at the rates shown on the inside cover page of this Official Statement.

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

Redemption Provisions

Optional Redemption.

The Bonds maturing on and before December 1, 2029 are not subject to redemption prior to maturity. The Bonds maturing after December 1, 2029 are subject to redemption at the option of the State on and after December 1, 2029, in whole or in part at any time, with maturities to be designated by the State (and by lot within a maturity as described below), at the price of the par amount of bonds to be redeemed, plus accrued interest to the redemption date.

*Preliminary, subject to change.

Mandatory Redemption.

If the successful bidder designates principal amounts of the Bonds to be combined into one or more term bonds, each such term bond shall be subject to mandatory redemption commencing on December 1 of the first year which has been combined to form such term bond and continuing on December 1 in each year thereafter until the stated maturity date of such term bond. The amount redeemed or paid at maturity in any year shall be equal to the principal amount for such year set forth in the foregoing maturity schedule. Bonds to be redeemed in any year by mandatory redemption shall be redeemed at par and selected by lot from among the Bonds of the same maturity. The State may credit against any mandatory redemption requirement term bonds of the maturity then subject to redemption which have been purchased and canceled by the State or have been redeemed and not theretofore applied as a credit against any mandatory redemption requirement.

Selection of Bonds to be Redeemed in a Partial Redemption.

If less than all of the Bonds of a particular maturity and bearing interest at a particular interest rate are called for redemption, the applicable Bonds within such maturity to be redeemed will be selected by DTC or any successor securities depository pursuant to its rules and procedures or, if the book-entry system is discontinued, will be selected by the State by lot or in any customary manner as the State in its discretion may determine.

Notice of Redemption.

So long as DTC is the registered owner of the Bonds, notice of any redemption of Bonds prior to their maturities, specifying the Bonds (or the portions thereof) to be redeemed shall be mailed to DTC not more than 60 days nor less than 30 days prior to the redemption date. Any failure on the part of DTC to notify the DTC Participants of the redemption or failure on the part of the DTC Participants or of a nominee of a Beneficial Owner (having received notice from a DTC Participant or otherwise) to notify the Beneficial Owner shall not affect the validity of the redemption. The redemption notice may state that it is conditioned upon the deposit of moneys in an amount equal to the amount necessary to effect the redemption, in a separate account established by the State for such purpose no later than the redemption date, or that the State may rescind such notice at any time prior to the scheduled redemption date if the State Treasurer delivers a notice thereof to the registered owner of the Bonds. The redemption notice and optional redemption shall be of no effect if such moneys are not so deposited or if the notice is rescinded, and the failure of the State to make funds available in whole or in part on or before the redemption date shall not constitute a default. Notice of redemption having been given as aforesaid, and sufficient moneys deposited with The Bank of New York Mellon Trust Company, N.A., or its successor, as Paying Agent (the "Paying Agent") for redemption, the Bonds called for redemption shall become due and payable on the redemption date, and from and after such date, such Bonds shall cease to bear interest.

Security for the Bonds

In the opinion of Bond Counsel, the Bonds when duly issued will constitute valid general obligations of the State and the full faith and credit of the State will be pledged for the punctual payment of the principal of and interest on the Bonds.

Each Bond when duly issued and paid for will constitute a contract between the State and the owner of the Bond. While the doctrine of sovereign immunity (the sovereign right of a state not to be sued without its consent) applies to the State, the Legislature has conferred jurisdiction on the Superior Court to enter judgment against the State founded upon any express or implied contract. The Supreme Court of New Hampshire has stated that that statutory provision constitutes a waiver of the State's right of sovereign immunity in such a case. Although a bond of the State constitutes a contract with the owner of the bond, the State Supreme Court has not considered the issue of sovereign immunity in a case expressly involving the enforceability of a bond. Under State law, the Attorney General of the State is directed to present any claim founded upon a judgment against the State to the department or agency which entered into the contract for payment from available appropriations or, if such appropriations are insufficient, to present the claim to the Legislature. Payment of a claim against the State for which available appropriated funds are insufficient would require appropriation by the Legislature. Enforcement of a claim for payment of principal of or interest on the Bonds may also be subject to the provisions of federal or State statutes, if any, hereafter enacted extending the time for payment or imposing other constraints upon enforcement, insofar as those provisions may be constitutionally applied.

The State Constitution provides that the public charges of government may be raised by taxation upon polls, estates and other classes of property including franchises and property when passing by will or inheritance, and authorizes the Legislature to impose and levy proportional and reasonable assessments, rates and taxes upon all the inhabitants of, and residents within, the State and upon all property within the State.

Authorization and Purpose

The Bonds are being issued pursuant to a vote of the Governor and Council under Chapter 6-A of the New Hampshire Revised Statutes Annotated (“RSA”) and certain other laws of the State. Proceeds from the sale of the Bonds are expected to be used to finance all or a portion of the costs of various capital projects of the State, and to pay issuance costs of the Bonds.

Book-Entry Only System

The Depository Trust Company (“DTC”), New York, NY, will act as securities depository for the Bonds. The Bonds will be issued in fully-registered form registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One-fully registered certificate will be issued for each maturity of each series of the Bonds, each in the aggregate principal amount of such maturity and series, and each such certificate will be deposited with DTC.

DTC, the world’s largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). DTC has a S&P Global Ratings rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

Purchases of securities deposited with DTC must be made by or through Direct Participants, which will receive a credit for such securities on DTC’s records. The ownership interest of each actual purchaser of each security deposited with DTC (“Beneficial Owner”) is in turn to be recorded on the Direct and Indirect Participants’ records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in securities deposited with DTC are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in securities deposited with DTC, except in the event that use of the book-entry system for such securities is discontinued.

To facilitate subsequent transfers, all securities deposited by Direct Participants with DTC are registered in the name of DTC’s partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of securities with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the securities deposited with it; DTC’s records reflect only the identity of the Direct Participants to whose accounts such securities are credited, which may or may not be the Beneficial Owners. The

Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices shall be sent to DTC. If less than all of the Bonds of a particular series and maturity and bearing interest at a particular rate are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such series and maturity and interest rate to be redeemed.

Neither DTC nor Cede & Co. (nor such other DTC nominee) will consent or vote with respect to securities deposited with it unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the issuer of such securities or its paying agent as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the securities are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on securities deposited with DTC will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the issuer of such securities or its paying agent, on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC (nor its nominee), the issuer of such securities or its paying agent, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the issuer of such securities or its paying agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to securities held by it at any time by giving reasonable notice to the issuer of such securities or its paying agent. Under such circumstances, in the event that a successor depository is not obtained, physical certificates are required to be printed and delivered to Beneficial Owners.

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

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the State believes to be reliable, but the State takes no responsibility for the accuracy thereof.

TAX EXEMPTION

In the opinion of Locke Lord LLP, Bond Counsel to the State ("Bond Counsel"), based upon an analysis of existing laws, regulations, rulings, and court decisions, and assuming, among other matters, compliance with certain covenants, interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the "Code"). Bond Counsel is of the further opinion that interest on the Bonds will not be included in computing the alternative minimum taxable income of Bondholders who are individuals. Bond Counsel expresses no opinion regarding any other federal tax consequences arising with respect to the ownership or disposition of, or the accrual or receipt of interest on, the Bonds.

The Code imposes various requirements relating to the exclusion from gross income for federal income tax purposes of interest on obligations such as the Bonds. Failure to comply with these requirements may result in interest on the Bonds being included in gross income for federal income tax purposes, possibly from the date of original issuance of the Bonds. The State has covenanted to comply with such requirements to ensure that interest

on the Bonds will not be included in federal gross income. The opinion of Bond Counsel assumes compliance with these requirements.

Bond Counsel is also of the opinion that, under existing law, interest on the Bonds is exempt from the New Hampshire personal income tax on interest and dividends. Bond Counsel expresses no opinion regarding any other New Hampshire tax consequences arising with respect to the Bonds. Bond Counsel also has not opined as to the taxability of the Bonds or the income therefrom under the laws of any state other than New Hampshire. A complete copy of the proposed form of opinion of Bond Counsel is set forth in Appendix A hereto.

To the extent the issue price of any maturity of the Bonds is less than the amount to be paid at maturity of such Bonds (excluding amounts stated to be interest and payable at least annually over the term of such Bonds), the difference constitutes "original issue discount," the accrual of which, to the extent properly allocable to each Beneficial Owner thereof, is treated as interest on the Bonds which is excluded from gross income for federal income tax purposes and is exempt from the New Hampshire personal income tax on interest and dividends. For this purpose, the issue price of a maturity of the Bonds is the reasonably expected initial offering price or the first price at which a substantial amount of such maturity of the Bonds is sold to the public, as applicable. The original issue discount with respect to any maturity of the Bonds accrues daily over the term to maturity of such Bonds on the basis of a constant interest rate compounded semiannually (with straight-line interpolations between compounding dates). The accruing original issue discount is added to the adjusted basis of such Bonds to determine taxable gain or loss upon disposition (including sale, redemption, or payment on maturity) of such Bonds. Beneficial Owners of the Bonds should consult their own tax advisors with respect to the tax consequences of ownership of Bonds with original issue discount, including the treatment of purchasers who do not purchase such Bonds in the original offering to the public at the reasonably expected initial offering price to the public, the first price at which a substantial amount of such Bonds is sold to the public or, if applicable, a combination thereof.

Bonds purchased, whether at original issuance or otherwise, for an amount greater than the stated principal amount to be paid at maturity of such Bonds, or, in some cases, at the earlier redemption date of such Bonds ("Premium Bonds"), will be treated as having amortizable bond premium for federal income tax purposes and for purposes of the New Hampshire personal income tax on interest and dividends. No deduction is allowable for the amortizable bond premium in the case of obligations, such as the Premium Bonds, the interest on which is excluded from gross income for federal income tax purposes. However, a Beneficial Owner's basis in a Premium Bond will be reduced by the amount of amortizable bond premium properly allocable to such Beneficial Owner. Beneficial Owners of Premium Bonds should consult their own tax advisors with respect to the proper treatment of amortizable bond premium in their particular circumstances.

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

Although Bond Counsel is of the opinion that interest on the Bonds is excluded from gross income for federal income tax purposes and is exempt from the New Hampshire personal income tax on interest and dividends, the ownership or disposition of, or the accrual or receipt of interest on, the Bonds may otherwise affect a Beneficial Owner's federal or state tax liability. The nature and extent of all such other tax consequences will depend upon the particular tax status of the Beneficial Owner or the Beneficial Owner's other items of income, deduction or exclusion. Bond Counsel expresses no opinion regarding any such other tax consequences, and Beneficial Owners should consult with their own tax advisors with respect to such consequences.

Risk of Future Legislative Changes and/or Court Decisions

Legislation affecting tax-exempt obligations is regularly considered by the United States Congress and may also be considered by the New Hampshire legislature. Court proceedings may also be filed, the outcome of which could modify the tax treatment of obligations such as the Bonds. There can be no assurance that legislation enacted or proposed, or actions by a court, after the date of issuance of the Bonds will not have an adverse effect on the tax status of interest on the Bonds or the market value or marketability of the Bonds. These adverse effects could result, for example, from changes to federal or state income tax rates, changes in the structure of federal or state income taxes (including replacement with another type of tax), or repeal (or reduction in the benefit) of the exclusion of interest on the Bonds from gross income for federal or state income tax purposes for all or certain taxpayers.

Additionally, Bondholders should be aware that future legislative actions (including federal income tax reform) may retroactively change the treatment of all or a portion of the interest on the Bonds for federal income tax purposes for all or certain taxpayers. In all such events, the market value of the Bonds may be affected and the ability of Bondholders to sell their Bonds in the secondary market may be reduced. The Bonds are not subject to special mandatory redemption, and the interest rates on the Bonds are not subject to adjustment, in the event of any such change in the tax treatment of interest on the Bonds.

Investors should consult their own financial and tax advisors to analyze the importance of these risks.

COMPETITIVE SALE OF THE BONDS

After competitive bidding on February 20, 2020, the Bonds were awarded to a group of underwriters managed by _____ (the “Underwriters”). The Underwriters have supplied the information as to the public offering yields or prices of the Bonds set forth on the inside cover hereof. The Underwriters have informed the State that if all of the Bonds are resold to the public at those yields or prices, they anticipate the total Underwriters’ compensation to be \$ _____. The Underwriters may change the public offering yields or prices from time to time.

LEGAL MATTERS

Legal matters incident to the authorization and sale of the Bonds are subject to the approval of Locke Lord LLP, Boston, Massachusetts, Bond Counsel. A proposed form of the approving opinion of Locke Lord LLP is set forth in Appendix A. The opinion will be dated the date of the issuance of the Bonds and will speak only as of that date.

FINANCIAL ADVISOR

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

RATINGS

Fitch Ratings, Moody’s Investors Service, Inc. and S&P Global Ratings, a division of S&P Global, Inc. (“S&P”) have assigned the Bonds the ratings of AA+, Aa1, and AA, respectively. An explanation of the significance of each such rating may be obtained from the rating agency furnishing the same. There is no assurance that those ratings will be maintained for any given period of time or that they may not be lowered or withdrawn entirely by the rating agencies, or any of them, if in their or its judgment circumstances so warrant. Any such downward change in or withdrawal of any of the ratings may have an adverse effect on the market price of the Bonds.

CONTINUING DISCLOSURE

In order to assist the Underwriters in complying with Rule 15c2-12(b)(5) promulgated by the Securities and Exchange Commission (the “Rule”), the State will covenant for the benefit of owners of the Bonds to provide certain financial information and operating data relating to the State (the “Annual Report”), by not later than 270 days after the end of each fiscal year and to provide notices of the occurrence of certain enumerated events. The covenants will be contained in a Continuing Disclosure Certificate, the proposed form of which is provided in Appendix B. The Certificate will be executed by the signers of the Bonds, and incorporated by reference in the Bonds.

The State is not aware of any failure to comply in any material respect with any of its previous undertakings with respect to the Rule in the previous five years.

The State has adopted written policies to ensure that continuing disclosure filings will be made with EMMA in a timely fashion.

MISCELLANEOUS

Any provisions of the constitution or laws of the State and of other documents set forth or referred to in this Official 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.

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

All estimates and assumptions in this Official 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 this Official 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.

The State has prepared the prospective financial information set forth in this Official Statement in connection with its budgeting and appropriations processes. This prospective financial information was not prepared with a view toward complying with the guidelines established by the American Institute of Certified Public Accountants with respect to prospective financial information, but, in the view of the State, was prepared on a reasonable basis, reflects the best currently available estimates and judgments, and presents, to the best knowledge and belief of the offices of the State identified in this Official Statement as the sources of such information, the currently expected course of action and the currently expected future budgeted revenues and expenditures of the State. However, this information is not fact and should not be relied upon as being necessarily indicative of future results, and readers of this Official Statement are cautioned not to place undue reliance on the prospective financial information.

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 this Official Statement are subject to change without notice. Neither the delivery of this Official Statement nor any sale made pursuant to this Official Statement 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 Official Statement, except as expressly stated.

STATE OF NEW HAMPSHIRE

By: _____
State Treasurer

February __, 2020

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PROPOSED FORM OF OPINION OF BOND COUNSEL



111 Huntington Avenue
Boston, MA 02199
Telephone: 617-239-0100
Fax: 617-227-4420
www.lockelord.com

The Honorable William F. Dwyer
State Treasurer
State House Annex
Concord, New Hampshire 03301

\$80,000,000*
State of New Hampshire
General Obligation
Capital Improvement Bonds, 2020 Series A
Dated Date of Delivery

We have acted as Bond Counsel to the State of New Hampshire (the "State") in connection with the issuance by the State of the above-referenced bonds (the "Bonds"). In such capacity, we have examined the law and such certified proceedings and other papers as we have deemed necessary to render this opinion.

As to questions of fact material to our opinion we have relied upon representations and covenants of the State contained in the certified proceedings and other certifications of public officials furnished to us, without undertaking to verify the same by independent investigation.

Based on this examination, we are of the opinion, under existing law, as follows:

1. The Bonds are valid and binding general obligations of the State, and the full faith and credit of the State are pledged for the punctual payment of the principal of and interest on the Bonds.
2. The interest on the Bonds is exempt from the New Hampshire personal income tax on interest and dividends. We express no opinion regarding any other New Hampshire tax consequences arising with respect to the Bonds or any tax consequences arising with respect to the Bonds under the laws of any state other than New Hampshire.
3. Interest on the Bonds is excluded from the gross income of the owners of the Bonds for federal income tax purposes. In addition, interest on the Bonds is not a specific preference item for purposes of the federal individual alternative minimum tax. In rendering the opinions set forth in this paragraph, we have assumed compliance by the State with all requirements of the Internal Revenue Code of 1986 that must be satisfied subsequent to the issuance of the Bonds in order that interest thereon be, and continue to be, excluded from gross income for federal income tax purposes. The State has covenanted to comply with all such requirements. Failure by the State to comply with certain of such requirements may cause interest on the Bonds to become included in gross income for federal income tax purposes retroactive to the date of issuance of the Bonds. We express no opinion regarding any other federal tax consequences arising with respect to the Bonds.

*Preliminary, subject to change.

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

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

LOCKE LORD LLP

PROPOSED FORM OF CONTINUING DISCLOSURE CERTIFICATE

This Continuing Disclosure Certificate (the “Disclosure Certificate”) is executed and delivered by the State of New Hampshire (the “State”) in connection with the issuance of its \$80,000,000* General Obligation Capital Improvement Bonds, 2020 Series A (the “Bonds”), dated their date of delivery. The State covenants and agrees as follows:

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

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

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

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

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

“Owners of the Bonds” shall mean the registered owners, including beneficial owners, of the Bonds.

“Participating Underwriter” shall mean any of the original underwriters of the Bonds required to comply with the Rule in connection with offering of the Bonds.

“Rule” shall mean Rule 15c2-12 adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

SECTION 3. Provision of Annual Reports.

(a) The State shall, not later than 270 days after the end of each fiscal year, provide to the MSRB an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Certificate. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may cross reference other information as provided in Section 4 of this Disclosure Certificate; provided that the audited financial statements of the State may be submitted when available separately from the balance of the Annual Report.

(b) If the State is unable to provide to the MSRB an Annual Report by the date required in subsection (a), the State shall send a notice to the MSRB in substantially the form attached as Exhibit B.

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

(a) quantitative information for the preceding fiscal year of the type presented in the State’s Information Statement dated February 12, 2020 with respect to the Bonds regarding (i) the revenues and expenditures of the State relating to its General Fund and Education Fund, (ii) capital expenditures, (iii) fund balances, (iv) revenue information, (v) indebtedness of the State, and (vi) pension and OPEB obligations of the State, and

*Preliminary, subject to change.

(b) the most recently available audited financial statements of the State, prepared in accordance with generally accepted accounting principles.

If audited financial statements for the preceding fiscal year are not available when the Annual Report is submitted, the Annual Report will include unaudited financial statements for the preceding fiscal year and audited financial statements for such fiscal year shall be submitted when available.

Any or all of the items listed above may be incorporated by reference from other documents, including official statements for debt issues of the State or related public entities, which (i) are available to the public on the MSRB internet website or (ii) have been filed with the Securities and Exchange Commission. The State shall clearly identify each such other document so incorporated by reference.

SECTION 5. Reporting of Significant Events.

(a) The State shall give notice, in accordance with subsection 5(b) below, of the occurrence of any of the following events with respect to the Bonds:

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

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

14. appointment of a successor or additional trustee or the change of name of a trustee, if material;
15. incurrence of a financial obligation of the State, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a financial obligation of the State, any of which affect Bondholders, if material;[†] and
16. default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a financial obligation of the State, any of which reflect financial difficulties.[†]

(b) Upon the occurrence of a Listed Event described in subsections (a)(2), (7), (8)(i), (10), (13), (14) or (15), the State shall as soon as possible determine if such event is material under applicable federal securities laws.

(c) Upon the occurrence of a Listed Event described in subsections (a)(1), (3), (4), (5), (6), (8)(ii), (9), (11) or (12), and in the event the State determines that the occurrence of a Listed Event described in subsections (a)(2), (7), (8)(i), (10), (13), (14) or (15) is material under applicable federal securities laws, the State shall, in a timely manner not in excess of ten (10) business days after the occurrence of the event, file a notice of such occurrence with the MSRB.

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

SECTION 7. Termination of Reporting Obligation. The State's obligations under this Disclosure Certificate shall terminate upon the legal defeasance in accordance with the terms of the Bonds, prior redemption or payment in full of all of the Bonds.

SECTION 8. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the State may amend this Disclosure Certificate and any provision of this Disclosure Certificate may be waived if such amendment or waiver is permitted by the Rule, as evidenced by an opinion of counsel expert in federal securities law (which may also include bond counsel to the State), to the effect that such amendment or waiver would not cause the Disclosure Certificate to violate the Rule. The first Annual Report filed after enactment of any amendment to or waiver of this Disclosure Certificate shall explain, in narrative form, the reasons for the amendment or waiver and the impact of the change in the type of information being provided in the Annual Report.

If the amendment provides for a change in the accounting principles to be followed in preparing financial statements, the Annual Report for the year in which the change is made shall present a comparison between the financial statements or information prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles. The comparison shall include a qualitative discussion of the differences in the accounting principles and the impact of the change in the accounting principles on the presentation of the financial information in order to provide information to investors to enable them to evaluate the ability of the State to meet its obligations. To the extent reasonably feasible, the comparison shall also be quantitative. A notice of the change in the accounting principles shall be sent to the MSRB.

SECTION 9. Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent the State from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Certificate. If the State chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Certificate, the State shall have no obligation under this

[†] For purposes of event numbers (15) and (16) in Section 5(a) of the Disclosure Certificate, the term "financial obligation" means a (i) debt obligation; (ii) derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation; or (iii) guarantee of (i) or (ii). The term "financial obligation" excludes municipal securities for which a final official statement has been provided to the MSRB consistent with the Rule.

Certificate to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

SECTION 10. Default. In the event of a failure of the State to comply with any provision of this Disclosure Certificate any Owner of the Bonds may seek a court order for specific performance by the State of its obligations under this Disclosure Certificate. A default under this Disclosure Certificate shall not constitute a default with respect to the Bonds, and the sole remedy under this Disclosure Certificate in the event of any failure of the State to comply with this Disclosure Certificate shall be an action for specific performance of the State's obligations hereunder and not for money damages in any amount.

SECTION 11. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the Owners of the Bonds from time to time, and shall create no rights in any other person or entity.

Date: March __, 2020

STATE OF NEW HAMPSHIRE

By: _____
State Treasurer

Governor

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

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

OFFICIAL NOTICE OF SALE

\$80,000,000*
STATE OF NEW HAMPSHIRE
GENERAL OBLIGATION CAPITAL IMPROVEMENT BONDS
2020 SERIES A

Notice is hereby given that electronic bids will be received until 10:00 A.M. (local Concord, New Hampshire time) on February 20, 2020 by William F. Dwyer, State Treasurer of the State of New Hampshire, for the purchase of \$80,000,000* State of New Hampshire General Obligation Capital Improvement Bonds, 2020 Series A (the "Bonds").

Description of the Bonds

The Bonds will be issued only as fully registered bonds in book-entry form. The Bonds will be dated their date of delivery and will be issued in denominations of \$5,000 or any integral multiple thereof. Interest on the Bonds will be calculated on a 30/360 day basis and will be payable semi-annually on June 1 and December 1, commencing December 1, 2020.

Principal on the Bonds will be paid on December 1 in the following years and amounts:

<u>Year</u>	<u>Principal Amount</u> ⁽¹⁾⁽²⁾	<u>Year</u>	<u>Principal Amount</u> ⁽¹⁾⁽²⁾
2020	\$4,800,000	2030	\$3,200,000
2021	4,800,000	2031	3,200,000
2022	4,800,000	2032	3,200,000
2023	4,800,000	2033	3,200,000
2024	4,800,000	2034	3,200,000
2025	4,800,000	2035	3,200,000
2026	4,800,000	2036	3,200,000
2027	4,800,000	2037	3,200,000
2028	4,800,000	2038	3,200,000
2029	4,800,000	2039	3,200,000

(1) Preliminary; subject to change.

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

Authorization and Security

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

Optional Redemption

The Bonds maturing on or before December 1, 2029 are not subject to redemption prior to maturity. The Bonds maturing after December 1, 2029 are subject to redemption at the option of the State on and after December 1, 2029, in whole or in part at any time, with maturities to be designated by the State (and by lot within a maturity as described below), at the price of the par amount of bonds to be redeemed, plus accrued interest to the redemption date.

*Preliminary, subject to change.

Mandatory Redemption

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

Selection of Bonds To Be Redeemed in Partial Redemption

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

Notice of Redemption

So long as DTC is the registered owner of the Bonds, notice of any redemption of the Bonds prior to their maturities, specifying the Bonds (or the portions thereof) to be redeemed shall be mailed to DTC not more than 60 days nor less than 30 days prior to the redemption date. Any failure on the part of DTC to notify the DTC Participants of the redemption or failure on the part of the DTC Participants or of a nominee of a Beneficial Owner (having received notice from a DTC Participant or otherwise) to notify the Beneficial Owner shall not affect the validity of the redemption. The redemption notice may state that it is conditioned upon the deposit of moneys in an amount equal to the amount necessary to effect the redemption, in a separate account established by the State for such purpose no later than the redemption date, or that the State may rescind such notice at any time prior to the scheduled redemption date if the State Treasurer delivers a notice thereof to the registered owner of the Bonds. The redemption notice and optional redemption shall be of no effect if such moneys are not so deposited or if the notice is rescinded, and the failure of the State to make funds available in whole or in part on or before the redemption date shall not constitute a default. Notice of redemption having been given as aforesaid, and sufficient moneys deposited with The Bank of New York Mellon Trust Company, N.A., or its successor, as Paying Agent (the "Paying Agent") for redemption, the Bonds called for redemption shall become due and payable on the redemption date, and from and after such date, such Bonds shall cease to bear interest.

Book-Entry Only

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

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

Electronic Bidding Procedures

Proposals to purchase Bonds (all or none) must be submitted electronically via *PARITY*. Bids will be communicated electronically to the State at 10:00 A.M., local Concord, New Hampshire time, on Thursday, February 20, 2020. Prior to that time, a prospective bidder may (1) submit the proposed terms of its bid via *PARITY*, (2) modify the proposed terms of its bid, in which event the proposed terms as last modified will (unless the bid is withdrawn as described herein) constitute its bid for the Bonds or (3) withdraw its proposed bid. Once the bids are communicated electronically via *PARITY* to the State, each bid will constitute an irrevocable offer to purchase the Bonds on the terms therein provided. For purposes of the electronic bidding process, the time as maintained on *PARITY* shall constitute the official time. The State will not accept bids by any means other than electronically via *PARITY*.

Disclaimer

Each prospective bidder shall be solely responsible to submit its bid via *PARITY* as described above. Each prospective bidder shall be solely responsible to make necessary arrangements to access *PARITY* for the purpose of submitting its bid in a timely manner and in compliance with the requirements of the Notice of Sale. Neither the State nor *PARITY* shall have any duty or obligation to provide or assure access to *PARITY* to any prospective bidder, and neither the State nor *PARITY* shall be responsible for proper operation of, or have any liability for any delays or interruptions of, or any damages caused by, *PARITY*. The State is using *PARITY* as a communication mechanism, and not as the State's agent, to conduct the electronic bidding for the Bonds. The State is not bound by any advice and determination of *PARITY* to the effect that any particular bid complies with the terms of this Notice of Sale and in particular the "Bid Specifications" hereinafter set forth. All costs and expenses incurred by prospective bidders in connection with their submission of bids via *PARITY* are the sole responsibility of the bidders; and the State is not responsible, directly or indirectly, for any of such costs or expenses. If a prospective bidder encounters any difficulty in submitting, modifying, or withdrawing a bid for the Bonds, the bidder should telephone *PARITY* at i-Deal (212) 404-8102 and notify the State's Financial Advisor, Public Resources Advisory Group, Inc., by telephone at (212) 566-7800. To the extent any instructions or directions set forth in *PARITY* conflict with this Notice of Sale, the terms of this Notice of Sale shall control. For further information about *PARITY*, potential bidders may contact *PARITY* at i-Deal (212) 404-8102.

Bid Specifications

Bidders should state the rate or rates of interest that the Bonds are to bear, in multiples of 1/8 or 1/20 of one percent; **provided, however, that the rate of interest on each maturity of the Bonds maturing in the years 2030 to 2039 shall be 5% per annum.** Any number of rates may be named, except that Bonds maturing on the same date must bear interest at the same rate. Each bidder must specify in its bid the amount and maturities of bonds of each rate. Bids must be for not less than 100% of the par value of the aggregate principal amount of the Bonds. No interest rate may exceed 5.00%. No bid for other than all of the Bonds will be accepted.

Bond Insurance

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

Adjustments to Principal Amounts of the Bonds

The State reserves the right to revise the maturity schedule and the aggregate principal amount of the Bonds as set forth in this Official Notice of Sale (the "Preliminary Amounts") before the receipt of electronic bids for the purchase of the Bonds. ANY SUCH REVISIONS made prior to the receipt of electronic bids (the "Revised Amounts") WILL BE PUBLISHED ON THOMSON MUNICIPAL MARKET MONITOR ("TM3") (www.TM3.com) NOT LATER THAN 9:00 A.M. (local Concord, New Hampshire time) ON THE ANNOUNCED

DATE FOR RECEIPT OF BIDS. In the event that no such revisions are made, the Preliminary Amounts will constitute the Revised Amounts. Bidders shall submit bids based on the Revised Amounts and the Revised Amounts will be used to compare bids and select a winning bidder.

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

Basis of Award

The Bonds will be awarded to the bidder offering to purchase all of the Bonds at the lowest interest cost to the State. The lowest interest cost shall be determined in accordance with the true interest cost (TIC) method by doubling the semi-annual interest rate (compounded semi-annually) necessary to discount the debt service payments from the payment dates to the date of the Bonds (March 5, 2020) and to the price bid. If there is more than one such proposal making said offer at the same lowest true interest cost, the Bonds will be sold to the bidder whose proposal is selected by the Treasurer by lot from among all such proposals at the same lowest true interest cost. It is requested that each bid be accompanied by a statement of the true interest cost computed at the interest rate or rates stated in such bid in accordance with the above method of calculation (computed to six decimal places) but such statement will not be considered as a part of the bid.

Bids will be accepted or rejected promptly after receipt and not later than 3:00 P.M. (local Concord, New Hampshire time) on the date of the sale.

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

Right to Change the Notice of Sale and to Postpone Offering

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

CUSIP Numbers

It is anticipated that CUSIP identification numbers will be printed on the Bonds. The Financial Advisor will timely apply for CUSIP numbers with respect to the Bonds as required by MSRB Rule G-34. All expenses in relation to the printing of CUSIP numbers on the Bonds shall be paid for by the State; provided, however, that the CUSIP Service Bureau charge for the assignment of the numbers shall be the responsibility of and shall be paid for by the successful bidder.

Expenses

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

Undertakings of the Successful Bidder

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

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

Establishment of Issue Price

The successful bidder shall assist the State in establishing the issue price of the Bonds and shall execute and deliver to the State on the Closing Date an “issue price” or similar certificate, in the applicable form set forth in Exhibit 1 to this Notice of Sale, setting forth the reasonably expected initial offering prices to the public or the sale prices of the Bonds together with the supporting pricing wires or equivalent communications, with such modifications as may be appropriate or necessary in the reasonable judgment of the successful bidder, the State and Bond Counsel. All actions to be taken by the State under this Notice of Sale to establish the issue price of the Bonds may be taken on behalf of the State by Public Resources Advisory Group (“Financial Advisor”) and any notice or report to be provided to the State may be provided to the Financial Advisor.

Competitive Sale Requirements. The State expects that the competitive sale requirements (“competitive sale requirements”) set forth in Treasury Regulation § 1.148-1(f)(3)(i) (defining “competitive sale” for purposes of establishing the issue price of the Bonds) will apply to the sale of the Bonds because:

- (1) the State has disseminated this Notice of Sale to potential underwriters in a manner that is reasonably designed to reach potential underwriters;
- (2) all bidders will have an equal opportunity to bid;
- (3) the State may receive bids from at least three underwriters of municipal bonds who have established industry reputations for underwriting new issuances of municipal bonds; and
- (4) the State anticipates awarding the sale of the Bonds to the bidder who submitted a firm offer to purchase the Bonds at the highest price (or lowest interest cost), as set forth in this Notice of Sale.

Any bid submitted pursuant to this Notice of Sale shall be considered a firm offer for the purchase of the Bonds, as specified in the bid. By submitting a bid, each bidder shall be deemed to confirm that it has an established industry reputation for underwriting new issuances of municipal bonds and that it will be an “underwriter” (as defined below) that intends to reoffer the Bonds to the public.

In the event that the competitive sale requirements are not satisfied, the State shall so advise the successful bidder. In this event, the successful bidder may use either Option A or Option B, set forth below.

Failure to Meet the Competitive Sale Requirements – Option A – The 10% Test to Apply. If the competitive sale requirements are not satisfied, the successful bidder may, at its option, use the first price at which 10% of a maturity of the Bonds (the “10% test”) is sold to the public as the issue price of that maturity, applied on a maturity-by-maturity basis, of the Bonds. The successful bidder shall advise the Financial Advisor if any maturity of the Bonds satisfies the 10% test as of the date and time of the award of the Bonds.

If the competitive sale requirements are not satisfied, then until the 10% test has been satisfied as to each maturity of the Bonds or all of the Bonds are sold to the public, the successful bidder agrees to promptly report to the Financial Advisor the prices at which the unsold Bonds of each maturity have been sold to the public, which reporting obligation shall continue, whether or not the Closing Date has occurred, until the 10% test has been satisfied for each maturity of the Bonds or until all the Bonds of a maturity have been sold. The successful bidder shall be obligated to report each sale of Bonds to the Financial Advisor until notified in writing by the State or the Financial Advisor that it no longer needs to do so. If the successful bidder uses Option A, the successful bidder shall provide to the State on or before the Closing Date the certificate attached to this Notice of Sale as Exhibit 1 – Option A.

By submitting a bid and if the competitive sale requirements are not met, each bidder confirms that: (i) any agreement among underwriters, any selling group agreement and each third-party distribution agreement (to which the bidder is a party) relating to the initial sale of the Bonds to the public, together with the related pricing wires, contains or will contain language obligating each underwriter, each dealer who is a member of the selling group, and each broker-dealer that is a party to such third-party distribution agreement, as applicable, to report the prices at which it sells to the public the unsold Bonds of each maturity allotted to it until it is notified by the successful bidder that either the 10% test has been satisfied as to the Bonds of that maturity or all Bonds of that maturity have been sold to the public, if and for so long as directed by the successful bidder and as set forth in the related pricing wires and (ii) any agreement among underwriters relating to the initial sale of the Bonds to the public, together with the related pricing wires, contains or will contain language obligating each underwriter that is a party to a third-party distribution agreement to be employed in connection with the initial sale of the Bonds to the public to require each broker-dealer that is a party to such third-party distribution agreement to report the prices at which it sells to the public the unsold Bonds of each maturity allotted to it until it is notified by the successful bidder or such underwriter that either the 10% test has been satisfied as to the Bonds of that maturity or all Bonds of that maturity have been sold to the public if and for so long as directed by the successful bidder or such underwriter and as set forth in the related pricing wires.

Sales of any Bonds to any person that is a related party to an underwriter shall not constitute sales to the public for purposes of this Notice of Sale. Further, for purposes of this Notice of Sale:

- (1) “public” means any person other than an underwriter or a related party,
- (2) “underwriter” means (A) any person that agrees pursuant to a written contract with the State (or with the lead underwriter to form an underwriting syndicate) to participate in the initial sale of the Bonds to the public and (B) any person that agrees pursuant to a written contract directly or indirectly with a person described in clause (A) to participate in the initial sale of the Bonds to the public (including a member of a selling group or a party to a third-party distribution agreement participating in the initial sale of the Bonds to the public), and
- (3) a purchaser of any of the Bonds is a “related party” to an underwriter if the underwriter and the purchaser are subject, directly or indirectly, to (i) more than 50% common ownership of the voting power or the total value of their stock, if both entities are corporations (including direct ownership by one corporation of another), (ii) more than 50% common ownership of their capital interests or profits interests, if both entities are partnerships (including direct ownership by one partnership of another), or (iii) more than 50% common ownership of the value of the outstanding stock of the corporation or the capital interests or profit interests of the partnership, as applicable, if one entity is a corporation and the other entity is a partnership (including direct ownership of the applicable stock or interests by one entity of the other).

Failure to Meet the Competitive Sale Requirements – Option B – The Successful Bidder Agrees to Hold the Price of Maturities of Bonds for Which the 10% Test in Option A Is Not Met as of the Sale Date. The successful bidder may, at its option, notify the Financial Advisor in writing, which may be by email (the “Hold the Price Notice”), not later than 4:00 p.m. on the Sale Date, that it has not sold 10% of the maturities of the Bonds listed in the Hold the Price Notice (the “Hold-the-Offering-Price Maturities”) and that the successful bidder will not offer the Hold-the-Offering-Price Maturities to any person at a price that is higher than the initial offering price to the public

during the period starting on the Sale Date and ending on the earlier of (i) the close of the fifth business day after the Sale Date or (ii) the date on which the successful bidder has sold at least 10% of the applicable Hold-the-Offering-Price Maturity to the public at a price that is no higher than the initial offering price to the public. If the successful bidder uses Option B and delivers a Hold the Price Notice to the Financial Advisor, the successful bidder shall provide to the State on or before the Closing Date the certificate attached to this Notice of Sale as Exhibit 1 – Option B.

Delivery of the Bonds

The Bonds will be delivered on or about March 5, 2020 in Boston on behalf of DTC against payment of the purchase price therefor in Federal Funds.

Documents to be Delivered at Closing

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

Official Statement

The Preliminary Official Statement dated February 12, 2020 and the information contained therein have been deemed final by the State as of its date within the meaning of Rule 15c2-12 of the Securities and Exchange Commission (“Rule 15c2-12”) with permitted omissions, but is subject to change without notice and to completion or amendment in the Official Statement in final form (the “Final Official Statement”).

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

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

Continuing Disclosure

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

Additional Information

For further information relating to the Bonds, reference is made to the Preliminary Official Statement dated February 12, 2020 prepared for and authorized by the State. The Preliminary Official Statement may be obtained by accessing the following website: www.MuniOS.com. For further information, please contact the undersigned at the Office of the State Treasurer, State House Annex, Concord, New Hampshire 03301 (telephone 603-271-2621;

telecopy 603-271-3922) or from Public Resources Advisory Group, Inc., 39 Broadway, Suite 1210, New York, New York 10006, Attention: Monika Conley (telephone 212-566-7800; telecopy 212-566-7816).

THE STATE OF NEW HAMPSHIRE

By /s/ William F. Dwyer
State Treasurer

Date: February 12, 2020

EXHIBIT 1

Issue Price Certificate for Use if the Competitive Sale Requirements are Met

§ _____
**STATE OF NEW HAMPSHIRE
GENERAL OBLIGATION BONDS
2020 SERIES A**

ISSUE PRICE CERTIFICATE

The undersigned, on behalf of [NAME OF UNDERWRITER] (the “Successful Bidder”), hereby certifies as set forth below with respect to the sale of the above-captioned obligations (the “Bonds”) of the State of New Hampshire (the “Issuer”).

1. Reasonably Expected Initial Offering Prices.

(a) As of the Sale Date, the reasonably expected initial offering prices of the Bonds to the Public by the Successful Bidder are the prices listed in Schedule A (the “Expected Offering Prices”). The Expected Offering Prices are the prices for the Maturities of the Bonds used by the Successful Bidder in formulating its bid to purchase the Bonds. Attached as Schedule B is a true and correct copy of the bid provided by the Underwriter to purchase the Bonds.

(b) The Successful Bidder was not given the opportunity to review other bids prior to submitting its bid.

(c) The bid submitted by the Successful Bidder constituted a firm offer to purchase the Bonds.

2. Defined Terms.

(a) *Maturity* means Bonds with the same credit and payment terms. Bonds with different maturity dates, or Bonds with the same maturity date but different stated interest rates, are treated as separate Maturities.

(b) *Public* means any person (including an individual, trust, estate, partnership, association, company, or corporation) other than an Underwriter or a related party to an Underwriter. The term “related party” for purposes of this certificate generally means any two or more persons who have greater than 50 percent common ownership, directly or indirectly.

(c) *Sale Date* means the first day on which there is a binding contract in writing for the sale of a Maturity of the Bonds. The Sale Date of the Bonds is February __, 2020.

(d) *Underwriter* means (i) any person, including the Successful Bidder, that agrees pursuant to a written contract with the Issuer (or with the lead underwriter to form an underwriting syndicate) to participate in the initial sale of the Bonds to the Public, and (ii) any person that agrees pursuant to a written contract directly or indirectly with a person described in clause (i) of this paragraph to participate in the initial sale of the Bonds to the Public (including a member of a selling group or a party to a third-party distribution agreement participating in the initial sale of the Bonds to the Public).

The representations set forth in this certificate are limited to factual matters only. Nothing in this certificate represents the Successful Bidder’s interpretation of any laws, including specifically Sections 103 and 148 of the Internal Revenue Code of 1986, as amended, and the Treasury Regulations thereunder. The

undersigned understands that the foregoing information will be relied upon by the Issuer with respect to certain of the representations set forth in the Tax Certificate and with respect to compliance with the federal income tax rules affecting the Bonds, and by Locke Lord LLP in connection with rendering its opinion that the interest on the Bonds is excluded from gross income for federal income tax purposes, the preparation of the Internal Revenue Service Form 8038-G, and other federal income tax advice that it may give to the Issuer from time to time relating to the Bonds.

Dated: March __, 2020

[SUCCESSFUL BIDDER]

By:
Name:
Title:

SCHEDULE A
REASONABLY EXPECTED INITIAL OFFERING PRICES
(Attached)

SCHEDULE B
COPY OF UNDERWRITER'S BID
(Attached)

EXHIBIT 1 – OPTION A

**Issue Price Certificate for Use if the Competitive Sale Requirements are Not Met
and the 10% Test to Apply**

§ _____
**STATE OF NEW HAMPSHIRE
GENERAL OBLIGATION BONDS
2020 SERIES A**

ISSUE PRICE CERTIFICATE

The undersigned, on behalf of _____ (the (“Successful Bidder”)
[, on behalf of itself and [NAMES OF OTHER UNDERWRITERS,]] hereby certifies as set forth below
with respect to the sale and issuance of the above-captioned obligations (the “Bonds”).

1. **Sale of the Bonds.** As of the Sale Date, [except as set forth in paragraph 2 below,] for each Maturity of the Bonds, the first price at which at least 10% of such Maturity of the Bonds was sold to the Public on the Sale Date is the respective price listed in Schedule A.

[Only use the next paragraph if the 10% test has not been met or all of the Bonds have not been sold for one or more Maturities as of the Closing Date.]

2. For each Maturity of the Bonds as to which no price is listed in Schedule A, as set forth in the Notice of Sale for the Bonds, until the 10% test has been satisfied as to each Maturity of the Bonds or all of the Bonds are sold to the Public, the Successful Bidder agrees to promptly report to the Issuer’s financial advisor, Public Resources Advisory Group (the “Financial Advisor”), the prices at which the unsold Bonds of each Maturity have been sold to the Public, which reporting obligation shall continue after the date hereof until the 10% test has been satisfied for each Maturity of the Bonds or until all the Bonds of a Maturity have been sold. The Successful Bidder shall continue to report each sale of Bonds to the Financial Advisor until notified by email or in writing by the Issuer or the Financial Advisor that it no longer needs to do so.

3. **Defined Terms.**

- (a) *Issuer* means the State of New Hampshire.
- (b) *Maturity* means Bonds with the same credit and payment terms. Bonds with different maturity dates, or Bonds with the same maturity date but different stated interest rates, are treated as separate Maturities.
- (c) *Public* means any person (including an individual, trust, estate, partnership, association, company, or corporation) other than an Underwriter or a related party to an Underwriter. The term “related party” for purposes of this certificate generally means any two or more persons who have greater than 50 percent common ownership, directly or indirectly.
- (d) *Underwriter* means (i) any person, including the Successful Bidder, that agrees pursuant to a written contract with the Issuer (or with the lead underwriter to form an underwriting syndicate) to participate in the initial sale of the Bonds to the Public, and (ii) any person that agrees pursuant to a written contract directly or indirectly with a person described in clause (i) of this paragraph to participate in the initial sale of the Bonds to the Public (including a member of a selling group or a party to a third-party distribution agreement participating in the initial sale of the Bonds to the Public).

The representations set forth in this certificate are limited to factual matters only. Nothing in this certificate represents the Successful Bidder's interpretation of any laws, including specifically Sections 103 and 148 of the Internal Revenue Code of 1986, as amended, and the Treasury Regulations thereunder. The undersigned understands that the foregoing information will be relied upon by the Issuer with respect to certain of the representations set forth in the Tax Certificate and with respect to compliance with the federal income tax rules affecting the Bonds, and by Locke Lord LLP in connection with rendering its opinion that the interest on the Bonds is excluded from gross income for federal income tax purposes, the preparation of the Internal Revenue Service Form 8038-G, and other federal income tax advice that it may give to the Issuer from time to time relating to the Bonds.

Dated: March __, 2020

[SUCCESSFUL BIDDER]

By: _____
Name:
Title:

SCHEDULE A

SALE PRICES

[(Attached)]

or

[Complete Schedule Below]

Maturity

Price

EXHIBIT 1 – OPTION B

Issue Price Certificate for Use if the Competitive Sale Requirements are Not Met and the Hold the Price Rule Is Used

§ _____
**STATE OF NEW HAMPSHIRE
GENERAL OBLIGATION BONDS
2020 SERIES A**

ISSUE PRICE CERTIFICATE

The undersigned, on behalf of [NAME OF SUCCESSFUL BIDDER] (the “Successful Bidder”) [, on behalf of itself and [NAMES OF OTHER UNDERWRITERS,]] hereby certifies as set forth below with respect to the sale and issuance of the above-captioned obligations (the “Bonds”).

A. Issue Price.

1. ***Sale of the General Rule Maturities.*** As of the date of this certificate, for each Maturity of the General Rule Maturities, the first price at which at least 10% of such Maturity of the Bonds was sold to the Public is the respective price listed in Schedule A.

[2. ***Initial Offering Price of the Hold-the Offering-Price Maturities.***

(a) The Successful Bidder offered the Hold-the-Offering-Price Maturities to the Public for purchase at the respective initial offering prices listed in Schedule A (the “Initial Offering Prices”) on or before the Sale Date, which correspond to the yields shown on Schedule A and on the inside cover of the Official Statement relating to the Bonds dated the Sale Date. A copy of the pricing wire or equivalent communication for the Bonds is attached to this certificate as Schedule B.

(b) The Successful Bidder agrees that (i) for each Maturity of the Hold-the-Offering-Price Maturities it will neither offer nor sell any of the unsold Bonds of such Maturity to any person at a price that is higher than the Initial Offering Price for such Maturity during the Holding Period for such Maturity (the “hold-the-offering-price rule”), and (ii) any selling group agreement shall contain the agreement of each dealer who is a member of the selling group, and any third-party distribution agreement shall contain the agreement of each broker-dealer who is a party to the third-party distribution agreement, to comply with the hold-the-offering-price rule. Pursuant to such agreement, no Underwriter (as defined below) has offered or sold any unsold Bonds of a Maturity of the Hold-the-Offering-Price Maturities at a price that is higher than the respective Initial Offering Price for that Maturity of the Bonds during the Holding Period.]

[2.][3.] ***Defined Terms.*** [keep applicable definitions, depending on sale outcome]

(a) ***General Rule Maturities*** means those Maturities of the Bonds listed in Schedule A hereto as the “General Rule Maturities.”

(b) ***Hold-the-Offering-Price Maturities*** means those Maturities of the Bonds listed in Schedule A hereto as the “Hold-the-Offering-Price Maturities.”

(c) ***Holding Period*** means, with respect to a Hold-the-Offering-Price Maturity, the period starting on the Sale Date and ending on the earlier of (a) the close of the fifth business day after the Sale Date, or (ii) the date on which the Underwriters have sold at least 10% of such Hold-the-Offering-Price Maturity to the Public at prices that are no higher than the Initial Offering Price for such Hold-the-Offering-Price Maturity.

(d) ***Issuer*** means the State of New Hampshire.

(e) *Maturity* means Bonds with the same credit and prepayment terms. Bonds with different maturity dates, or Bonds with the same maturity date but different stated interest rates, are treated as separate Maturities.

(f) *Public* means any person (including an individual, trust, estate, partnership, association, company or corporation) other than an Underwriter or a related party to an Underwriter. The term “related party” for purposes of this certificate generally means any two or more persons who have greater than 50 percent common ownership, directly or indirectly.

(g) *Sale Date* means the first day on which there is a binding contract in writing for the sale of a Maturity of the Bonds. The Sale Date of the Bonds is February __, 2020.

(h) *Underwriter* means (i) any person, including the Successful Bidder, that agrees pursuant to a written contract with the Issuer (or with the lead underwriter to form an underwriting syndicate) to participate in the initial sale of the Bonds to the Public, and (ii) any person that agrees pursuant to a written contract directly or indirectly with a person described in clause (i) of this paragraph to participate in the initial sale of the Bonds to the Public (including a member of a selling group or a party to a third-party distribution agreement participating in the initial sale of the Bonds to the Public).

B. Reliance.

The representations set forth in this certificate are limited to factual matters only. The certifications contained herein are not necessarily based on personal knowledge, but may instead be based on either inquiry deemed adequate by the undersigned or institutional knowledge (or both) regarding the matters set forth herein. Nothing in this certificate represents the Successful Bidders’s interpretation of any laws, including specifically Sections 103 and 148 of the Internal Revenue Code of 1986, as amended, and the Treasury Regulations thereunder. The undersigned understands that the foregoing information will be relied upon by the Issuer with respect to certain of the representations set forth in the Tax Certificate dated March __, 2020 relating to the Issue, to which this certificate is attached as an exhibit, and with respect to compliance with the federal income tax rules affecting the Issue, and by Locke Lord LLP in connection with rendering its opinion that the interest on the Issue is excluded from gross income for federal income tax purposes, the preparation of the Internal Revenue Service Form 8038 and other federal income tax advice that it may give to the Issuer from time to time relating to the Issue.

Dated: March __, 2020

[SUCCESSFUL BIDDER]

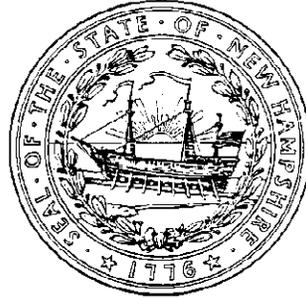
By: _____
Name:
Title:

SCHEDULE A
SALE PRICES OF THE GENERAL RULE MATURITIES AND
INITIAL OFFERING PRICES OF THE HOLD-THE-OFFERING-PRICE MATURITIES
(ATTACHED)

SCHEDULE B
PRICING WIRE OR EQUIVALENT COMMUNICATIO

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The State of New Hampshire



INFORMATION STATEMENT

This Information Statement, including Exhibit A, which is included herein by reference, contains certain financial and economic information concerning the State of New Hampshire (the "State") that has been furnished by the State and the other sources indicated herein. The information is authorized by the State to be distributed to prospective purchasers in connection with bonds or notes offered for sale by the State or debt securities offered by its authorities, agencies or political subdivisions guaranteed by the State, or for the payment of which the State may otherwise be directly or contingently liable, and to the 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. All fiscal year 2020 or later financial information is preliminary, unaudited and subject to change.

This Information Statement contains forecasts, projections and estimates that are based on current expectations. In light of the important factors that may materially affect the financial condition of the State of New Hampshire generally and other economic and financial matters, the inclusion in this Information Statement of such forecasts, projections and estimates should not be regarded as a representation by the State that such forecasts, projections and estimates will occur. Such forecasts, projections and estimates are not intended as representations of fact or guarantees of results.

This 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 of New Hampshire and various state agencies and authorities, receipt of federal grants, litigation, arbitration, force majeure events and various other factors that are beyond the control of the State and its various agencies and authorities. Because of the inability to predict all factors that may affect future decisions, actions, events or financial circumstances, what actually happens may be different from what is set forth in such forward-looking statements. Forward-looking statements are indicated by use of such words as "may," "will," "should," "intends," "expects," "believes," "anticipates," "estimates" and other.

STATE OF NEW HAMPSHIRE

William F. Dwyer
State Treasurer

February 12, 2020

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STATE OF NEW HAMPSHIRE

Governor

Christopher T. Sununu

Executive Council

Michael J. Cryans
Theodore L. Gatsas
Debora B. Pignatelli
Russell E. Prescott
Andru Volinsky

State Treasurer

William F. Dwyer

Secretary of State

William M. Gardner

Attorney General

Gordon J. MacDonald

Commissioner of Administrative Services

Charles M. Arlinghaus

Comptroller

Dana M. Call

Budget Director

Vacant

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 branch departments and agencies 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 21 departments, each headed by a Commissioner, and 11 agencies and commissions, each with a unique management structure. Major departments of the executive branch include: Health and Human Services, Transportation, Education, Justice, Natural and Cultural Resources, Business and Economic Affairs, 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, the 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 inland tidal shoreline.

Population

New Hampshire experienced an increase in population between 2009 and 2019, with more rapid growth between 2016 and 2019. The State's population was 1,359,711 in 2019 according to the U.S. Census Bureau. Population has increased by 3.3% since 2009 and 2.0% since 2014. The table below shows New Hampshire's resident population and the change in its population relative to New England and the nation.

Population Trends (In Thousands)

<u>Year</u>	<u>New Hampshire</u>	<u>Change During Period</u>	<u>New England</u>	<u>Change During Period</u>	<u>United States</u>	<u>Change During Period</u>
2009	1,316	0.0%	14,404	0.4%	306,772	0.9%
2010	1,317	0.1	14,470	0.5	309,322	0.8
2011	1,320	0.3	14,531	0.4	311,557	0.7
2012	1,324	0.3	14,590	0.4	313,831	0.7
2013	1,327	0.2	14,644	0.4	315,994	0.7
2014	1,333	0.5	14,702	0.4	318,301	0.7
2015	1,336	0.2	14,727	0.2	320,635	0.7
2016	1,342	0.4	14,756	0.2	322,941	0.7
2017	1,349	0.5	14,797	0.3	321,986	0.6
2018	1,353	0.3	14,829	0.2	326,688	0.5
2019	1,360	0.5	14,845	0.1	328,240	0.5
Percent Change:						
2009-2019		3.3%		3.1%		7.0%
2014-2019		2.0		1.0		3.1

Source: U.S. Census Bureau.

In 2018, populations of New Hampshire, New England, and the United States were distributed by age as follows:

Age Distribution 2018

<u>Age</u>	<u>New Hampshire</u>	<u>New England</u>	<u>United States</u>
Under 5 years	4.7%	5.1%	6.1%
5 through 17 years	14.3	14.7	16.4
18 to 44 years	33.2	35.1	35.9
45 to 64 years	29.7	27.8	25.6
65 years and over	<u>18.1</u>	<u>17.4</u>	<u>16.0</u>
	100.0%*	100.0%*	100.0%*

Source: U.S. Census Bureau.

* Totals may not add due to rounding.

Personal Income

The State's per capita personal income increased 34.1% between 2008 and 2018 (as contrasted with an increase of 33.1% in the per capita personal income for the United States and a 33.1% increase for the New England region). The State's per capita personal income ranked 8th in 2018 with \$61,294 or 112.6% of the national average. The State's total personal income for 2018 was \$83.1 billion. The following table sets forth information on personal income for New Hampshire, New England and the United States since 2008.

**Comparisons of New Hampshire Personal Income
to New England and United States, 2008-2018**

<u>Year</u>	<u>New Hampshire Total Personal Income (In Millions)</u>	<u>Per Capita Personal Income</u>			<u>Percent Change</u>			<u>New Hampshire Per Capita Personal Income Ranking⁽¹⁾</u>
		<u>New Hampshire</u>	<u>New England</u>	<u>United States</u>	<u>New Hampshire</u>	<u>New England</u>	<u>United States</u>	
2008	\$60,129	\$45,694	\$51,026	\$40,904	2.3%	4.0%	2.7%	8
2009	59,083	44,892	50,133	39,284	(1.8)	(1.8)	(4.0)	7
2010	61,605	46,784	52,094	40,546	4.2	3.9	3.2	7
2011	64,590	48,938	54,111	42,735	4.6	3.9	5.4	8
2012	67,529	51,005	55,763	44,599	4.2	3.1	4.4	9
2013	67,320	50,754	55,438	44,851	(0.5)	(0.6)	0.6	9
2014	70,225	52,673	57,886	47,058	3.8	4.4	4.9	9
2015	73,212	54,788	60,566	48,978	4.0	4.6	4.1	9
2016	75,817	56,480	62,139	49,870	3.1	2.6	1.8	7
2017	78,822	58,397	64,526	51,885	3.4	3.8	4.0	8
2018	83,143	61,294	67,893	54,446	5.0	5.2	4.9	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 was lower than the national and regional growth rates from 2008 to 2018. 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

	<u>Employment (In Thousands)</u>		<u>Average Annual Growth</u>
	<u>2008</u>	<u>2018</u>	<u>2008-2018</u>
New Hampshire	712	745	0.46%
Connecticut	1,775	1,819	0.25
Maine	666	672	0.09
Massachusetts	3,246	3,693	1.38
Rhode Island	520	534	0.27
Vermont	336	338	0.06
New England	7,255	7,801	0.75
United States	145,092	155,344	0.71

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. As of December 2019, the non-seasonally adjusted unemployment rate in the State was 2.3%, a slight increase from 2.1% in December 2018 but significantly lower than 2.7% in the New England region and 3.4% nationally. The table below sets forth information on the civilian labor force, employment and unemployment statistics since 2009.

Labor Force Trends (Not Seasonally Adjusted)
New Hampshire Labor Force
(In Thousands)

Unemployment Rate

Year	Civilian			New	New	United
	Labor Force	Employed	Unemployed	Hampshire	England	States
2009	744	698	46	6.2%	8.0%	9.3%
2010	738	695	43	5.8	8.4	9.6
2011	736	697	40	5.4	7.7	8.9
2012	741	700	41	5.5	7.2	8.1
2013	741	704	38	5.1	6.9	7.4
2014	743	712	32	4.3	5.9	6.2
2015	745	720	25	3.4	4.9	5.3
2016	751	730	21	2.9	4.1	4.9
2017	754	734	20	2.7	3.9	4.4
2018	762	743	19	2.5	3.5	3.9
2019 ⁽¹⁾	773	753	19	2.5	3.1	3.7
Month						
Dec. 2018	760	744	16	2.1	2.9	3.7
Dec. 2019 ⁽¹⁾	777	759	18	2.3	2.7	3.4

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

⁽¹⁾ Preliminary

Composition of Employment

The service sector was the largest employment sector in New Hampshire in 2019, accounting for 47.3% of nonagricultural employment, as compared to 42.9% in 2009. 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 47.0% of employment in 2019, up from 43.8% in 2009.

The second largest employment sector in New Hampshire during 2019 was wholesale and retail trade, accounting for 18.0% of total employment as compared to 14.4% nationally. In 2009, wholesale and retail trade accounted for 19.0% 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 10.1% of nonagricultural employment in 2019, down from 10.8% in 2009. For the United States as a whole, manufacturing accounted for 8.5% of nonagricultural employment in 2019, versus 9.0% in 2009. 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	
	2009	2019 ⁽¹⁾	2009	2019 ⁽¹⁾
Manufacturing	10.8%	10.1%	9.0%	8.5%
Durable Goods	8.3	7.7	5.5	5.3
Nondurable Goods	2.5	2.5	3.5	3.2
Nonmanufacturing	89.2	89.9	91.0	91.5
Construction & Mining	3.7	4.3	5.1	5.4
Wholesale and Retail Trade	19.0	18.0	15.3	14.4
Service Industries	42.9	47.3	43.8	47.0
Government	15.4	13.0	17.2	14.9
Finance, Insurance & Real Estate	5.8	4.9	6.0	5.7
Transportation & Public Utilities	2.3	2.5	3.7	4.0

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

⁽¹⁾ Preliminary.

Largest Employers

The following table lists the twenty largest employers in the State (based on number of employees) and their approximate number of employees presented in the New Hampshire Business Review Book of Lists 2019.

Largest Employers (Excluding Federal, State and Local Governments)

<u>Company</u>	<u>Employees</u>	<u>Primary New Hampshire Site</u>	<u>Principal Product</u>
1. Dartmouth Hitchcock	9,790	Lebanon	Acute Care Hospital
2. DeMoulas & Market Basket	9,000	Nashua	Supermarket
3. Wal-Mart Stores Inc.	7,886	Bedford	Retail Department Store
4. BAE Systems Electronic Systems	6,000	Nashua	Aerospace, Defense & Information Security
5. Hannaford (Delhaize Group)	5,300	Manchester	Supermarket
6. Fidelity Investments	5,200	Merrimack	Financial Services
7. Liberty Mutual - Northern N.E. Division	5,058	Bedford	Insurance
8. Elliot Hospital	4,000	Manchester	Acute Care Hospital
9. Dartmouth College	3,741	Hanover	Private College
10. Concord Hospital	3,492	Concord	Acute Care Hospital
11. Catholic Medical Center	3,050	Manchester	Acute Care Hospital
12. Southern New Hampshire Medical Center	2,723	Nashua	Acute Care Hospital
13. Shaws Supermarkets Inc.	2,619	Stratham	Supermarket
14. Home Depot	2,571	Manchester	Hardware Store
15. Connection	2,505	Merrimack	Technology
16. Wentworth-Douglass Hospital	2,500	Dover	Acute Care Hospital
17. Genesis HealthCare	2,378	Concord	Long-Term Health Care
18. Southern New Hampshire University	2,093	Manchester	Private College
19. Eversource	1,800	Manchester	Electric Utility
20. SIG Sauer Inc.	1,800	Portsmouth	Firearms Manufacturer

Source: *New Hampshire Business Review, Book of Lists 2019.*

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, as local property taxes remain the single largest principal source of funding for primary and secondary education.

Housing

According to the 2018 American Community Survey 1-year estimates, housing units in the State numbered 638,112, of which 83.2% were occupied. The composition of occupied housing units in the State was 71.3% owner occupied, and 28.7% renter occupied.

According to the New Hampshire Housing Finance Authority's latest housing data release, the median purchase price of all homes sold in 2018 was \$254,000, an increase of 5.8% from 2017. The median price for non-condominium homes sold in 2018 was \$268,900, an increase of 5.5% from 2017.

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

	Owner-Occupied Non- Condominium Housing Unit Median <u>Purchase Price</u>	<u>Percent Change</u>	Renter- Occupied Housing Unit Median <u>Gross Rent⁽¹⁾</u>	<u>Percent Change</u>	<u>Foreclosure Deeds</u>
2006	\$265,000	(1.9)%	\$928	3.0%	1,057
2007	269,900	1.8	946	1.9	2,071
2008	250,000	(7.4)	969	2.4	3,563
2009	217,000	(13.2)	969	-	3,467
2010	223,500	3.0	980	1.1	3,953
2011	214,400	(4.1)	983	0.3	3,863
2012	212,500	(0.9)	1,005	2.2	3,659
2013	227,500	7.1	1,018	1.3	2,702
2014	229,933	1.1	1,037	1.9	2,074
2015	233,500	1.6	1,069	3.1	1,724
2016	242,000	3.8	1,113	4.1	1,555
2017	255,000	5.2	1,143	2.7	1,305
2018	268,900	5.5	1,177	3.0	860
2019	285,000 ⁽²⁾	6.0	1,251	6.3	488 ⁽³⁾

Source: New Hampshire Housing Finance Authority.

⁽¹⁾ Includes utilities.

⁽²⁾ Purchase Price data January-August 2019.

⁽³⁾ Foreclosure Deeds January-August 2019.

According to data from the Warren Group that is compiled by the New Hampshire Housing Finance Authority, the cumulative total of foreclosure deeds for 2018 was 34.1% below the total for 2017, and the lowest annual total since 2006. Foreclosure deeds for the first eight months of 2019 numbered 488. This is 20% fewer foreclosure deeds issued during the first eight months of 2018.

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 some exceptions. The number of permits and dollar value in New Hampshire increased significantly from 2013 to 2015, and again in 2018, corresponding with national figures. The New England region experienced a drop in dollar value from 2013 to 2014,

yet rebounded significantly in 2015 and continued to increase through 2018. New Hampshire and the New England region experienced a sizeable decrease in both total permits and value from 2018 to 2019. In 2019, the State's building permits and value totaled 3,596 and \$812 million, respectively. Set out in the following table, are the number and value of building permits issued for housing units in New Hampshire, New England and the United States.

**Building Permits Issued
By Number of Units and Value
(Value in millions)**

	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019⁽¹⁾</u>
New Hampshire							
Single Family	2,136	2,190	2,424	2,680	2,711	2,710	2,325
Multi-Family	652	1,215	1,339	1,116	914	1,735	1,271
Total.....	2,788	3,405	3,763	3,796	3,625	4,445	3,596
Value.....	\$566	\$654	\$737	\$760	\$758	\$875	\$812
New England							
Single Family	16,670	16,765	16,412	17,935	18,106	18,159	16,010
Multi-Family	11,965	12,193	17,547	14,660	15,144	16,216	17,350
Total.....	28,635	28,958	33,959	32,595	33,160	34,375	33,360
Value.....	\$6,567	\$6,191	\$7,228	\$7,232	\$7,437	\$7,730	\$6,944
United States							
Single Family	620,802	634,597	695,998	750,796	819,976	855,332	854,158
Multi-Family	370,020	411,766	486,584	369,868	462,001	473,495	516,189
Total.....	990,822	1,046,363	1,182,582	1,120,664	1,281,977	1,328,827	1,370,347
Value.....	\$177,656	\$194,349	\$223,611	\$237,102	\$258,505	\$271,120	\$276,611

Source: U.S. Census Bureau.

⁽¹⁾ Preliminary.

Transportation

New Hampshire has more than 4,600 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. As of June 2019, the State has issued \$716 million of its Turnpike System revenue bonds to finance capital improvements to the Turnpike System. The State has also issued \$178.25 million of Federal Highway Grant Anticipation ("GARVEE") 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, State law authorized the use of a 4.2 cent increase in motor vehicle fuel fees (referred to as a "road toll" in New Hampshire law) to fund \$200 million in general obligation bonds or revenue bonds or both to complete the I-93 Salem to Manchester widening project. The State entered into a \$200 million Federal Transportation Infrastructure Finance and Innovation Act (TIFIA) loan in May, 2016. The TIFIA loan, which has a favorable 1.09% interest rate, will allow the Department of Transportation to perform additional bridge repair and pavement maintenance and completion of the I-93 project within the time frame of the law. The road toll increase will expire once all debt service payments for the I-93 project have been made or 20 years after the initial issuance of such bonds, whichever is earlier. The TIFIA financing is scheduled to fully amortize by June 2034. See "STATE INDEBTEDNESS – Debt Statement."

There are twenty-four airports open to the public in the State, of which three have scheduled air service (Manchester, Portsmouth, and Lebanon), and twenty-one 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 884,875 enplanements in fiscal year 2019. The airport experienced a 1% decrease in

enplanements in fiscal year 2019 as compared with fiscal year 2018. Manchester-Boston Regional Airport is the third largest cargo airport in New England. Air cargo activity remained strong in fiscal year 2019, with the airport processing approximately 190 million pounds of air cargo.

In June 2018, Chapter 287, Laws of 2018, made changes to aircraft registration fees effective January 1, 2019. The aircraft registration program operates on a calendar year, therefore, a full fiscal year of aircraft registration revenue, under the new fee structure, has not been collected. The change in registration fees reduced the General Fund revenue by approximately \$176,000 in fiscal year 2019. The fiscal year registration fees collected represent fees collected by both the old and new aircraft registration fee structures. The State expects to have a better understanding of the decrease in aircraft registration revenue at the end of fiscal year 2020, which will include the first full fiscal year of aircraft registrations with the new revised fees.

Rail freight service is provided by eight 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.

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, the University System of New Hampshire, and the Community College System of New Hampshire. The State Board and the Department of Education provide curriculum guidance and administrative support to 165 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. Through the Community College System of New Hampshire, the State also supports a network of seven community colleges 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, 20 non-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.

For an overview of educational initiatives being undertaken during the 2020-2021 biennium, see “Operating Budget Fiscal Years 2020 and 2021”.

As the following table indicates, as of 2018, the educational level of New Hampshire residents over the age of 25 was higher than that of the nation as a whole.

<u>Level of Education</u>	<u>2008</u> ⁽¹⁾		<u>2018</u> ⁽²⁾	
	<u>New Hampshire</u>	<u>United States</u>	<u>New Hampshire</u>	<u>United States</u>
9-11 years	96.8%	93.7%	97.6%	95.1%
12 years	90.9	85.0	93.2	88.4
1-3 years post-secondary	61.8	56.5	65.5	61.5
4 or more years post-secondary	33.3	27.7	36.9	32.6

⁽¹⁾ Source: U.S. Census Bureau, 2008 American Community Survey 1-Year Estimates

⁽²⁾ Source: U.S. Census Bureau, 2018 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 (“DAS”) is responsible for managing statewide administrative and financial reporting 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 an audit contract that extends through completion of the fiscal year 2022 audit with two additional option years. The audited financial statements for fiscal year 2019, together with the unqualified report thereon of KPMG LLP, are incorporated herein by reference, copies of which have been provided to the Municipal Securities Rulemaking Board, through its Electronic Municipal Market Access (“EMMA”) system, as directed by SEC Rule 15c2-12. See “FINANCIAL STATEMENTS.” The audited financial statements for fiscal year 2019 are also available as part of the State’s fiscal year 2019 CAFR (pages 16 through 96 of the CAFR) at the website of the State’s Department of Administrative Services, Bureau of Financial Reporting at <https://das.nh.gov/accounting/reports.asp>. Any information pertaining to fiscal year 2020 and later years, if any, is preliminary, unaudited and subject to change.

For information relating to management letters and federal single audit results delivered to the State for fiscal years 2014 through 2018, see “FINANCIAL STATEMENTS.” The management letters and federal single audit report results for June 30, 2019 are currently expected to be completed by March 31, 2020. See also “FINANCIAL STATEMENTS – Fiscal Year 2019” for additional information concerning one matter identified by KPMG LLP in connection with the fiscal year 2019 audit.

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 through 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 the unassigned 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 unassigned 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 unassigned 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. Although 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. For the biennium ending June 30, 2021, Chapter 346, Laws of 2019, appropriates payments to school districts for building aid and tuition and transportation aid from the Education Trust Fund. 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. All alcohol sold in New Hampshire must be through a sales and distribution system operated or regulated by the State Liquor Commission. Gross revenue derived by the Liquor Commission liquor sales and license fees is credited to a special fund, known as the Liquor Commission Fund. The balance remaining in the Liquor Commission Fund after paying expenses is deposited into the General Fund.

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, 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 and upgrading 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 of interest that include an administrative fee paid to the State. Repayments are credited to special accounts and then used to lend additional 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. When necessary, in accordance with the provisions of Section 1201 of the Social Security Act, the State has applied for, received and repaid advances from the Federal Unemployment Account to the State's Unemployment Trust Fund. For example, these advances were required 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. No advances are currently outstanding.

Since October 1, 2014, the Trust Fund has consistently grown and maintained balances sufficient to trigger statutory solvency reductions to employer tax rates. Effective with wages paid October 1, 2014 for which taxes were due the following quarter, all employers received a 0.5% reduction in their unemployment compensation tax rate. Employers then received a 1.0% reduction in their unemployment tax rate with wages paid in the quarter starting January 1, 2015; a 0.5% reduction with wages paid in the quarter starting April 1, 2015 as well as with wages paid in the quarter starting July 1, 2015; a 1.0% reduction with wages paid in the quarters starting October 1, 2015 through July 1, 2018; and a 1.5% reduction for wages paid in the quarter starting October 1, 2018 through January 1, 2019. Employers in New Hampshire had not experienced the full 1.5% reduction, which is the highest reduction available under State law, since 2003.

The New Hampshire Department of Employment Security expects the Unemployment Compensation Trust Fund to have adequate reserves for the short term. However, if unemployment levels were to rise to those experienced during the Great Recession of 2007-2009, during which the New Hampshire annual unemployment rate peaked at 6.2%, the State might need to borrow from the Federal government, as was done in 2010 and 2011.

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 including medical, pharmacy, and dental (active employees) and medical and pharmacy (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 ensure the efficient financial 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 at least annually to ensure best practices are followed and to incorporate strategies to reduce risk that may arise or become magnified due to current events. Additional information is available at <http://www.nh.gov/treasury/cash-investment-management/operating-funds.htm>.

Budget and Appropriation Process

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

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

Operating budget requests and revenue estimates for each fiscal year of the ensuing biennium submitted by State agencies are also summarized and submitted to the Governor. Following public hearings, analysis of the requested 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, allowed to pass into law after 5 days without signature, 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 operating and capital 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 biennium. 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 eliminated.

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 (RSA 6:10).

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. The Comptroller issues statement of appropriation reports daily that comply with the monthly reporting requirements; instances of spending that may deplete appropriations are rare.

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 has post-audit responsibility for all entities that expend State funds as well as review of the budgetary process on behalf of the Legislature. This responsibility involves conducting selected departmental audits and program result audits including, but not limited to, examinations as to whether the results contemplated by the authorizing body are being achieved by the department and whether such results could be obtained more effectively through other means. The Joint Legislative Capital Budget Overview Committee reviews the status of capital budget projects, and each State agency with capital budget projects is required to submit to the committee a status report on projects every sixty days.

Revenue Stabilization Reserve Account

Legislation was enacted in 1986 to establish a Revenue Stabilization Reserve Account (the "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 operating budget deficit at the close of a fiscal biennium resulting from 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. The maximum amount permitted in the account is equal to 10% of General Fund unrestricted revenue for the most recently completed fiscal year. Chapter 237 of the 2016 legislative session repealed a law which had capped the transfer in a single year to one half of the total potential maximum balance allowable for the Revenue Stabilization Reserve Account.

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. The balance remained at \$9.3 million until the budget for fiscal years 2016-2017, which projected an unassigned fund balance of \$72.8 million as of June 30, 2015. The Legislature set forth in Chapter 276:43, Laws of 2015 that the then-projected unassigned General Fund equity balance of approximately \$49 million was to be carried forward in the General Fund to be used in fiscal year 2016. In addition, the Revenue Stabilization Reserve Account balance was projected to be increased to \$23.8 million by a \$14.5 million transfer into the fund. The actual total General Fund unassigned fund balance at June 30, 2015 was \$71.3

million, comprised of a Revenue Stabilization Reserve Account balance of \$22.3 million and an unassigned fund balance of \$49 million.

In May 2016 the United State Supreme Court issued a final decision upholding a \$236 million verdict in favor of the State related to the *State v. Exxon* for MtBE water contamination. The total award was approximately \$307.2 million, including interest. As required by RSA 7:6-e,I, 10% of the award, or \$30.7 million, was credited to the State's Rainy Day Fund.

Additionally, Chapter 264, Laws of 2016 established that to the extent the audited, combined unrestricted general and education trust fund revenues for the fiscal year ending June 30, 2016 exceeded the official estimates, an amount not to exceed \$40 million of said excess would be transferred to the Revenue Stabilization Reserve Account. The State's audited financial statements for fiscal year 2016 issued on January 31, 2017 reported revenues approximately \$151 million in excess of plan; therefore the full \$40 million authorized by law was transferred at the conclusion of the audit, bringing the total Rainy Day Fund balance to \$93 million at June 30, 2016.

As noted above, the statutory capacity of the Rainy Day Fund is set at 10% of General Fund unrestricted revenue for the June 30, 2016 audited fiscal year, which was \$153 million. However, this statutory limit was revised by Chapter 156, Laws of 2017. To the extent the audited, combined unrestricted general and education trust fund revenues for the fiscal year ending June 30, 2017 exceeded the official estimates, less any amounts deposited pursuant to RSA 7:6-e,I, the excess was to be transferred to the Revenue Stabilization Reserve Account, up to \$100 million. Any excess, after the transfer of sufficient funds to bring the Revenue Stabilization Reserve Account to \$100 million, was to be transferred to the Public School Infrastructure Fund established pursuant to RSA 198:15-y.

The General Fund unassigned fund balance at the close of fiscal year 2017 was \$118.7 million, consisting of \$24.7 million of unassigned fund balance and \$94.0 million in the Rainy Day Fund, which includes a \$1.0 million transfer from the consumer protection escrow account that is designated for the Rainy Day Fund. As a result of legislative designations, the remaining operating surplus was transferred as follows: \$6.0 million to the Revenue Stabilization Reserve Account balance and the remainder of \$18.7 million to the public school infrastructure fund. This brought the Revenue Stabilization Reserve Account balance to \$100.0 million for fiscal year 2017, as compared to \$93.0 million in the prior fiscal year.

The General Fund audited unassigned fund balance at the close of fiscal year 2018 was \$184.4 million, consisting of \$74.4 million of unassigned fund balance and \$110.0 million in the Rainy Day Fund which includes \$10.0 million transferred from unrestricted General Fund excess revenues over plan as required by Chapter 162, Laws of 2018. This brought the Revenue Stabilization Reserve Account balance to \$110.0 million for fiscal year 2018, as compared to \$100.0 million in the prior fiscal year. In addition, the \$18.7 million transferred to the public school infrastructure fund in the prior fiscal year was completely committed to various State public schools during fiscal year 2018.

The General Fund audited unassigned fund balance at the close of fiscal year 2019 was \$307.8 million, consisting of \$192.5 million of unassigned fund balance and \$115.3 million in the Revenue Stabilization Reserve Account, which includes \$5.0 million transferred from unrestricted General Fund surplus as required by Chapter 346, Laws of 2019, and a transfer of \$0.3 million from the consumer protection escrow account that is designated for the Revenue Stabilization Reserve Account. This brought the Revenue Stabilization Reserve Account balance to \$115.3 million for fiscal year 2019, as compared to \$110 million in the prior fiscal year.

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 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 prescribed that the funding necessary to pay debt service on general obligation bonds issued to fund school building aid grants shall come from the meals and rooms tax. The amounts of the annual debt service on bonds issued for this purpose for fiscal years 2010 through 2020 are shown below:

<u>Fiscal Year</u>	<u>Amount (in thousands)</u>
2010	\$ 366
2011	5,030
2012	14,580
2013	14,424
2014	14,001
2015	13,576
2016	13,152
2017	12,728
2018	12,311
2019	11,903
2020	11,491

Prior to July 1, 2019, 3.15% of net meals and rooms tax collections was designated for travel and tourism development. The distribution of meals and rooms taxes to the Division of Resources and Economic Development for travel and tourism development was suspended for the biennium ending June 30, 2013 and again for the biennium ending June 30, 2017. Chapter 156 of the Laws of 2017 transferred the functions of the Division of Travel and Tourism from the former Department of Resources and Economic Development to the Department of Business and Economic Affairs. Chapter 156 of the Laws of 2017 also suspended the distribution of meals and rooms taxes to the Department of Business and Economic Affairs for the biennium ending June 30, 2019. The reorganization is intended to refocus the divisions of Economic Development and Travel & Tourism Development into the Department of Business and Economic Affairs to better coordinate the State's economic development efforts. For the biennium beginning July 1, 2019, the provision designating 3.15% of net meals and rooms tax collections for travel and tourism development has been repealed, and instead the budget for travel and tourism shall be funded from the General Fund in an amount no less than 3.15% of net meals and rooms tax revenue. However, this new provision is again suspended for the biennium ending June 30, 2021.

Beginning with fiscal year 1995, a portion of the revenue derived from the meals and rooms tax was 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 must be 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 as shown in the table below, presenting the percentage of the previous year's tax collections for fiscal years 2009 through 2019. Most recently, Chapter 346, Laws of 2019 capped the fiscal years 2020 and 2021 distribution at the 2019 level.

<u>Fiscal Year</u>	<u>Amount Distributed</u>	<u>% of Previous Year's Total Meals and Rooms Tax Collection</u>
2009	\$58,805,057	28.5%
2010	58,805,057	28.9
2011	58,805,057	25.8
2012	58,805,057	25.7
2013	58,805,057	23.2
2014	58,805,057	22.4
2015	63,805,057	23.2
2016	63,805,057	21.8
2017	68,805,057	22.0
2018	68,805,057	21.0
2019	68,805,057	20.0

Business Profits Tax ("BPT"). Chapter 274, Laws of 2015 reduced the rate of the business profits tax to 8.2% for taxable periods ending on or after December 31, 2016. For taxable periods ending before December 31, 2016, the business profits tax rate was 8.5%. 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. Chapter 346, Laws of 2019, modifies the State's apportionment formula in two ways. First, for taxable periods ending on or after December 31, 2021, the State will apportion sales of intangibles and services utilizing a method commonly referred to as "market-based sourcing." The State currently utilizes the income-producing activity/cost of performance method of apportioning sales and services. Second, for taxable periods ending on or after December 31, 2022, the State will apportion gross business profits utilizing only the sales factor. Currently, the State apportions gross business profits utilizing three factors: property, payroll, and sales (with sales being double-weighted). The transition to a system of market-based sourcing and the use of a single sales factors for apportionment in New Hampshire mirrors the national trend among states. The revenue impact of both changes is uncertain because determining how sales would be sourced under this new method requires a comprehensive review by each taxpayer of its books and records. Additionally, as a result of this new apportionment method there would likely be new filers for which the State has no data, as well as the loss of some current filers. Chapter 346, Laws of 2019 also creates a Legislative Committee on Apportionment which may vote to rescind the provision transitioning to a single sales factor for the apportionment of gross business profits prior to its effective date.

For taxable periods ending on or after December 31, 2018, the business profits tax rate was reduced to 7.9%. Chapter 156, Laws of 2017 further reduced the rate of the business profits tax to 7.7% for taxable periods ending on or after December 31, 2019. Chapter 346, Laws of 2019 provides that the rate will be further reduced to 7.5% for taxable periods ending on or after December 31, 2021 if the combined amount of General and Education Trust Fund revenue collected for the fiscal year ending June 30, 2020 is 6% or more above the official revenue estimates for said fiscal year. If the combined amount of General and Education Trust Fund revenue collected for the fiscal year ending June 30, 2020 is 6% or more below the official revenue estimates for said fiscal year, the rate will rise to 7.9% for taxable periods ending on or after December 31, 2021. Otherwise, the rate will remain at 7.7%.

Chapter 300, Laws of 2016 repealed and reenacted RSA 77-A:4, XIV relative to how a business organization treats the sale or exchange of an ownership interest which results in an increase in basis of assets under Federal law. Under previous law, when an interest in a business organization is sold or exchanged, the business must make an addition to gross business profits of an amount equal to the net increase in the basis of all underlying assets transferred or sold. Chapter 300 eliminated the requirement to make an addition to gross business profits, but also established an election whereby a business organization may choose to recognize the increase in basis and make an addition to gross business profits. If an election is made, the business organization may then deduct against gross business profits any annual depreciation or amortization attributable to the increased basis. If an election is not made, the business organization must add back to gross business profits any depreciation or amortization attributable to the increase in basis that is recognized federally. The fiscal impact of this change is indeterminable.

Business Enterprise Tax ("BET"). Chapter 274, Laws of 2015 also reduced the rate of the business enterprise tax to 0.72% for taxable periods ending on or after December 31, 2016. For taxable periods ending before

December 31, 2016, the business enterprise tax rate was 0.75%. The tax is assessed on wages paid to employees, interest paid on debt and dividends paid to shareholders. For taxable periods beginning on or after January 1, 2019, businesses with less than \$217,000 in gross receipts and an enterprise value base of less than \$108,000 are exempt from the business enterprise tax. Every business enterprise is required to make 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 ten (10) taxable periods from the taxable period in which the business enterprise tax was paid.

For taxable periods ending on or after December 31, 2018, the business enterprise tax rate was reduced to 0.675%. Chapter 156, Laws of 2017 further reduced the business enterprise tax rate to 0.6% for taxable periods ending on or after December 31, 2019. Chapter 346, Laws of 2019 provides that the rate will be further reduced to 0.5% for taxable periods ending on or after December 31, 2021 if the combined amount of General and Education Trust Fund revenue collected for the fiscal year ending June 30, 2020 is 6% or more above the official revenue estimates for said fiscal year. If the combined amount of General and Education Trust Fund revenue collected for the fiscal year ending June 30, 2020 is 6% or more below the official revenue estimates for said fiscal year, the rate will rise to 0.675% for taxable periods ending on or after December 31, 2021. Otherwise, the rate will remain at 0.6%.

Several pieces of legislation adopted since 2011 were projected to significantly reduce business tax revenue beginning in fiscal year 2014. 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 were believed to be more realistic impacts in developing budgeted revenue for the 2014-2015 biennium. More recently, to assist with revenue estimating for the 2018-2019 biennium, the DRA analyzed 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. To date, the predicted revenue declines due to recent legislative changes have been more than offset by overall growth in Business Tax revenues.

- Chapter 287, Laws of 2012 established the Education Tax Credit (ETC), effective June 27, 2012 with the first program year beginning January 1, 2013. The ETC allows a business organization or enterprise to make a donation of up to \$600,000 to an approved scholarship organization for which the business will receive a credit against the BPT and/or BET or Interest and Dividends Tax of up to 85% of the donation. The total amount of ETCs available in 2013 was \$3.4 million and the total amount of ETCs available each program year in 2014 and after was \$5.1 million. However, the total amount of ETCs awarded by the scholarship organization was significantly less than the available amounts for tax years 2013 through 2017, and the amount used in each such tax year was \$203,153, \$49,449, \$156,842, \$327,060 and \$688,467, respectively. Chapter 357, Laws of 2018 made various changes to the administration of the ETC program, including the definition of “program year” from a calendar year to a fiscal year beginning July 1 and ending June 30, and its application procedures. The 2018 program year was extended through June 30, 2019 as part of this change. The total amount of ETCs awarded over the 18 months transition period from a calendar year to a fiscal year was \$2,287,282. As of October 15, 2019, \$1,179,906 had been used in tax year 2018. Additional changes include allowing a business organization or business enterprise to carry forward any unused portion of the ETC amount granted by the DRA for five succeeding years, but not more than \$1.0 million in any given tax year.
- 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 from \$1 million per year to \$2 million per year, and made the credit permanent. Chapter 276, Laws of 2015 increased the Research and Development Tax Credit to \$7 million effective July 1, 2017. This change is expected to reduce revenue by \$5 million per year beginning in fiscal year 2018.
- 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. Chapter 295:4, Laws of 2016 increased the Internal Revenue Code §179 expense deduction from \$25,000 to \$100,000, effective January 1, 2017 and applicable for property placed in service on or after January 1, 2017. In analyzing tax year 2013 data, the DRA estimated a minimum reduction of BPT revenue for fiscal year 2015 of \$7.6 million, which would occur starting in fiscal year 2017, with the bulk of the impact occurring in fiscal year 2018. Chapter 156, Laws of 2017 increased the Internal Revenue Code §179 expense deduction from \$100,000 to \$500,000 for property placed in service on or after January 1, 2018. In analyzing tax year 2014 data, the DRA estimated a reduction of BPT revenue beginning in fiscal year 2018 of \$9.7 million per year.

The federal Tax Cuts and Jobs Act (“TCJA”) signed on December 22, 2017, represents the most expansive package of federal tax law changes enacted since the 1986 overhaul of the Internal Revenue Code (“IRC”). Most states, including New Hampshire, use federally reported income as a starting point for the calculation of taxable income at the State level. As a result, federal tax law changes may materially impact State revenues depending on the version of the IRC to which the State conforms. New Hampshire BPT is tied to the IRC as of December 31, 2016 for tax periods beginning on or after January 1, 2018, and thus for those tax periods, State law does not conform to the current IRC. For practical purposes, this means that NH BPT returns starting with Line 28 from the federal return, will calculate Line 28 using the IRC that was in effect on December 31, 2016, thus the TCJA will not apply and will therefore not impact State BPT revenues directly. However, the TCJA has and will continue to alter the various costs and incentives impacting business decisions in a way that will impact that State tax landscape regardless of whether or not New Hampshire is tied to the IRC as amended by the TCJA. This is evidenced by a significant increase in revenue in fiscal year 2018 as compared to fiscal year 2017. Business Tax revenues (BPT and BET combined) for fiscal year 2018 were \$776.6 million as compared to \$634.3 million in fiscal year 2017. The additional revenue in fiscal year 2018 is likely attributable to a combination of strong underlying economic growth as well as an increase in taxable transactions for New Hampshire purposes resulting from the TCJA. The DRA believes that a portion of the additional revenue in fiscal year 2018 was due to one-time or temporary impacts from the TCJA, and therefore, similar increases are not expected in subsequent fiscal years. The DRA cannot yet definitively determine how much of the 2018 increase is attributable to the TCJA, as additional information regarding the reasons for the increased revenue in fiscal year 2018 will be available as final tax year 2018 returns are filed on extension over the next few months. Chapter 346, Laws of 2019 provides that for taxable periods beginning on or after January 1, 2020 the New Hampshire BPT will tie to the IRC (subject to decoupling as detailed in RSA 77-A:3-b) as of December 31, 2018, thereby adopting numerous provisions of the TCJA for NH BPT purposes, including the taxation of Global Intangible Low-Taxed Income (GILTI). GILTI is a new category of foreign earnings included in federal taxable income but subject to a special deduction under the IRC. New Hampshire will similarly include GILTI in the taxpayer’s BPT tax base. Conformity to the IRC as of December 31, 2018 is expected to increase revenue in fiscal year 2020. The State currently anticipates that IRC conformity will result in \$17.2 million in additional revenue in fiscal year 2020 and fiscal year 2021, and that GILTI will result in \$4.0 million in additional revenue in fiscal year 2020 and \$8.1 million in fiscal year 2021.

Business Tax revenues ended fiscal year 2019 at \$805.6 million, which exceeded fiscal year 2018 by \$24.5 million or 3.1%, and which was in excess of fiscal year 2019 plan by \$151.6 million or 23.2% based on the CAFR. Much of the additional revenue received in fiscal year 2019 is likely attributable to a combination of strong underlying economic growth as well as one-time revenue from the TCJA for transactions occurring during the 2018 tax year. The DRA has estimated that approximately \$100 million or more of the additional revenue is attributable to one-time or anomalous payments based upon returns received thus far for the 2018 tax year. Additional information will become available when the DRA begins analyzing returns filed on extension in the fall of calendar year 2019. However, since the beginning of fiscal year 2020, the State has seen a level of Business Tax activity more consistent with the same period in 2017, confirming that much of the increased revenue in fiscal year 2018 was anomalous. For fiscal year 2020, through the month of December, Business Tax revenue is \$75.2 million below the same period for the prior year. See also “FINANCIAL STATEMENTS – Fiscal Year 2019.”

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. Beginning with the budget for the 2014-2015 biennium, this revenue has been re-characterized from unrestricted to restricted within the Department of Health and Human Services (“DHHS”).

Liquor Sales and Distribution. The Liquor Commission is overseen by the Chairman of the Liquor Commission as well as a Deputy Commissioner, both appointed by the Governor with the consent of the Executive Council. Pursuant to RSA 176:3, the Commission is required to optimize profitability, maintain proper controls, and provide an efficient operation for the service of its customers. 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 342, Laws of 2018 amends RSA 176:16, III requiring that 5% of the previous fiscal year gross profits derived by the commission from the sale of liquor shall be deposited into the alcohol abuse prevention and treatment fund established by RSA 176-A:1. Chapter 346, Laws of 2019 allows for an additional transfer from the Liquor Fund in the event of a shortfall in Granite Advantage Health Care Trust Fund established in RSA 126-AA:3.

Holder of off-premises retail licenses with annual wine 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 wine purchases exceeding \$350,000 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 to 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; the rate remains at \$1.78 per pack. 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 \$14.1 million from fiscal year 2013 to fiscal year 2014, from \$205.9 million to \$220.0 million. Tobacco tax revenues remained steady at \$221.3 million in fiscal year 2015 and \$227.1 million in fiscal year 2016. Tobacco tax revenues fell in fiscal year 2017 to \$218.7 million and decreased again in fiscal year 2018 to \$211.6 million. In fiscal year 2019 tobacco tax revenues fell further to \$202.4 million. For the six months ending December 31, 2019, tobacco tax revenues are \$103.4 million, which is 0.7% above plan and 1.3% below prior year-to-date.

Chapter 346, Laws of 2019 contains two provisions impacting the Tobacco Tax that become effective January 1, 2020. The first applies the Tobacco Tax to "electronic cigarettes." So called closed cartridge systems will be taxed at a rate of \$0.30 per milliliter and open systems, generally containers of liquid containing nicotine, will be

taxed at a rate of 8% of the wholesale sales price. The second raises the legal smoking age in New Hampshire from 18 to 19 years of age.

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 was 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 credited to the Uncompensated Care Fund and restricted 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 reduced the reimbursement rates for certain Medicaid services and related payments.

Beginning in June of 2011, DRA 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 and additionally denied \$7 million in requests related to fiscal year 2012. The DRA also 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 “MEDICAID PROGRAM.”

In fiscal year 2014, the State reached an agreement with 26 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). 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 will be reimbursed 75 percent of their uncompensated care costs, and noncritical

care access hospitals will receive no more than 50 percent of their individual uncompensated care costs in fiscal years 2016 and 2017. The State’s liability will be capped at \$224 million in total payments that are shared with the federal government. 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 hospitals are guaranteed at least \$175 million a year in DSH payments, subject to additional reductions based on MET revenue shortfalls and tax rate reductions.

Senate Bill 369 (Chapter 158, Laws of 2014) lowered the tax rate from 5.5 percent to 5.45 percent for taxable periods beginning after July 1, 2015, then down to 5.4 percent for taxable periods beginning after July 1, 2016. Senate Bill 369 also provided that beginning on or after July 1, 2017 and for every year thereafter, the rate would remain 5.4 percent, unless total uncompensated care for all hospitals fell below \$375 million, in which case the rate will be reduced to 5.25 percent. However, House Bill 1817 (Chapter 162, Section 34, Laws of 2018) amended the MET statute to eliminate the possibility of a future rate reduction based upon total aggregate uncompensated care, thereby making the rate of 5.4 percent permanent.

The State agreed to credit all money raised from the MET as restricted revenue and use those funds exclusively to support Medicaid services, including funding DSH payments, hospital provider payments, and other Medicaid costs. The agreement 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.

**Medicaid Enhancement Tax Estimates and Uses For Fiscal Years 2015-2019
(millions)**

	FY 2015 (Actual)	FY 2015 (Budget)	FY 2016 (Actual)	FY 2016 (Budget)	FY 2017 (Actual)	FY 2017 (Budget)	FY 2018 (Actual)	FY 2018 (Budget)	FY 2019 (Actual)	FY 2019 (Budget)
Medicaid Enhancement Tax Revenues	\$198.5	\$190.3	\$212.5	\$220.5	\$226.6	\$228.1	\$242.9	\$235.9	\$250.2	\$242.9
To hospitals for uncompensated care	34.5	26.3	103.6	95.9	107.8	95.1	112.4	83.1	112.95	82.4
To General Fund	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
To medical providers	164.0	164.0	108.5	124.7	118.7	133.0	130.5	152.8	136.7	160.5

For taxable periods ending June 30, 2015 and prior, the MET was assessed at a rate of 5.5%. For the taxable period ending June 30, 2016, the MET was assessed at a rate of 5.45%. For the taxable period ending June 30, 2017, the MET was assessed at a rate of 5.4%. For the taxable period ending June 30, 2018, and going forward, the MET will be assessed at a rate of 5.4%.

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, 2017, companies of 38 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 an amount equal to any cash distributions made to a qualified investment capital corporation. Chapter 341, Laws of 2018 expands the use of the education tax credit (“ETC”) program to allow individuals to apply for, and if granted by the DRA, use an ETC against the Interest and Dividends Tax. The ability to use ETC against the Interest and Dividends Tax is expected to increase utilization of the ETC program (which has seen low utilization in previous years). However, the ETC program is capped at \$5.1 million in tax credits per year, thereby limiting the potential increase in tax credit usage.

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. Interest and Dividends Tax revenue increased \$17.1 million from fiscal year 2014 to fiscal year 2015, from \$79.8 million to \$96.9 million. In fiscal year 2016, revenue declined to \$89.3 million and then increased in fiscal year 2017 to \$94.3 million and increased again in fiscal year 2018 to \$105.8 million. In fiscal year 2019, revenue increased again to \$114.7 million, \$8.9 million or 8.4% above prior year.

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. Communications Tax revenue stabilized at \$57.3 million in fiscal year 2015, the same annual total as fiscal year 2013, but substantially less than \$79.3 million in fiscal year 2012, prior to the law change. In 2016, revenue continued its recent slide to \$52.4 million, declined again in fiscal year 2017 to \$47.1 million and declined again in fiscal year 2018 to \$43.4 million. In fiscal year 2019, revenue declined again, but by a smaller amount, to \$41.2 million. Chapter 346, Laws of 2019 clarified the applicability of the Communications Tax to voice over internet protocol (VoIP) and prepaid wireless telecommunications, and the State

currently anticipates that this clarification will result in \$1.5 million and \$2.5 million of Communications Tax revenue in fiscal year 2020 and fiscal year 2021, respectively.

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 were again dedicated to the LCHIP program. In fiscal year 2016, real estate transfer tax revenue was \$134.5 million, an increase of \$16.9 million from \$117.6 million in fiscal year 2015. In fiscal year 2017, real estate transfer tax revenue increased to \$141.7 million. Real estate transfer tax revenue increased again in fiscal year 2018 to \$149.2 million and again in fiscal year 2019 to \$152.8 million. Chapter 346, Laws of 2019 requires that the State Treasurer annually transfer \$5 million of real estate transfer tax revenue to the New Hampshire Housing Authority’s Affordable Housing Fund, beginning in fiscal year 2021.

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 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 61% of revenues collected are credited to the General Fund, 23% 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 in order 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 in revenue.

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 was imposed on the consumption of electricity at the rate of \$.00055 per kilowatt hour. Consumers who are customers of municipal providers were exempt from the tax. Chapter 156 of the Laws of 2017 repealed the electricity consumption tax effective January 1, 2019. This tax historically generated approximately \$6 million in annual revenue.

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 Bingo, Lucky 7 and games of chance in the State are licensed and regulated by the Lottery Commission. On games of chance, the State receives a blended rate between 3% and 10% of revenues depending on the type of game being conducted. The State receives a fixed fee of 7% of Bingo revenues and a \$15 flat fee for each Lucky 7 “deal” purchased by a charitable organization. Live dog racing is now prohibited in the State. Any harness racing or thoroughbred racing would also be supervised by the Lottery Commission; however, no such racing is currently conducted in the State. The State 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.

Other. This revenue category includes over 200 individual types of fees, fines, assessments, taxes and income. These revenues are reported in the following seven 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 at authorized retail locations. In addition, the State together with the states of Maine and Vermont offer instant and draw based games under the Tri-State Lotto Compact. The State is also a participant in the Multi State Lottery Association and offers national draw based games Powerball and Mega Millions through that association. In December of 2017, the Lottery Commission began operation of KENO, an online game that has continuous drawings from 11:00 a.m. through 1:00 a.m. and is offered in “pouring establishments” in towns which have authorized the game. In September 2018, the Lottery Commission began offering instant games and limited draw based games through an online platform. Revenues from all of these games are initially recorded in the Lottery Enterprise Fund and are netted with expenses and transferred monthly to the Education Trust Fund.

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

Fuel Tax. The State imposes a user fee upon the sale of each gallon of motor fuel sold in the State at the rate of \$0.222 per gallon (the “road toll”), 4 cents per gallon for aviation fuel, 2 cents per gallon for private jet fuel, and 0.5 cents per gallon for all aircraft certified to operate under part 121 of the Federal Aviation Administration regulations, which generally applies to scheduled airlines. The proceeds of the road toll are credited to the Highway Fund for highway purposes and uses. Of this amount, \$0.0264 of the road toll is allocated to a separate account in the Highway Fund, the Highway and Bridge Betterment Account. Effective July 1, 2014, Chapter 17 of the Laws of 2014 increased the road toll by \$0.042 from \$0.18 to \$0.222 per gallon. All revenue associated with the increase in rate, projected to generate approximately \$34 million annually, 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 and as amended by Chapter 276:210 and 276:211, Laws of 2015 authorized \$200 million in general obligation bonds for this purpose. Subsequent legislation specifically authorized a federal Transportation Infrastructure Finance and Innovation Act (“TIFIA”) loan as an alternative to a traditional general obligation bond issue including, without limitation, a pledge of the revenue collected from adjustments under RSA 260:32-a for rates that exceed \$0.18 per gallon less required distributions under RSA 235:23, I, on said revenues. On May 24, 2016, the State entered into the TIFIA financing agreement to fund the construction of the remaining portions of the I-93 project. The loan, established with a very favorable

1.09% rural interest rate, will fund \$200 million in projects on the I-93 corridor from Salem to Manchester, New Hampshire. The debt service payments are funded by a portion of the revenue collected from the increase in the road toll that was effective July 1, 2014. The road toll increase pursuant to Chapter 17 of the Laws of 2014 will expire once all debt service payments for the I-93 project have been made and the financing is fully amortized (June 2034). See “STATE INDEBTEDNESS – Debt Statement.”

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. On December 4, 2015, President Obama signed into law the Fixing America’s Surface Transportation Act, or “FAST Act” - the first Federal law in over ten years to provide long-term funding certainty for surface transportation. The FAST Act authorizes \$305 billion over federal fiscal years 2016 through 2020 for the US Department of Transportation’s highway, highway and motor vehicle safety, public transportation, motor carrier safety, hazardous materials safety, rail, research, technology and statistics programs. The federal fiscal year 2019 distribution of obligation limitation for the period beginning on October 1, 2018, and ending September 30, 2019 pursuant to the Department of Transportation Appropriations Act, 2019, title I of division G, Public Law (Pub. L.) 116-6 is \$158.4 million. The State has sought to mitigate the risks associated with the uncertainty of the continued funding of the HTF by monitoring and potentially 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 has been adversely impacted by implementation of certain provisions of the federal Budget Control Act of 2011 (the “Budget Control Act”). 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 and began on March 1, 2013. 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 and federal aid to highways, are generally exempt from sequestration. To date the State has not experienced any serious impact on its programs or financial condition resulting from sequestration. State agencies have managed to address reduced federal funding in a variety of ways - through delays in hiring for open positions, identification of alternative funding sources, reductions in program operating expenditures, and reductions in program grants and benefits awarded.

The State has five outstanding bond issues that are impacted by reduced interest subsidies received due to sequestration. The shortfall in annual interest subsidies has ranged from a high of \$511,112 in fiscal year 2014 to \$371,335 in fiscal year 2019.

The State cannot predict at this time what total impact sequestration will have on the State. The State may 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, but these effects, if realized, cannot be determined at this time.

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 administrative agencies.

Administration of Justice and Public Protection includes the judicial branch, the departments of justice, safety, corrections and various agencies whose activities relate to the protection of 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 2015

The fiscal year 2015 budget as adopted in 2013 assumed the State would start the year with an unassigned General Fund surplus of \$26.8 million and a Rainy Day Fund balance of \$9.3 million. The fiscal year 2015 budget also assumed the State would spend down that surplus during the year and end fiscal year 2015 with only the Rainy Day Fund balance of \$9.3 million.

In June 2015, the Legislature updated certain projections for fiscal year 2015. The unassigned General Fund balance at the start of fiscal year 2015 was updated to the actual fiscal year 2014 ending surplus of \$21.9 million. Revenue, expenditures and other estimates were also updated and the State was then projected to end fiscal year 2015 with an unassigned General Fund equity balance of approximately \$49 million, which was to be carried forward in the General Fund to be used in fiscal year 2016, as set forth in Chapter 276:43, Laws of 2015. In addition, the Rainy Day Fund balance was projected to be increased to \$23.8 million by a \$14.5 million transfer into the fund. The State ended fiscal year 2015 transferring \$13 million into the Rainy Day Fund. Thus the actual total General Fund unassigned fund balance, comprised of a Rainy Day Fund balance of \$22.3 million and another unassigned fund balance of \$49 million, at June 30, 2015 was \$71.3 million which was \$62 million above the fiscal year 2015 budget and \$1.5 million below the June 2015 estimate.

Unrestricted revenue for the General and Education Trust Funds received during fiscal year 2015 totaled \$2,266.7 million which was above the fiscal year 2015 budget by \$46.9 million and \$93.5 million higher than fiscal year 2014. Note: The original fiscal year 2015 unrestricted revenue budget as passed in 2013 (\$2,241.6 million) included \$73.7 million of MET revenue which was redirected to the DHHS as restricted revenue pursuant to Chapter 158, Laws of 2014, which passed in June 2014. The revised fiscal year 2015 Revenue budget was \$2,219.8 million.

- The net favorable (\$46.9 million) total revenue results as compared to the revised fiscal year 2015 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 \$16 million (6%), Insurance Taxes \$5.1 million (6%), Tobacco Taxes \$12.7 million (6%), Real Estate Transfer Taxes \$15.4 million (16%), and Utility Property Tax by \$5.6 million (16%). Revenues that performed below the revised budget included: Business Taxes by \$6.5 million (1%), Interest and Dividends Taxes \$1.1 million (1%) and Communications Tax by \$5.2 million (8%). The State's other remaining revenue sources combined were approximately \$4.9 million above the revised fiscal year 2015 budget.

- The reported \$93.5 million increase in revenue as compared to fiscal year 2014 resulted primarily from strong performances in taxes typically correlated with overall economic conditions in the State: Over the prior year, Business Taxes increased \$12.1 million (2%), Meals and Rooms Taxes increased \$19.5 million (8%), Real Estate Transfer Taxes increased \$16.8 million (17%), Interest & Dividends Taxes increased \$17.1 million (21%), Insurance Premium Taxes increased \$19.6 million (21%), and all other variances were approximately \$8.4 million favorable (net).

Net General Fund and Education Fund appropriations included in the original fiscal year 2015 budget, \$2,319.4 million, were revised in June 2014 to \$2,245.7 million as a result of Chapter 158, Laws of 2014, which directed 100% of the MET to the DHHS as restricted revenue (\$73.7 million of MET revenue was changed from unrestricted to restricted). As compared to the revised fiscal year 2015 budget, total net appropriations in fiscal year 2015 of \$2,205.2 million were approximately \$40.5 million favorable. This favorable variance was due to lapses that were approximately \$29.5 million higher than expected and final appropriations net of estimated revenues that were \$11 million lower than the revised budget. The lower appropriations net of estimated revenues were caused by executive order appropriation reductions of \$18.3 million and timing variances on recognition of budgeted reductions of \$9.3 million, which were partially offset by \$16.6 million of appropriations authorized after the passage of the fiscal year 2015 budget. Total net appropriations are reported as approximately \$0.1 million lower than the fiscal year 2014 net appropriations of \$2,205.2 million; however, lapses in fiscal year 2015 were \$22 million higher than in fiscal year 2014. Appropriations net of estimated revenues were \$21.9 million (1%) higher in fiscal year 2015 than those in fiscal year 2014.

Net unfavorable closing adjustments made in accordance with GAAP to bring the budgetary accounting basis to the modified accrual accounting basis totaled \$20.5 million for fiscal year 2015. GAAP and other adjustments were not budgeted in fiscal year 2015. The most significant of the GAAP and other adjustments affecting fiscal year 2015 were the result of an increase in the State's share of Medicaid liability required as of June 30, 2015. A General Fund GAAP adjustment of approximately \$26.9 million was required for unpaid liabilities to providers and managed care organizations as well as the incurred but not reported liabilities. Partially offsetting this unfavorable variance was the remaining GAAP and other adjustments which were net favorable by approximately \$6.4 million, including \$3.4 million of additional escheatment revenue. The fiscal year 2015 GAAP and other adjustments were approximately \$3 million higher than fiscal year 2014 (\$17.5 million). Additionally, \$0.9 million was transferred as budgeted to the Fish & Game fund during fiscal year 2015.

For information regarding the audit for fiscal year 2015, see "FINANCIAL STATEMENTS."

Fiscal Year 2016

HB 1 and 2, the operating budget for fiscal years 2016-2017, were vetoed by the Governor on June 25, 2015. As a result, the State entered a six-month continuing resolution budget based on appropriations from fiscal year 2015. On September 16, 2015, HB 1 and 2, along with a companion bill, SB 9, were signed into law as Chapters 274, 275, and 276 of the Laws of 2015. The fiscal year 2016 budget as adopted in 2015 assumed the State would start the year with an unassigned General Fund surplus of \$49.0 million and a Rainy Day Fund balance of \$23.8 million. Fiscal year 2016 did begin with the projected balance of \$49.0 million, but the Rainy Day Fund balance was short of the estimate by \$1.5 million, at \$22.3 million. The results of revenue, expenditures and other estimates for fiscal year 2016 were expected to bring the unassigned General Fund surplus down by \$15.5 million, to \$32.9 million, with the Rainy Day Fund balance expected to remain unchanged during fiscal year 2016. However, the fiscal year ended with an undesignated General Fund surplus of \$88.5 million and a Rainy Day Fund balance of \$93.0 million, for a total unassigned balance of \$181.5 million.

These positive variances were caused by a number of factors, foremost of which was that actual combined General Fund and Education Trust Fund unrestricted revenues for fiscal year 2016 exceeded plan amounts by \$166.5 million. Traditional unrestricted revenue for the General and Education Trust Funds received during fiscal year 2016 totaled \$2,457.6 million which was above the fiscal year 2016 Plan of \$2,291.1 million by 7.3%. The favorable results as compared to the fiscal year 2016 budget resulted, in part, from the following taxes which performed better than expected: Business Taxes by \$132.8 million (23.4%); Meals and Rooms Taxes by \$9.8 million (3.4%); Insurance Taxes by \$5.1 million (4.3%); Tobacco Taxes by \$4.3 million (1.9%); and Real Estate Transfer Taxes by \$16.2 million (13.7%). Interest and Dividends Taxes were below the fiscal year 2016 budget by

approximately \$3.8 million (4.1%) and Communications Taxes were below the fiscal year 2016 budget by \$5.7 million (9.8%). The State's other remaining revenue sources combined were approximately \$7.8 million above the fiscal year 2016 budget.

Included in the strong revenue collections, the State also experienced a positive variance in the results of the tax amnesty program conducted during a portion of fiscal year 2016 for all taxes collected by the Department of Revenue Administration. The program was expected to generate \$16 million above traditional revenue collections; however, actual receipts were approximately \$19 million or \$3 million more than originally estimated. Not reflected in the traditional unrestricted revenue total above is a one-time settlement received during the year of \$307.2 million from the MtBE settlement (see LITIGATION – *State of New Hampshire v. Amerada Hess, et al*). Of this, \$30.7 million was transferred to the Rainy Day Fund in accordance with RSA 7:6-e, and the remaining \$276.5 million will be held as a component of restricted fund balance, to be administered as the newly established NH Drinking Water and Groundwater Trust fund in accordance with Senate Bill 380 (Chapter 11, 2016 session).

Audited net General Fund and Education Fund appropriations exceeded the fiscal year 2016 budget estimates by \$12.8 million (0.5%). The fiscal year 2016 budget of \$2,327.9 million included approximately \$46.7 million in anticipated lapses that were not achieved during the fiscal year, with actual lapses according to the unaudited results coming in at \$40.3 million for a difference of \$6.4 million. Appropriations authorized after the passage of the fiscal year 2016 budget via new legislation or existing laws made up the remainder of the increase in net appropriations.

Audited net unfavorable closing adjustments made in accordance with GAAP to bring the budgetary accounting basis to the modified accrual accounting basis totaled \$36.7 million for fiscal year 2016. GAAP and other adjustments were not budgeted in fiscal year 2016. The most significant of the GAAP and other adjustments affecting fiscal year 2016 was the recording of the \$10.4 million liability and expense as a result of the expected resolution of the *City of Dover v. State of New Hampshire* litigation, representing payment of the entire amount of education adequacy aid withheld due to the cap. Also significant was the increase in the State's share of Medicaid liability required as of June 30, 2016. A General Fund GAAP adjustment of approximately \$9.6 million was required to recognize liabilities that have been reported or billed and not yet paid to providers and managed care organizations, as well as liabilities incurred by the same providers and organizations during the same period but not yet reported. The remainder of this unfavorable variance was due to smaller scale increases in other areas, including accounts payable and accrued payroll, due largely to the timing of payments.

The audited results show that the total unassigned General Fund balance at the close of fiscal year 2016 is \$181.5 million, consisting of \$88.5 million of undesignated fund balance and \$93.0 million in the Rainy Day Fund. Per Ch. 264:5, Laws of 2016, as fiscal year 2016 audited financial results confirmed that unrestricted General Fund and Education Trust Fund revenues exceeded plan, an amount not to exceed \$40 million was transferred to the Revenue Stabilization Reserve Account, bringing that balance to \$93 million, and the \$88.5 million undesignated balance exceeded the anticipated budget balance of \$32.9 million by \$55.6 million.

For information regarding the audit for fiscal year 2016, see "FINANCIAL STATEMENTS."

Fiscal Year 2017

The fiscal year 2017 budget as adopted in 2015 assumed the State would start the year with an unassigned General Fund surplus of \$32.9 million and a Rainy Day Fund balance of \$23.8 million; however, based on positive variances in fiscal year 2016 as noted above, fiscal year 2017 began with an undesignated General Fund surplus of \$88.5 million and a Rainy Day Fund balance of \$93.0 million, for a total unassigned balance of \$181.5 million.

Positive variances continued in fiscal year 2017 as combined General Fund and Education Trust Fund unrestricted revenues exceeded plan amounts by \$96.1 million. Traditional unrestricted revenue for the General and Education Trust Funds received during fiscal year 2017 totaled \$2,407.5 million which was above the fiscal year 2017 plan of \$2,311.4 million by 4.2%. The favorable results as compared to the fiscal year 2017 budget resulted, in part, from the following taxes that performed better than expected: Business Taxes by \$72.7 million (12.9%); Real Estate Transfer Taxes by \$15.3 million (12.1%); Meals and Rooms Taxes by \$7.3 million (2.4%); and Insurance Taxes by \$7.5 million (6.6%). Interest and Dividends Taxes were below the fiscal year 2017 budget by

approximately \$1.7 million (1.8%), as well as Tobacco Taxes below budget by \$3.1 million (1.4%) and Communications Taxes below budget by \$11.3 million (19.3%). The State's other remaining revenue sources combined were approximately \$9.4 million above the fiscal year 2017 budget.

Net General Fund and Education Fund appropriations exceeded the fiscal year 2017 budget estimates by \$124.1 million (5.3%). Appropriations authorized after the passage of the fiscal year 2017 budget via new legislation or existing laws increased net appropriations by approximately \$142 million. The additional appropriations utilized the majority of the beginning undesignated General Fund surplus carried forward from fiscal year 2016. In addition, the Legislature authorized a transfer of \$13.9 million of General Fund surplus to the Highway Fund for fiscal year 2017. Offsetting the impact of additional appropriations and transfers to other funds were favorable lapses of combined General Fund and Education Fund appropriations. The fiscal year 2017 original budget of \$2,353.6 million included \$47 million in anticipated lapses, while actual lapses according to the audited results came in at \$63.3 million for a difference of \$16.3 million.

Audited net favorable closing adjustments made in accordance with GAAP to bring the budgetary accounting basis to the modified accrual accounting basis totaled \$22 million for fiscal year 2017. GAAP and other adjustments were not budgeted in fiscal year 2017. The most significant of the GAAP and other adjustments affecting fiscal year 2017 was the reversal of the \$10.4 million liability and expense recorded in fiscal year 2016 as a result of the expected resolution of the *City of Dover v. State of New Hampshire* litigation, representing payment of the entire amount of education adequacy aid withheld due to the cap. While this was recorded as a liability reducing 2016 General Fund surplus, a portion of this amount (\$9.1 million) was also appropriated to the Education Fund in fiscal year 2017; thus the combined impact resulted in a positive \$9.1 million GAAP adjustment in fiscal year 2017. Also contributing to the positive adjustment was a decrease in the annual escheat liability (\$3.7 million) and a decrease in the State's share of Medicaid liability (\$2.3 million), both measured as of June 30, 2017. The remainder of the variance was due to smaller scale increases or decreases in several other areas.

The audited results show that the total unassigned General Fund balance at the close of fiscal year 2017 was \$100.0 million, consisting of \$100.0 million in the Rainy Day Fund. Per Chapter 156, Laws of 2017, \$7.0 million of fiscal year 2017 audited undesignated fund balance was transferred to the Revenue Stabilization Reserve Account to bring the balance in that account to \$100 million and the remaining surplus of \$18.7 million was transferred to the Public School Infrastructure Fund established pursuant to RSA 198:15-y.

Fiscal Year 2018

As assumed in the fiscal year 2018 budget as adopted in 2017, fiscal year 2018 began with no undesignated General Fund surplus and a Rainy Day Fund balance of \$100.0 million, for a total unassigned General Fund balance of \$100.0 million.

Positive variances continued in fiscal year 2018 as combined General Fund and Education Trust Fund unrestricted revenues exceeded plan amounts by \$133.3 million. Traditional unrestricted revenue for the General and Education Trust Funds received during fiscal year 2018 totaled \$2,577.2 million which was above the fiscal year 2018 plan of \$2,443.9 million by 5.5%. The favorable results as compared to the fiscal year 2018 budget resulted, in part, from the following taxes that performed better than expected: Business Taxes by \$118.8 million (17.9 %); Meals and Rooms Taxes by \$1.9 million (0.6 %); Interest and Dividends Taxes by \$9.8 million (10.2%), and Insurance Taxes by \$1.4 million (1.2%). Real Estate Transfer Taxes were below the fiscal year 2018 budget by approximately \$5.8 million (3.7%), Tobacco Taxes below budget by \$3.4 million (1.6%) and Communications Taxes below budget by \$0.6 million (1.4%). The State's other remaining revenue sources combined were approximately \$11.2 million above fiscal year 2018 budgeted amounts. The DRA believes that a portion of the additional revenue in fiscal year 2018 was due to one-time or temporary impacts from the TCJA. See "*Revenues - Business Enterprise Tax ("BET")*" herein.

Net General Fund and Education Fund appropriations exceeded the fiscal year 2018 budget estimates by \$22.4 million (0.92%). Appropriations authorized after the passage of the fiscal year 2018 budget via new legislation or existing laws increased net appropriations by approximately \$65.9 million. The additional appropriations utilized a portion of undesignated General Fund surplus revenues from fiscal year 2018. Offsetting the impact of additional appropriations and transfers to other funds were favorable lapses of combined General Fund

and Education Fund appropriations. The fiscal year 2018 original budget of \$2,443.4 million included \$51.0 million in anticipated lapses, while actual lapses according to the audited results came in at \$94.8 million for a difference of \$43.8 million.

The total unassigned General Fund balance at the close of fiscal year 2018 was \$184.4 million, consisting of \$110.0 million in the Rainy Day Fund. Per Chapter 162, Laws of 2018, \$10.0 million of fiscal year 2018 audited undesignated fund balance was transferred to the Revenue Stabilization Reserve Account to bring the balance in that account to \$110 million. In addition, \$10 million of fiscal year 2018 surplus revenue was designated for the Public School Infrastructure Fund pursuant to Chapter 349, Laws of 2018.

Fiscal Year 2019

The fiscal year 2019 budget as adopted in 2017 assumed that fiscal year 2019 would begin with no undesignated General Fund surplus; however, fiscal year 2019 actually began with a surplus of \$74.4 million and a Rainy Day Fund balance of \$110.0 million, for a total unassigned General Fund balance of \$184.4 million.

Positive variances continued in fiscal year 2019 as combined General Fund and Education Trust Fund unrestricted revenues exceeded plan amounts by \$172.9 million. Traditional unrestricted revenue for the General and Education Trust Funds received during fiscal year 2019 totaled \$2,644.6 million which was above the fiscal year 2019 plan of \$2,471.7 million by approximately 172.0 million, or 7.0%. The favorable results as compared to the fiscal year 2019 budget resulted, in part, from the following taxes that performed better than expected: Business Taxes by \$151.6 million (23.2 %); Meals and Rooms Taxes by \$3.6 million (1.0 %); Interest and Dividends Taxes by \$16.7 million (17.0%), Insurance Taxes by \$17.6 million (15.0%) and Communications Taxes by \$0.5 million (1.2%). Real Estate Transfer Taxes were below the fiscal year 2019 budget by approximately \$11.5 million (7.0%), and Tobacco Taxes below budget by \$12.0 million (5.6%). The State's other remaining revenue sources combined were approximately \$5.5 million above fiscal year 2019 budgeted amounts. The DRA believes that a portion of the additional revenue in fiscal year 2019 was due to one-time or temporary impacts from the TCJA. See "*Revenues - Business Enterprise Tax ("BET")*" herein.

The Net General Fund and Education Fund appropriations were less than the fiscal year 2019 budget estimates by \$8.3 million (0.3%). Appropriations authorized after the passage of the fiscal year 2019 budget via new legislation or existing laws increased net appropriations by approximately \$91.1 million. The additional appropriations utilized a portion of undesignated General Fund surplus revenues from fiscal year 2019. Offsetting the impact of additional appropriations and transfers to other funds were favorable lapses of combined General Fund and Education Fund appropriations. The fiscal year 2019 original budget of \$2,471.6 million included \$52.0 million in anticipated lapses, while actual lapses were \$147.3 million for a difference of \$95.3 million.

The total unassigned General Fund balance at the close of fiscal year 2019 was \$307.8 million, including \$115.3 million in the Rainy Day Fund. During the 2019 legislative session, Chapter 346:240, Laws of 2019, required that \$5 million of unrestricted General Fund excess revenue over plan be transferred into the Rainy Day Fund, bringing the balance as of June 30, 2019 to \$115.3 million. See also "FINANCIAL STATEMENTS – Fiscal Year 2019."

The following tables present a comparison of General Fund and Education Trust Fund unrestricted revenues for fiscal years 2015 through 2019, General Fund and Education Trust Fund net appropriations for fiscal years 2015 through 2019, and General Fund and Education Trust Fund undesignated fund balances and the amounts reserved for the Revenue Stabilization Reserve Account for each of the fiscal years 2015 through 2019. The information is derived from the State's audited financial statements.

**GENERAL AND EDUCATION TRUST FUND UNRESTRICTED REVENUES
FISCAL YEARS 2015-2019
(GAAP Basis - In Millions)**

Revenue Category	FY 2015			FY 2016*			FY 2017			FY 2018			FY 2019		
	General	Education	Total												
Business Profits Tax	\$282.4	\$61.1	\$343.5	\$352.8	\$74.2	\$427.0	\$317.4	\$68.4	\$385.8	\$393.4	\$88.9	\$482.3	\$378.0	\$95.5	\$473.5
Business Enterprise Tax	71.9	146.3	218.2	91.3	181.0	272.3	83.6	168.4	252.0	87.8	211.0	298.8	96.8	235.3	332.1
Subtotal	354.3	207.4	561.7	444.1	255.2	699.3	401.0	236.8	637.8	481.2	299.9	781.1	474.8	330.8	805.6
Meals & Rooms Tax	272.7	8.5	281.2	292.8	8.5	301.3	306.2	8.6	314.8	322.5	9.2	331.7	340.1	10.0	350.1
Tobacco Tax	128.7	92.6	221.3	132.4	94.7	227.1	128.2	90.4	218.6	124.5	87.1	211.6	119.7	82.7	202.4
Liquor Sales and Distribution	138.5	-	138.5	139.8	-	139.8	141.1	-	141.1	136.4	-	136.4	133.5	-	133.5
Interest & Dividends Tax	96.9	-	96.9	89.3	-	89.3	94.3	-	94.3	105.8	-	105.8	114.7	-	114.7
Insurance Tax	114.6	-	114.6	123.4	-	123.4	121.9	-	121.9	115.0	-	115.0	135.1	-	135.1
Communications Tax	57.3	-	57.3	52.4	-	52.4	47.1	-	47.1	43.4	-	43.4	41.2	-	41.2
Real Estate Transfer Tax	78.8	38.8	117.6	89.7	44.8	134.5	94.5	47.2	141.7	99.4	49.7	149.1	102.0	50.9	152.9
Securities Revenue	42.5	-	42.5	43.7	-	43.7	44.6	-	44.6	43.4	-	43.4	42.6	-	42.6
Lottery Transfers	-	74.3	74.3	-	75.9	75.9	-	72.6	72.6	-	86.1	86.1	-	105.6	105.6
Racing & Charitable Gaming Commission Transfers	-	3.0	3.0	-	3.3	3.3	-	3.5	3.5	-	1.2	1.2	-	-	-
Tobacco Settlement	1.9	40.0	41.9	1.5	40.0	41.5	2.6	40.0	42.6	5.9	40.0	45.9	4.6	40.0	44.6
Utility Property Tax	-	41.0	41.0	-	43.3	43.3	-	41.8	41.8	-	45.2	45.2	-	39.5	39.5
State Property Tax	-	363.4	363.4	-	363.1	363.1	-	363.4	363.4	-	363.1	363.1	-	363.1	363.1
Other	104.8	-	104.8	110.6	-	110.6	112.8	-	112.8	114.1	-	114.1	109.3	-	109.3
Subtotal	1,391.0	869.0	2,260.0	1,519.7	928.8	2,448.5	1,494.3	904.3	2,398.6	1,591.6	981.5	2,573.1	1,617.6	1,022.6	2,640.2
Net Medicaid Enhancement Revenues	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Recoveries	6.7	-	6.7	9.1	-	9.1	8.9	-	8.9	4.1	-	4.1	4.4	-	4.4
Subtotal	1,397.7	869.0	2,266.7	1,528.8	928.8	2,457.6	1,503.2	904.3	2,407.5	1,595.7	981.5	2,577.2		1,022.6	2,644.6
Executive Orders and Special Session Revenues	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total	\$1,397.7	\$869.0	\$2,266.7	\$1,528.8	\$928.8	\$2,457.6	\$1,503.2	\$904.3	\$2,407.5	\$1,595.7	\$981.5	\$2,577.2	\$1,622.0	\$1,022.6	\$2,644.6

* Includes Tax Amnesty Receipts (fiscal year 2016).

**GENERAL FUND AND EDUCATION TRUST FUND NET APPROPRIATIONS
FISCAL YEARS 2015-2019
(GAAP Basis – In Millions)**

Category of Government	<u>FY 2015</u>			<u>FY 2016</u>			<u>FY 2017</u>			<u>FY 2018</u>			<u>FY 2019</u>		
	<u>General</u>	<u>Education</u>	<u>Total</u>												
General Government	\$257.4	\$-	\$257.4	\$263.3	\$-	\$263.3	\$276.8	\$-	\$276.8	\$274.7	\$-	\$274.7	\$256.2	\$-	\$256.2
Justice and Public Protection	213.9	-	213.9	247.8	-	247.8	266.1	-	266.1	273.0	-	273.0	288.0	-	288.0
Resource Protection and Development	30.2	-	30.2	31.5	-	31.5	36.5	-	36.5	37.2	-	37.2	38.4	-	38.4
Transportation	1.0	-	1.0	1.0	-	1.0	37.8	-	37.8	20.9	-	20.9	11.3	-	11.3
Health and Social Services	544.1	-	544.1	623.3	-	623.3	679.1	-	679.1	681.3	-	681.3	693.1	-	693.1
Education	211.0	947.6	1,158.6	216.9	956.9	1,173.8	214.9	966.5	1,181.4	217.0	961.7	1,178.7	217.8	962.6	1,180.4
Net Appropriations	<u>\$1,257.6</u>	<u>\$947.6</u>	<u>\$2,205.2</u>	<u>\$1,383.8</u>	<u>\$956.9</u>	<u>\$2,340.7</u>	<u>\$1,511.2</u>	<u>\$966.5</u>	<u>\$2,477.7</u>	<u>\$1,504.1</u>	<u>\$961.7</u>	<u>2,465.8</u>	<u>\$1,504.8</u>	<u>\$962.6</u>	<u>\$2,467.4</u>

GENERAL FUND AND EDUCATION TRUST FUND BALANCES
FISCAL YEARS 2015–2019
(GAAP Basis - In Millions)

	<u>FY 2015</u>			<u>FY 2016</u>			<u>FY 2017</u>			<u>FY 2018</u>			<u>FY 2019</u>		
	<u>General</u>	<u>Education</u>	<u>Total</u>	<u>General</u>	<u>Education</u>	<u>Total</u>	<u>General</u>	<u>Education</u>	<u>Total</u>	<u>General</u>	<u>Education</u>	<u>Total</u>	<u>General</u>	<u>Education</u>	<u>Total</u>
Undesignated Fund Balance, July 1	\$21.9	\$0.0	\$21.9	\$49.0	\$0.0	\$49.0	\$88.5	\$0.0	\$88.5	\$0.0	\$0.0	\$0.0	\$74.4	\$21.4	\$95.8
Additions:															
Unrestricted Revenue	1,397.7	869.0	2,266.7	1,528.8	928.8	2,457.6	1,503.2	904.3	2,407.5	1,595.7	981.5	2,577.2	1,622.0	1,022.6	2,644.6
Executive Orders and Special Session Revenues	-	-	-	30.7	-	30.7	-	-	-	-	-	-	-	-	-
Total Additions	\$1,397.7	\$869.0	\$2,266.7	\$1,559.5	\$928.8	\$2,488.3	\$1,503.2	\$904.3	\$2,407.5	\$1,595.7	\$981.5	\$2,577.2	\$1,622.0	\$1,022.6	\$2,644.6
Deductions:															
Appropriations Net of Estimated Revenues	(1,325.3)	(961.3)	(2,286.6)	(1,423.7)	(957.3)	(2,381.0)	(1,425.7)	(973.1)	(2,398.8)	(1,533.1)	(961.6)	(2,494.7)	(1,573.2)	(950.4)	(2,523.6)
COC Appropriation Adjustments	-	-	-	-	-	-	(133.1)	(9.1)	(142.2)	(64.4)	(1.5)	(65.9)	(76.5)	(14.6)	(91.1)
Special Session Reductions	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Less: Lapses	67.7	13.7	81.4	39.9	0.4	40.3	47.6	15.7	63.3	93.4	1.4	94.8	144.9	2.4	147.3
Total Net Appropriations	(1,257.6)	(947.6)	(2,205.2)	(1,383.8)	(956.9)	(2,340.7)	(1,511.2)	(966.5)	(2,477.7)	(1,504.1)	(961.7)	(2,465.8)	(1,504.8)	(962.6)	(2,467.4)
GAAP and Other Adjustments	(20.5)	-	(20.5)	(36.7)	-	(36.7)	22.0	-	22.0	(0.6)	1.6	1.0	9.7	(2.5)	7.2
Other One time Revenue Adjustments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Current Year Balance	119.6	(78.6)	41.0	139.0	(28.1)	110.9	14.0	(62.2)	(48.2)	91.0	21.4	112.4	126.9	57.5	184.4
Transfers (to)/from:															
Rainy Day Fund	(13.0)	-	(13.0)	(70.7)	-	(70.7)	(7.0)	-	(7.0)	(10.0)	-	(10.0)	(5.3)	-	(5.3)
Public School Infrastructure Fund	-	-	-	-	-	-	(18.7)	-	(18.7)	(6.6)	-	(6.6)	(3.5)	-	(3.5)
Highway Fund	-	-	-	-	-	-	(13.9)	-	(13.9)	-	-	-	-	-	-
Fish & Game Fund	(0.9)	-	(0.9)	(0.7)	-	(0.7)	(0.7)	-	(0.7)	-	-	-	-	-	-
Education Trust Fund	(78.6)	78.6	-	(28.1)	28.1	-	(62.2)	62.2	-	-	-	-	-	-	-
Designated for Education Aid, June 30	-	-	-	-	-	-	-	-	-	-	-	-	-	62.5	62.5
Undesignated Fund Balance, June 30	49.0	-	49.0	88.5	(0.0)	88.5 ¹	-	-	-	74.4	21.4	95.8	192.5	16.4	208.9
Reserved for Revenue Stabilization Account	22.3	-	22.3	93.0	-	93.0	100.0	-	100.0	110.0	-	110.0	115.3	-	115.3
Total Equity	\$71.3	-	\$71.3	\$181.5	\$0.0	\$181.5	\$100.0	-	\$100.0	\$184.4	\$21.4	\$205.8	\$307.8	\$78.9	\$386.7

¹ Per Ch. 264:5, Laws of 2016, to the extent the audited financial statements for fiscal year 2016 showed that GF/ETF Revenues exceeded the plan, an amount not to exceed \$40 million would be transferred to the Revenue Stabilization Reserve Account. The State's audited financial statements reported revenues approximately \$151 million in excess of plan for fiscal year 2016; therefore the full \$40 million authorized by law was transferred at the conclusion of the audit, bringing the current balance in the Revenue Stabilization Reserve Account, in addition to \$30.7 million representing 10% of the MtBE settlement, to \$93 million, and \$88.5 million remained in the General Fund.

Operating Budget Fiscal Years 2020 and 2021

General and Education Trust Funds. On June 28, 2019, the Governor vetoed the operating budget for fiscal years 2020 and 2021 citing concerns regarding the fiscal sustainability of the budget passed by the Legislature, which included increases in business taxes. Chapter 145, Laws of 2019 was concurrently signed by the Governor and became law, and provided state agencies with funding constant with fiscal year 2019 levels through September 30, 2019. Chapters 345 and 346 of the Laws of 2019, the operating budget for fiscal years 2020 and 2021, were signed by the Governor and became law on September 26, 2019.

To address the Governor's concerns regarding the use of one-time revenues for ongoing expenses, the enacted operating budget used the State's budget surpluses to provide \$40 million in one-time capital grants to municipalities over the biennium and \$62.5 million in one-time capital grants to school districts in fiscal year 2021.

The enacted budget instituted hold harmless grants to school districts to offset reductions in enrollment, resulting in an increase in educational grants of \$35.2 million in fiscal year 2020 and \$41.6 million in fiscal year 2021. The budget also provides for a 3.1% annual rate increases for Medicaid service providers, fully funds the waitlist of developmental disability services, and provides a \$20.1 million increase for mental health services.

General and Education Trust Fund revenue estimates for fiscal years 2020 and 2021 are \$2,626 million and \$2,656 million, respectively. The budget provides for conformity with the federal Internal Revenue Code (IRC) for State business tax purposes. The budget also legalizes sports betting and provides for the taxation of non-tobacco cessation electronic cigarettes.

The fiscal years 2020 and 2021 budget repeals the statutory 2021 business tax rate reductions and instituted triggered business tax rate adjustments based on State revenues. If revenues come in 6% (\$157.6 million) below the fiscal year 2020 estimate, effective January 1, 2021, the Business Profits Tax rate would increase from 7.7% to 7.9% and the Business Enterprise Tax would increase from 0.6% to 0.675%.

If revenues come in 6% (\$157.6 million) above fiscal year 2021 estimate, effective January 1, 2021, the Business Profits Tax rate would decrease from 7.7% to 7.5% and the Business Enterprise Tax would decrease from 0.6% to 0.5%.

Total net operating appropriations (including estimated lapse) for the General and Education Trust Funds for fiscal years 2020 and 2021 are \$2,879 million and \$2,682 million, respectively. General Fund lapse estimates are \$56.7 million and \$75.4 million for fiscal years 2020 and 2021, respectively. Noteworthy budget initiatives include:

- Establishment of the Department of Military Affairs and Veterans Services, combining the Adjutant General's Department, the Office of Veteran Services, and the Bureau of Community-Based Military Programs into a new one-stop-shop for veterans. This will streamline services, reduce redundancies and provide efficiencies.
- Administratively attaches various small agencies to larger departments in order to leverage the economies of scale of existing State human resource and financial staff.
- Provides funding to the Community College System of New Hampshire and the University System of New Hampshire to freeze resident in-state tuition for academic years 2020 and 2021.
- Provides funding to the University of New Hampshire to expand the nursing program to double the number of nursing graduates.
- Funds important capital projects with surplus funds including \$3.25 million to rebuild the State Fish Pier in Portsmouth, \$1.5 million to repair the Ossipee Lake Dam, and \$8.75 million to begin the design and construction of a new State Psychiatric Hospital.

Highway Funds. Total net operating appropriations (including estimated lapses) for the Highway Fund for fiscal years 2020 and 2021 are \$242.8 million and \$251.6 million, respectively. Spending is not directly comparable to years

prior to fiscal years 2016-2017 because of changes made to the way the Highway Fund is budgeted. In the fiscal years 2016-2017 budget, in accordance with the New Hampshire Constitution, Article 6-a “Use of Certain Revenues Restricted to Highways,” the cost of collections is recorded as restricted revenue, and the remainder of the revenue, after providing for the cost of collection, is deposited into the Highway Fund. This change reduced unrestricted Highway Fund revenue and appropriations by approximately \$28.9 million in fiscal year 2016 and \$29.7 million in fiscal year 2017. In addition, on May 20, 2014, Chapter 17 of the Laws of 2014 (“Chapter 17”) 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. 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 roadways, and rehabilitation and reconstruction of municipal bridges. The increase provided under Chapter 17 will expire once all debt service payments on bonds to be issued to finance the I-93 widening project have been made. Further, the State pledged the incremental revenue from Chapter 17 for the purpose of entering into the \$200 million federal Transportation Infrastructure Finance and Innovation Act credit program which reduces anticipated expenditures for repayment of the I-93 debt service by offering a lower interest rate and deferred principal payments for nine years.

The budget for fiscal years 2020 and 2021 transferred \$4.5 million of surplus general funds from the prior biennium to the Highway Fund as unrestricted revenue.

Fish and Game Funds. Total net operating appropriations (including estimated lapse) for the Fish and Game Fund for fiscal years 2020 and 2021 are \$12.7 million and \$12.9 million, respectively. The Fish and Game Fund is a major State fund that has historically been kept separate from the General Fund. It accounts for the operation of fish hatcheries, inland and marine fisheries and wildlife areas and functions related to law enforcement, land acquisition and wildlife management and research. Principal revenues include fees from fish and game licenses, the marine gas tax, penalties, recoveries, federal grants-in-aid related to fish and game management and other funding as approved by the Legislature.

The following tables present a comparison of General Fund and Education Trust Fund unrestricted revenues (below), net appropriations (page 37), and surplus balances (page 38) for fiscal year 2019 and budgeted amounts for fiscal years 2020 and 2021. The budgeted amounts for fiscal years 2020 and 2021 are based on information from Chapter 345, Laws of 2019 (referred to as the fiscal years 2020-2021 operating budget) along with adjustments from the Comparative Statement of Undesignated Surplus and corresponding Schedules 1-4, prepared by the State's Legislative Budget Assistant, which represent agreed upon budget adjustments both for revenues and appropriations that resulted from legislation passed outside of the fiscal years 2020-2021 operating budget, primarily in Chapter 346, Laws of 2019. Since the budget adjustments are summarized at levels different than those contained in the following tables, allocations and estimates were used to provide a presentation most comparable to prior years; the actual results for fiscal years 2020 and 2021 may vary from those presented in the tables.

**GENERAL FUND AND EDUCATION TRUST FUND UNRESTRICTED REVENUES
ACTUAL AND BUDGET
FISCAL YEARS 2019-2021
(GAAP Basis - In Millions)**

<u>Revenue Category</u>	<u>FY 2019</u>			<u>Operating Budget 2020⁽¹⁾</u>			<u>Operating Budget 2021</u>		
	<u>General</u>	<u>Education</u>	<u>Total</u>	<u>General</u>	<u>Education</u>	<u>Total</u>	<u>General</u>	<u>Education</u>	<u>Total</u>
Business Profits Tax	\$ 378.0	\$ 95.5	\$473.5	\$ 405.9	\$ 95.1	\$ 501.0	\$ 402.3	\$ 94.0	\$ 496.3
Business Enterprise Tax	96.8	235.3	332.1	50.0	244.0	294.0	49.8	239.9	289.7
Subtotal	474.8	330.8	805.6	455.9	339.1	795.0	452.1	333.9	786.0
Meals and Rooms Tax	340.1	10.0	350.1	357.4	11.1	368.5	375.3	11.6	386.9
Tobacco Tax	119.7	82.7	202.4	110.9	87.1	198.0	112.7	88.5	201.2
Liquor Sales and Distribution	133.5	-	133.5	132.8	-	132.8	133.8	-	133.8
Interest & Dividends Tax	114.7	-	114.7	116.9	-	116.9	116.9	-	116.9
Insurance Tax	135.1	-	135.1	125.1	-	125.1	130.9	-	130.9
Communications Tax	41.2	-	41.2	40.7	-	40.7	39.8	-	39.8
Real Estate Transfer Tax	102.0	50.9	152.9	106.8	52.6	159.4	104.5	53.9	158.4
Securities Revenue	42.6	-	42.6	45.0	-	45.0	44.3	-	44.3
Transfers from Lottery Commission	-	105.6	105.6	-	100.4	100.4	-	110.4	110.4
Transfers from Racing & Charitable Gaming Commission	-	-	-	-	-	-	-	-	-
Tobacco Settlement	4.6	40.0	44.6	-	39.7	39.7	-	39.2	39.2
Utility Property Tax	-	39.5	39.5	-	43.4	43.4	-	44.2	44.2
State Property Tax	-	363.1	363.1	-	363.1	363.1	-	363.1	363.1
Other	109.3	-	109.3	94.4	-	94.4	97.6	-	97.6
Subtotal	1,617.6	1,022.6	2,640.2	1,585.9	1,036.5	2,622.4	1,607.9	1,044.8	2,652.7
Recoveries	4.4	-	4.4	3.7	-	3.7	3.3	-	3.3
Total	\$1,622.0	\$1,022.6	\$2,644.6	\$1,589.6	\$1,036.5	\$2,626.1	\$1,611.2	\$1,044.8	\$2,656.0

⁽¹⁾ As stated above, the operating budget for fiscal year 2020 represents revenues included in Chapter 345, Laws of 2019, plus certain adjustments from the Legislative Budget Assistant Surplus Statement, excluding \$68.1 million in the Education Fund. It is anticipated that this amount will be appropriated to the Department of Education and will not be recorded as a cash revenue transaction.

**GENERAL FUND AND EDUCATION TRUST FUND APPROPRIATIONS NET OF ESTIMATED REVENUES
ACTUAL AND BUDGET
FISCAL YEARS 2019-2021
(In Millions)**

Category	Actual Fiscal Year 2019*			Operating Budget Fiscal Year 2020*			Operating Budget Fiscal Year 2021*		
	General	Education	Total	General	Education	Total	General	Education	Total
General Government	\$256.2	\$-	\$256.2	\$272.3	\$-	\$272.3	\$272.0	\$-	\$272.0
Justice and Public Protection	288.0	-	288.0	326.0	-	326.0	330.6	-	330.6
Resource Protection and Development	38.4	-	38.4	48.2	-	48.2	48.8	-	48.8
Transportation	11.3	-	11.3	1.4	-	1.4	1.4	-	1.4
Health and Social Services	693.1	-	693.1	816.2	-	816.2	839.9	-	839.9
Education	217.8	962.6	1,180.4	168.1	1,084.2	1,252.3	174.9	1,078.6	1,253.5
Total	\$1,504.8	\$962.6	\$2,467.4	\$1,632.2	\$1,084.2	\$2,716.4	\$1,667.6	\$1,078.6	2,746.2
Appropriation Adjustments	-	-	-	218.5	0.5	219.0	11.1	62.5	73.6
Lapses	-	-	-	(56.7)	-	(56.7)	(75.4)	-	(75.4)
Total Net Appropriations	\$1,504.8	\$962.6	\$2,467.4	\$1,794.0	\$1,084.7	\$2,878.7	\$1,603.3	\$1,141.1	\$2,744.4

* Appropriation adjustments and lapses are not known by category of government until fiscal year end. Accordingly, the actual fiscal year 2019 appropriations by category are net of adjustments and lapses, while the budgeted appropriations by category for fiscal year 2020 and fiscal year 2021 are not. Total net appropriations budgeted for fiscal year 2020 and fiscal year 2021 are shown below the budgeted appropriations by category.

As noted above on page 36, the budgeted amounts for fiscal years 2020 and 2021 are based on information from the fiscal years 2020-2021 operating budget, along with certain adjustments prepared by the State's Legislative Budget Assistant. As such, the amounts stated in the table below for the Undesignated Fund Balance at July 1, 2019, the amounts reserved for the Revenue Stabilization Account at June 30, 2020 and 2021 and resulting Total Equity, do not reflect the actual Undesignated Fund Balance and the actual amount reserved for the Revenue Stabilization Account and resulting Total Equity at June 30, 2019.

**GENERAL FUND AND EDUCATION TRUST FUND BALANCES
FISCAL YEARS 2019 – 2021
(GAAP Basis - In Millions)**

	<u>Actual</u>			<u>Operating Budget</u>			<u>Operating Budget</u>		
	<u>General</u>	<u>Education</u>	<u>Total</u>	<u>General</u>	<u>Education</u>	<u>Total</u>	<u>General</u>	<u>Education</u>	<u>Total</u>
Undesignated Fund Balance, July 1	\$74.4	\$21.4	\$95.8	\$197.7	\$13.8	\$211.5	(6.7)	33.8	27.1
Designated for Education Aid, July 1					62.5	62.5		62.5	62.5
Additions:									
Unrestricted Revenue	1,622.0	1,022.6	2,644.6	1,589.6	1,036.6	2,626.2	1,611.2	1,044.8	2,656.0
Other Additions	-	-	-	-	68.1	68.1	-	-	-
Total Additions	\$1,622.0	\$1,022.6	\$2,644.6	\$1,589.6	\$1,104.7	\$2,694.3	1,611.2	1,044.8	2,656.0
Deductions:									
Appropriations Net of Estimated Revenues	(1,573.2)	(950.4)	(2,523.6)	(1,632.2)	(1,084.2)	(2,716.4)	(1,667.6)	(1,078.6)	(2,746.2)
Appropriation Adjustments	(76.5)	(14.6)	(91.1)	(218.5)	(0.5)	(219.0)	(11.1)	(62.5)	(73.6)
Special Session Reductions	-	-	-	-	-	-	-	-	-
Less: Lapses	144.9	2.4	147.3	56.7	-	56.7	75.4	-	75.4
Total Net Appropriations	(1,504.8)	(962.6)	(2,467.4)	(1,794.0)	(1,084.7)	(2,878.7)	(1,603.3)	(1,141.1)	(2,744.4)
GAAP and Other Adjustments	9.7	(2.5)	7.2	-	-	-	-	-	-
Other One time Revenue Adjustments	-	-	-	-	-	-	-	-	-
Current Year Balance	126.9	57.5	184.4	(204.4)	20.0	(184.4)	7.9	(96.3)	(88.4)
Transfers (to)/from:									
Rainy Day Fund	(5.3)	-	(5.3)	-	-	-	(1.2)	-	(1.2)
Public School Infrastructure Fund	(3.5)	-	(3.5)	-	-	-	-	-	-
Highway Fund	-	-	-	-	-	-	-	-	-
Fish & Game Fund	-	-	-	-	-	-	-	-	-
Education Trust Fund	-	-	-	-	-	-	-	-	-
Designated for Education Aid, June 30	-	62.5	62.5	-	62.5	62.5	-	-	-
Undesignated Fund Balance, June 30	192.5	16.4	208.9	(6.7)	33.8	27.1	0.0	-	0.0
Reserved for Revenue Stabilization Account	115.3	-	115.3	115.0	-	115.0	116.2	-	116.2
Total Equity	\$307.8	\$78.9	\$386.7	\$108.3	\$96.3	\$204.6	\$116.2	-	\$116.2

Fiscal Year 2020 Revenue Performance for the Seven Months Ended January 31, 2020 (Unaudited)

Unrestricted revenue for the General and Education Funds received for the seven months ending January 31, 2020 totaled \$1,118.6 million, which was above plan by \$15.8 million (1.4%) and below prior year by \$64.2 million (5.4%).

When comparing fiscal year 2020 actual results to the same period in fiscal year 2019 and the fiscal year 2020 revenue plan amounts, the results were as follows:

- Business Tax revenues through January 31, 2020 totaled \$357.0 million, which were \$7.9 million (2.3%) above plan and \$82.8 million (18.8%) below prior year. According to the Department of Revenue Administration (“DRA”), the decrease in revenue over the prior year was primarily driven by the presence of large anomalous return and extension payments in January of 2019, as well as a slight increase in refund payments over January of 2019. Generally, however, business tax revenues for January 2020 are more in trend with past January collections.
- Meals and Rooms Tax collections through January 31, 2020 totaled \$229.1 million, or \$3.6 million (1.5%) below plan and \$8.2 million (3.7%) above prior year. According to DRA, January collections (December activity) from taxable meals were down 4.1% and hotels were up 1.6%, respectively, as compared to the same month last year.
- Tobacco Tax receipts through January 31, 2020 of \$120.4 million were \$2.5 million (2.1%) above plan and \$1.6 million (1.3%) below prior year. According to DRA, year-to-date stamp sales were flat as compared to the same month of the prior year and the bond receivable balance is higher than the prior year by 8%.
- Real Estate Transfer Taxes collections through January 31, 2020 of \$110.5 million were \$5.2 million (4.9%) above plan and \$9.0 million (8.9%) above prior year. According to DRA, the number of transactions reported by counties for the month of January (December collections) were up 9.6% while transaction values were up 17.9% over the same month last year.

**STATE OF NEW HAMPSHIRE
GENERAL AND EDUCATION FUNDS UNRESTRICTED REVENUES
FOR THE SEVEN MONTHS ENDED JANUARY 31, 2020 (UNAUDITED)
(In Millions)**

Revenue Category	FY 20 Actual	FY 19 Actual	FY 20 Plan	FY 2020 vs Plan Variance	FY 2020 vs Plan %	FY 2020 vs FY 2019 Variance	FY 2020 vs FY 2019 %
Business Profits Tax	\$223.2	\$264.4	\$215.5	\$7.7	3.6%	\$(41.2)	-15.6%
Business Enterprise Tax	133.8	175.4	133.6	0.2	0.1%	(41.6)	-23.7%
Subtotal.....	357.0	439.8	349.1	7.9	2.3%	(82.8)	-18.8%
Meals & Rooms Tax	229.1	220.9	232.7	(3.6)	-1.5%	8.2	3.7%
Tobacco Tax	120.4	122.0	117.9	2.5	2.1%	(1.6)	-1.3%
Transfer from Liquor Commission	80.4	80.5	83.4	(3.0)	-3.6%	(0.1)	-0.1%
Interest & Dividends Tax	43.8	38.3	45.9	(2.1)	-4.6%	5.5	14.4%
Insurance Tax.....	14.0	14.8	13.9	0.1	0.7%	(0.8)	-5.4%
Communications Tax	22.8	24.5	23.1	(0.3)	-1.3%	(1.7)	-6.9%
Real Estate Transfer Tax.....	110.5	101.5	105.3	5.2	4.9%	9.0	8.9%
Securities Revenue.....	15.8	15.7	15.9	(0.1)	-0.6%	0.1	0.6%
Transfers from Lottery Commission*	51.6	51.8	49.0	2.6	5.3%	(0.2)	-0.4%
Tobacco Settlement.....	-	-	-	-	0.0%	-	0.0%
Utility Property Tax	22.5	20.1	22.6	(0.1)	-0.4%	2.4	11.9%
State Property Tax.....	-	-	-	-	0.0%	-	0.0%
Other	48.9	51.0	41.8	7.1	16.9%	(2.1)	-4.1%
Subtotal.....	1,116.8	1,180.9	1,100.6	16.2	1.5%	(64.1)	-5.4%
Recoveries.....	1.8	1.9	2.2	(0.4)	-18.5%	(0.1)	-5.6%
Total	<u>\$1,118.6</u>	<u>\$1,182.8</u>	<u>\$1,102.8</u>	<u>\$15.8</u>	<u>1.4%</u>	<u>\$(64.2)</u>	<u>-5.4%</u>

* Includes Racing & Charitable Gaming Commission.

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 certain benefits and eligibility categories, while states have a choice of which additional optional eligibility categories and benefits to offer, although the Patient Protection and Affordable Care Act (“PPACA”) has reduced states’ ability to reduce eligibility categories. The maintenance-of-effort (“MOE”) requirements in ACA were effective until the state exchanges were operational (2014), but the MOE for children was through fiscal year 2019. The federal government and the state share responsibility for financing Medicaid. The federal government matches state Medicaid spending at rates that vary depending on state per capita income.

As of December 31, 2019, 178,342 adults and children were enrolled in the New Hampshire Medicaid program as compared to 181,283 on December 31, 2018. This includes 51,040 (compared to 51,772 last year) within the Medicaid expansion “New Adult Group”, which principally insures childless adults up to 138% of the federal poverty level. The State expanded its Medicaid program as provided for under the PPACA in July 2014. See “Figure 1 – Enrollment by Delivery Method” below for enrollment trends since 2014.

Overview of New Hampshire Medicaid. The New Hampshire Medicaid program (“New Hampshire Medicaid”) administered through the Department of Health and Human Services (DHHS) is a complex network that provides health care and psychosocial support insurance coverage to participants who meet eligibility requirements. New Hampshire Medicaid covers all or part of the health care costs of low-income children, pregnant women, parents with children, senior citizens, 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 \$2.1 billion in fiscal year 2017; \$2.13 billion in fiscal year 2018; \$2.14 billion in fiscal year 2019 and expects to expend \$2.14 billion in fiscal year 2020. The State’s base federal matching rate is 50%. There are exceptions, which afford higher federal medical assistance percentages (FMAP) rates, such as the Breast and Cervical Cancer Program (65% match) and the NH Granite Advantage Health Care Program currently at 93% match through calendar year 2019; and then 90% beginning in calendar year 2020).

Children’s Health Insurance Program (CHIP). On January 22, 2018, Congress passed a six-year extension of CHIP funding as part of a broader continuing resolution to fund the federal government. The act provides enhanced federal funding for CHIP for six years starting at the enhanced rate of 88% for federal fiscal years (FFY) 2018 and 2019, 76.5% for FFY 2020, and 65% in FFY 2021 and beyond. The reauthorization of CHIP offset State General Fund requirements by \$20.1 million in State fiscal year 2018 and \$29.3 million in State fiscal year 2019. This includes enhanced match for qualifying CHIP State costs for related expenses for standard Medicaid children up to age 18 that fall within two groups. The match is known for state fiscal years 2020 and 2021 and was included in the biennial budget.

New Hampshire Medicaid Financial Summary. DHHS Budget. In September 2019, the fiscal years 2020-2021 budget was passed by the Legislature and signed by the Governor. From July 1, 2019 until the budget was signed, the State was operating in a Continuing Resolution. As part of the final budget that was signed, DHHS is required to reduce General Fund expenditures by \$25 million over the biennium. Total General Fund moneys allocated to DHHS the biennium are \$1.656 billion. The reduction is not specific to any program, but shall not reduce developmental services, county programs, or Medicaid rates. DHHS submitted a plan for the General Fund reduction to the Joint Fiscal Committee of the General Court which was dated December 26, 2019. Included in the budget and other bills signed into law during the fiscal year 2019 legislative session were several additions to the Medicaid program. The largest impact is a 3.1% rate increase to be effective January 1, 2020 and an additional 3.1% rate increase to be effective January 1, 2021. The rate increases are fully funded.

Though New Hampshire Medicaid deploys a robust array of management strategies to contain Medicaid costs (see *Cost Containment*, below), economic forces and State and federal regulations limit options for controlling Medicaid spending. Total expenditures are a function of enrollment of qualified applicants, provider rates, and service utilization on the fee-for service side of the program and are a function of enrollment and per-member per month rates paid to Managed Care Organizations on the managed care side of the program. 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.

Policy Changes and Enrollment Trends. Certain recent policy changes have impacted Medicaid enrollment. The number of individuals enrolled in Medicaid at the beginning of fiscal year 2014 was approximately 140,000. The number of individuals enrolled at the end of fiscal year 2019 was 175,653, representing an increase of 25.4%. However, between fiscal years 2018 and 2019 the enrollment decreased by 3.8%. The 2014 to 2019 increase can be primarily attributed to two elements of the PPACA. Historically, an increase of approximately 7% in enrollment was attributable to the federal changes in eligibility criteria as part of the Modified Adjusted Gross Income (“MAGI”) methodology, which changed the financial eligibility criteria for Medicaid medical services. More recent declines in enrollment appear to be related largely to a reduction in federal outreach efforts and a shorter open enrollment period for the annual open ACA enrollment where those applications for ineligibility due to income would cascade to Medicaid eligibility. Economic conditions appear to be another factor as overall uninsured levels in the State have not increased as in other parts of the country. Census data for 2018 showed a decline of 0.5% nationally while New Hampshire remained unchanged.

In August 2014, the State expanded Medicaid eligibility by implementing the New Hampshire Health Protection Program (“NHHPP”), which expanded coverage to an additional 52,507 individuals by the end of fiscal year 2018 and 49,155 at 2019 state fiscal year end. Medical costs for this expanded population were initially funded from July 2014 through December 2015 with 100% federal financial participation (“FFP”), as provided for under PPACA.

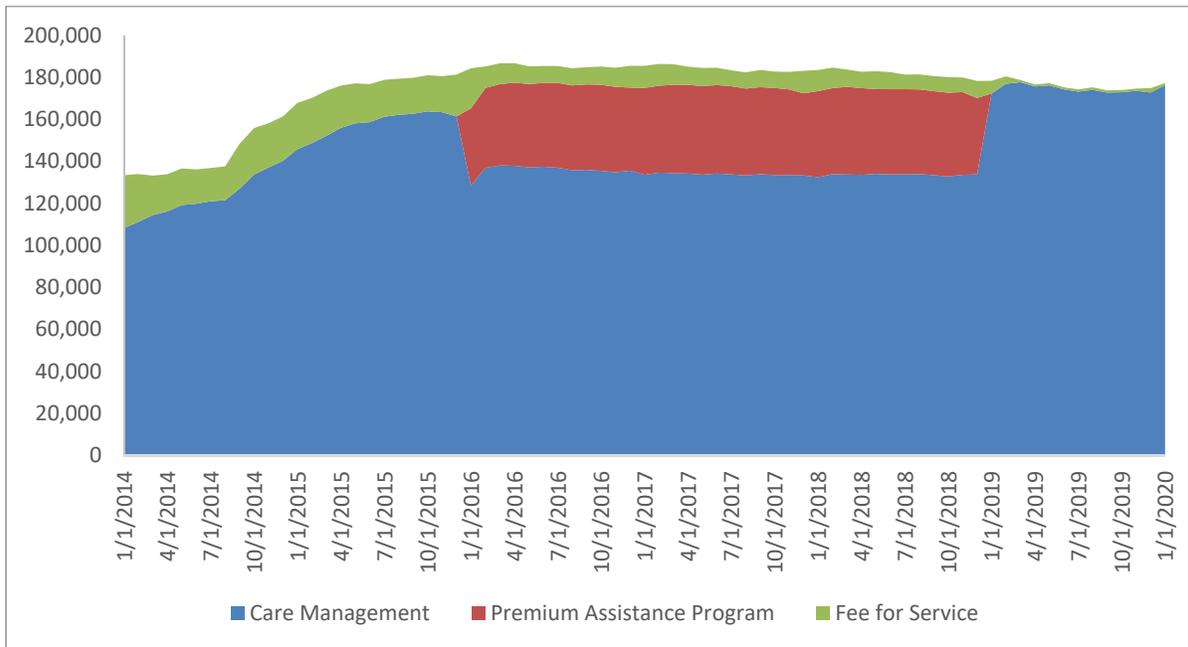
During the 2016 legislative session, the program was reauthorized to operate through December 31, 2018 and funded the non-federal share of the program with a combination of revenue sources, namely, revenue from the State’s insurance premium tax, contributions from the State’s high risk insurance pool and voluntary donations from hospitals. On July 25, 2017, CMS informed the State that its use of voluntary provider donations did not meet all of the federal criteria for a bona fide provider donation but allowed the State additional time through the following legislative session to amend its funding for the non-federal share of the program.

Senate Bill 313 was enacted on June 28, 2018. This legislation repealed the NHHPP and established the NH Granite Advantage Health Care Program (“Granite Advantage Program”), a five-year demonstration program beginning January 1, 2019, which will serve the entire expansion population in the State’s managed care program. The State received notice on November 30, 2018 that CMS had issued all necessary approvals for the program.

The Granite Advantage Program provides the same services as the NHHPP, but instead of utilizing qualified health plans on the Federal Marketplace for coverage for the New Adult Expansion Group, the Granite Advantage Program transitioned this population into the State’s existing managed care program, which is expected to reduce costs by an estimated \$200 million total funds in the first full calendar year of operation. New Hampshire Granite Advantage Health Care Trust Fund provides coverage for the newly eligible Medicaid population as provided for under RSA 126-AA:2.

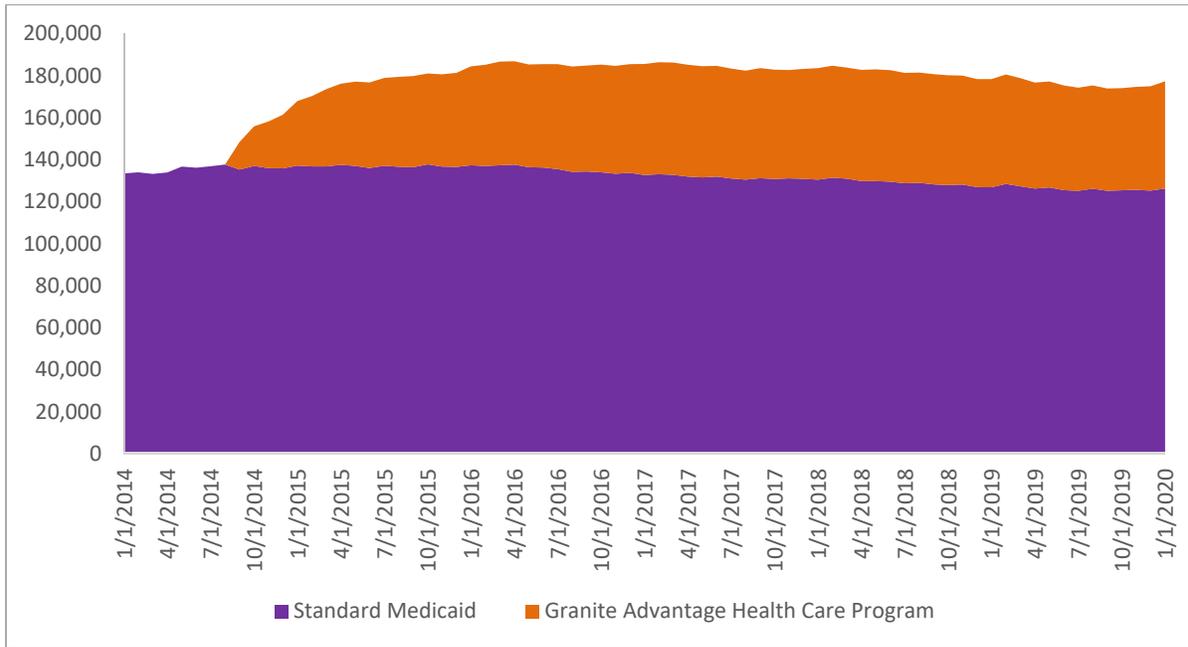
All moneys in the fund are nonlapsing and are continually appropriated to the Commissioner for the purposes of the fund. The fund is authorized to pay and/or reimburse the cost of medical services and cost-effective related services, including without limitation, capitation payments to MCOs. No State general funds shall be used to fund the program. The non-federal share of the costs of the program, including administrative expenses, are funded from a combination of revenues: liquor revenues; the insurance premium tax; contributions from the State’s insurance high risk pool assessment and other funds as allowed by RSA 126-AA:3.

Figure 1-Enrollment By Delivery Method



Note: data is for full benefit Medicaid members for a point in time as of the first of each month

Figure 2-Enrollment By Eligibility Standard



Note: data is for full benefit Medicaid members for a point in time as of the first of each month.

Cost Containment. New Hampshire Medicaid competitively reprocurd its Medicaid Care Management Program in fiscal year 2019 and initiated a new contract with three MCOs, two incumbents and a third new plan to the State. The reprocurd program provides additional beneficiary choice through an added MCO in the program and includes care coordination enhancements and stronger contract provisions to strengthen the oversight of MCO performance, including establishing withhold and liquidated damage provisions for the MCOs. Overall, New Hampshire Medicaid continues to deploy a robust array of financial and utilization management and quality

improvement strategies to contain costs and improve member health. Further, New Hampshire Medicaid implemented in January, 2019 a next day enrollment feature into managed care to reduce fee for service financial exposure. Historically, comparison of New Hampshire Medicaid reimbursement rates to providers have found that in almost every case the State's Medicaid provider payment rates to be significantly lower than other states' Medicaid and commercial insurance rates. Specifically, New Hampshire's Medicaid rates also tend to be lower, with a couple of exceptions, than the rates of the other Medicaid programs in New England. The fiscal year 2020-2021 operating budget includes a number of provider rate enhancements including two 3.1% increases in all provider rates as of January 1, 2020 and 2021, and an additional \$8.0 million of General Fund moneys to further enhance mental health and substance use disorder services. The capitation rates paid to the MCOs have been adjusted to reflect the provider rate increases. The increase in capitation rates is funded from the \$31 million General Fund appropriation related to the 3.1% increase and is subject to federal match. The budget appropriated \$8.0 million from the General Fund for increases related to the mental health and substance use disorder rates for inpatient and outpatient services and such rates are pending further development by the department. This is due in part to the utilization of these services and the funding mix between the Standard Medicaid and Medicaid Expansion populations.

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. At the time, 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.

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 allowed total DSH payments to both critical access and non-critical access hospitals of \$92 million in fiscal year 2014, which also includes the matching federal funds.

The statute also codified the State's settlement with hospitals over the use of MET revenue, revising services taxable under the MET and clarifying that the MET is a health care-related tax. The statute removes the application of the MET to special hospitals for rehabilitation, changes the payment schedule for the tax and the method for collecting overdue tax payments, provided for a phased in reduction in the rate of the tax and clarified the priority in which MET can be applied to DSH payments to hospitals and for Medicaid provider payments.

MET and DSH Impact in fiscal years 2016 and 2017. As a result of a shortfall in MET received in fiscal year 2016 and a preliminary injunction from a federal court, the liability to the State's hospitals under the DSH program for their uncompensated care (UCC) exceeded the amount of DSH payments budgeted for fiscal years 2016 and 2017. DHHS satisfied the shortfalls by utilizing excess revenue received from the drug rebate program.

New Hampshire's Critical and Non Critical Access Hospitals file their MET in April and self-report UCC in February. DSH Payments are required to be paid to New Hampshire hospitals to reimburse for care for which they have not been paid, known as "Uncompensated Care" and are funded by the MET and federal Medicaid matching funds. MET is currently assessed at 5.4% of net patient service revenue, collected by the DRA, and subsequently transferred to DHHS.

In fiscal years 2016 and 2017, DSH payments were paid annually by May 31st and processed in the following priority order (subject to certain caps at both the ceiling and floor level):

- (1) Critical Access Hospital will be reimbursed at an amount equal to 75% of UCC
- (2) Non-Critical Access Hospital will be reimbursed at an amount equal to 50% of UCC
- (3) Remaining funds shall support Medicaid Provider payments

The State's fiscal year 2017 DSH obligation was higher than anticipated at the time the 2016-2017 biennial budget was enacted because of a dispute over the clarification to the definition of uncompensated care by the federal

government that resulted in the issuance of a permanent order by the Federal District Court in New Hampshire in *NHHA v. Sylvia Matthews Burwell*. The effect of the order was to prevent the inclusion of any third party payments against hospital costs to arrive at a net UCC until such time as CMS issued the clarification of the definition by rule-making. Without the rule, third-party revenue for Medicaid patients was excluded thereby resulting in higher calculations of uncompensated care which are subject to a DSH payment in State fiscal year 2017. CMS issued a final rule effective June 2, 2017; however, since issuance of the final order, the NHHA et al. and other entities in other courts brought suit against USDHHS questioning the authority of the Secretary to issue this interpretation in rule (*NHHA v. Azar*). The rule was vacated in an order issued March 2, 2018 and the State's DSH payments for fiscal years 2018 and 2019 therefore did not consider private insurer or Medicare revenue for the purposes of calculating uncompensated care.

MET and DSH Impact in Fiscal Years 2018 and 2019. During the 2018 legislative session, the NHHA and the State revised their 2014 settlement to agree that for fiscal year 2018, DSH payments would be made in an amount equal to 92.2% of the MET collected, and for fiscal year 2019, in an amount equal to 90.2% of amount of MET collected. The new agreement was codified in Chapter 162:31, Laws of 2018, which also appropriated the additional DSH payments for the biennium ended June 30, 2019.

In fiscal years 2018 and 2019, DSH payments were paid annually by May 31st and were processed in the following priority order:

- (1) Critical Access Hospital (CAH) will be reimbursed at an amount equal to 75% of UCC
- (2) Non-Critical Access Hospital will be reimbursed at an amount up to 92.2% (fiscal year 2018) or 90.2% (fiscal year 2019) of MET revenues
- (3) Remaining funds shall support Medicaid Provider payments

In fiscal year 2018, this resulted in an increased DSH payment of \$57.9 million above the fiscal year 2018 budget and decreased the available MET for other Medicaid Provider payments by \$22.2 million. For fiscal year 2019, DSH payments totaled \$225.9 million, or \$60.4 million above the budgeted DSH payments. MET revenue totaled \$250.2 million, which is \$3.2 million higher than originally budgeted, so the reduction to MET available for Medicaid Provider payments was \$23.6 million.

The legislation also included the following two provisions:

Provision 1) Given any future change to the federal definition of uncompensated care resulting in a decrease in the UCC calculation, then the percentage of allowable UCC for CAH hospitals will be adjusted to 75% of UCC calculated without regard to payments from Medicare or third party payers. If increasing the percentage of allowable DSH causes any hospital to exceed the hospital-specific DSH limit, the difference will be paid to the critical access hospitals in Medicaid supplemental payments, MCO directed payments, increased rates, or any other allowable Medicaid payment.

Provision 2) Any future reduction in the federal DSH allotment to the State resulting in a DSH payment below the percentage of MET established for the year in question will be paid to hospitals in Medicaid supplemental payments, MCO directed payments, increased rates, or any other allowable Medicaid payment.

MET and DSH Impact in Fiscal Years 2020 and 2021. Per the revised settlement agreement, for fiscal years 2020 to 2024, hospitals will be paid for uncompensated care costs in an amount up to 86% of the MET revenue, with an additional 5% of MET revenue directed to an increase in hospital service provider rates, or another allowable form of Medicaid payment. The budget for fiscal year 2020 assumes \$112.18 million of MET revenue for uncompensated care payments (\$224.4 million total funds) and \$6.52 million for hospital service rate increases (\$13.04 million total funds) included in the amounts listed below for fiscal years 2020 and 2021. The budget also assumes \$142.4 million of MET for Medicaid Provider payments.

An appeals court decision issued on August 13, 2019 reinstated the previously vacated rule, thereby requiring the calculation of uncompensated care cost to include the impact of payments from private insurers and

Medicare for dually-eligible individuals. Therefore, under provision 1 above, the State may be required to increase payments to critical access hospitals to an amount higher than the hospital-specific DSH limit established in the re-instated rule. In order to make these payments, the State will have to identify another (non-DSH) Medicaid payment methodology. The State had been contemplating a supplemental payment under the Upper Payment Limit to meet provision 1. However, language in the proposed Medicaid Fiscal Accountability Rule is unclear in regards to the criteria CMS will use to approve supplemental payments in the future. CMS has stated the rule will be finalized by the end of calendar year 2020.

Additionally, the DSH allotment reductions, which had been scheduled to begin on October 1, 2019 (FFY 2020), were postponed to November 21, 2019. At this time, it is unclear whether those will be extended further or enacted for the remainder of the FFY 2020. Under provision 2, above, if DSH is unavailable, the State will still be obligated to make payments to the hospitals in an amount equal to 86% of the MET, via another Medicaid payment methodology. For both provision 1 and provision 2, the State is working cooperatively with the hospitals to identify an appropriate payment methodology, which may be directed payment, supplemental payments, value-based payments or any other payment allowable by law.

Any change in payment methodology resulting from provision 1 or provision 2 is expected to be revenue-neutral to the State, as the settlement provides that the State will expend 86% plus 5% of the MET regardless of the form of Medicaid payment to the hospitals and the remainder will be available to the State for all other forms of Medicaid provider payments.

The table below sets forth aggregate DSH Payments, including both federal and State funding sources since 2009.

<u>State Fiscal Year</u>	<u>DSH Payments</u>
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
2015 paid	68,328,525
2016 paid	207,184,916
2017 paid	215,614,596
2018 paid	223,668,312
2019 paid	225,946,954
2020 budget	237,474,816
2021 budget	246,034,816

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, federal funding for many PPACA reforms began at 100% and reduces to 90% over time.

The U.S. Department of Health and Human Services Office of the Inspector General (OIG) has withdrawn a proposed rule amendment, effective January 1, 2020, which may have had an impact on the collection of drug rebates under Medicare Part D, Medicaid care management organizations.

Granite Advantage Health Care Program (“Granite Advantage”). Senate Bill 313 repealed the NHHPP effective December 31, 2018 and establishes the NH Granite Advantage Health Care Program, a five-year demonstration program beginning on January 1, 2019. The State’s application to extend and revise the State’s Section 1115 demonstration, titled "New Hampshire Health Protection Program (NHHPP) Premium Assistance Demonstration", was approved by CMS, effective on November 30, 2018. In addition to transitioning the New Adult Group from the Federal Marketplace to the State’s managed care program, the waiver allows the State to offer new incentives for beneficiaries to utilize lower cost providers; implement reference based pricing; and adopt new

measures to address the State’s Opioid Crisis. Included in the waiver is an extension of the community engagement and work requirement issued May 7, 2018 with the goal of improving health and economic mobility and sustaining insurance coverage and employment for this population. This requirement conditions continued eligibility for benefits on satisfying work and community engagement requirements of 100 hours per month of qualifying activities for individuals who are not otherwise exempted. (See “*Litigation*” below for a discussion of potential litigation related to the community engagement and work requirement.) As previously noted, Senate Bill 313 also addresses changes to the non-federal share of the program cost.

The following table sets forth State fiscal year expenditures for the NHHPP and Granite Advantage.

<u>State Fiscal Year</u>	<u>NH Health Protection Program</u>	<u>Granite Advantage Health Care Program</u>
2015	\$202,475,294	
2016	\$405,982,081	
2017	\$452,883,648	
2018	\$492,239,603	
2019	\$238,210,616 ⁽¹⁾	\$167,784,917 ⁽²⁾
2020 Proj.		\$358,305,580

⁽¹⁾ July 1, 2018 through December 31, 2018.

⁽²⁾ January 1, 2019 through June 30, 2019.

The total projected expenses for fiscal year 2020 shown above are approximately \$47 million less than fiscal year 2019 expenses. The reduction in projected costs is due in part to the shift from the exchange type rates to Medicaid managed care type rates as well as the implementation of a next day enrollment process. A newly Medicaid eligible member is now enrolled in an MCO on the day following Medicaid eligibility confirmation. This minimizes the time a member is covered under fee-for-service. The remaining amount is attributable to a change in the timing of payments. Under the NHHPP, certain payments were made prospectively for the next month. Under the new Granite Advantage program, costs are paid in the actual service month. Accordingly, the amount paid in December, 2018 amount was decreased, as compared to prior years, because it no longer included payment for services to be rendered in January.

NHHPP Risk Mitigation. As of January 1, 2016, the Bridge Period ended and the NHHPP members began coverage in the QHPs, except for medically frail members that remained in an MCO. This risk settlement period covers only those medically frail members, which is a minimal proportion compared to the approximately 50,000 members. The MCO contracts included a risk mitigation provision to minimize the financial risk for the MCOs, the state and the federal government from the potential under or over estimation of the capitation rates given the estimating healthcare costs for this population that was not previously covered by health insurance. The NHHPP population was healthier than assumed for the period of September 2014 through December 2015 (the “Bridge Period”) resulting in \$61.5 million net recovery of 100% federal funds. The funds were received by the MCOs and returned to CMS in January 2018. The Risk Settlement reconciliation for January 2016 through June 2016 resulted in \$5.7 million net recovery, which was also 100% federal funds. The Risk Settlement reconciliation for the period July 2016 through June 2017 resulted in \$16.6 million recovery, 100% federal funds for the period July 2016 through December 2016; 95% federal funds and 5% non-federal for the period January 2017 through June 2017. The Risk Settlement reconciliation for July 2017 through June 2018 resulted in \$10.3 million net recovery, 95% federal funds and 5% non-federal funds for the period July 2017 through December 2017 and 94% federal funds and 6% non-federal funds for the period January 2018 through June 2018. The Department anticipates that the Risk Settlement reconciliation for the final six months of the program, July 2018 through December 2018, will be finalized by June 30, 2020.

Medicaid to Schools. New Hampshire Medicaid through its State Plan draws an in-kind federal match at a 50% rate to pay local education agencies (LEAs) and school administrative units (SAUs) for Medicaid to Schools State Plan benefits. The Medicaid to Schools benefit drawn from federal funds in recent fiscal years has been approximately \$27.0 million annually. Oversight transitioned from the Bureau of Developmental Services to the Division of Medicaid Services effective July 1, 2019, LEAs and SAUs bill health and behavioral related services provided in the school setting when covered services are provided to Medicaid enrolled children and adolescents, or

when services are provided to a child through his or her individualized education plan (IEP) under the federal Individuals with Disabilities Education Act, a Section 504 plan, or other written health related plans.

On July 1, 2019, the Substance Abuse and Mental Health Services Administration and CMS issued guidance on how and under what conditions a state can expand access to services in the school setting. The guidance among other aspects points to the condition that the school setting participation must be comparably operated and administered as other Medicaid settings. In state program integrity activities, prior to and subsequent to the guidance, DHHS self-identified aspects of administration of the benefit where comparability was not sufficiently attained. DHHS is currently working with schools to strengthen compliance, revising rules, and is engaging CMS relative to a corrective action plan.

As part of the activities necessary to administer the Medicaid state plan, states may also provide Medicaid payments to schools for Medicaid outreach and enrollment activities, as well as other eligible, school-based administrative activities; New Hampshire schools have not yet availed themselves to that opportunity in any material way. DHHS will be working with the Department of Education and LEAs/SAUs to assess the opportunity for the State.

Waivers.

IMD / Substance Use Disorder 1115 Waiver. In 2016, the Legislature passed HB517, which required the State to redevelop excess capacity at the existing Sununu Youth Services Center (SYSC) to allow for expansion to a 36-bed residential Substance Use Disorder (SUD) treatment facility available for adolescents. The program at SYSC was intentionally designed as a Comprehensive SUD Program, to be in alignment with the existing SUD service delivery system. CMS approved the program on July 10, 2018. The SYSC officially opened November 1, 2018. This waiver has budget neutrality provisions (a requirement to show expenditures for this project do not exceed the federal expenditures that would otherwise have been made). The budget neutrality is monitored with the support of the Department's actuary. The Department anticipates discussing with CMS technical updates resulting in the waiver being budget neutral. The Department and its actuary expect that budget neutrality will be achieved

Section 1115 Transformation Waiver. On January 5, 2016, the Centers for Medicare and Medicaid Services (CMS) approved New Hampshire's Section 1115 Research and Demonstration Transformation to access new federal funding to help transform its behavioral health delivery system. On January 5, 2016, the Centers for Medicare and Medicaid Services approved the State's application to participate in this Demonstration Waiver that will allow the State to access up to a total of \$150 million over the next five years (approximately \$30 million per year) over a five year period for the purpose of strengthening and expanding capacity for the State's behavioral health system. The Transformation Waiver has four main targets:

- (1) Deliver integrated physical and behavioral health care that better addresses the full range of individuals' needs
- (2) Expand capacity to address emerging and ongoing behavioral health needs in an appropriate setting
- (3) Reduce gaps in care during transitions across care settings by improving coordination across providers and linking patients with community supports
- (4) Move fifty percent of Medicaid reimbursement to alternative payment models by the end of the demonstration period

There are two distinct federal funding streams associated with the waiver, a federal reimbursement for Designated State Health Programs (DSHP) and a federal reimbursement for Delivery System Reform Incentive Payments (DSRIP). The DSHP funds consist of new federal matching funds received on existing State and local health related programs. Under the waiver approval, DSHP funds will be disbursed to fund new DSRIP reform projects. DSRIP performance based payments made to the regionally based networks of medical and community social service providers called Integrated Delivery Networks (IDN's) processed in fiscal year 2017 were \$24.9 million; in fiscal year 2018 were \$20.4 million and in fiscal year 2019 were \$18.7 million. Expenditures for State fiscal year 2020 are expected to be less than \$30 million. Under the waiver the State, including local county governments, are not required to spend any new or additional funds. However, in order to continue to receive the additional federal matching funds, spending on the existing health related programs is expected to continue.

A change in federal policy has introduced potential implications to the current five-year waiver for future DSHP financing under the DSRIP waiver. CMS has issued national guidance regarding the discontinuation of certain DSHP financing subsequent to the original five year duration. A portion of the State's DSRIP waiver required conversion of certain DSHP financing to a CPE (certified public expenditures) method for this waiver specifically. Under the CPE rules, CMS guidance potentially disallows a portion of the monies anticipated by the State. While CMS has subsequently approved DHHS' alternative methodology, it is contingently effective in that it depends on counties voluntarily appropriating monies not previously federally matched to be contributed to DHHS so they can be matched in support of the DSRIP waiver. As of June 2019, all ten counties voted an appropriation that allowed for an additional \$12 million after federal match for calendar 2018 waiver costs; 2019 appropriations are under consideration by the counties. The capability of the counties to contribute is indirectly the result of enhanced Proshare payments due to the alternative methodology. The impact going forward in 2020, the remainder of the waiver period, should the counties elect not to provide financial support, would be a curtailment of what can be accomplished through the waiver. Therefore, any county shortfall is not expected to impact the General Fund. This waiver has budget neutrality provisions (a requirement to show expenditures for this project do not exceed the federal expenditures that would otherwise have been made). Budget neutrality is monitored with the support of the Department's actuary. CMS, the Department, and its actuary have held substantive discussions and have provided data to support the need for technical adjustments to the original budget neutrality aspects of this waiver. In particular, adjustments are needed to reflect (i) correction of inconsistencies between the original budget neutrality targets and the CMS-64 reporting of actual expenditures, (ii) acuity changes due to an increase in the population receiving behavioral health services consistent with the Medicaid Eligibility Group (MEG) structure, (iii) New Hampshire's response to the opioid crisis, including the expansion of community mental health services and (iv) other unpredictable expenditures not known at the time of the original budget neutrality calculation. The Department and its actuary, under its own assumptions, have calculated the waiver over its term to be budget neutral.

Fast Forward Waiver State Plan Amendment 1915(i). In 2016, the Legislature passed HB517 requiring DHHS to establish a Medicaid home and community-based behavioral health services program for children with severe emotional disturbances whose service needs cannot be met through traditional behavioral health services. DHHS may establish such services through a State plan amendment or a waiver under provisions of the SSA. If DHHS proceeds with the waiver, it may limit geographic availability of services. The services shall include the following or their functional equivalent: wrap around care coordination, wrap around participation, in home respite care, out of home respite care, customizable goods and services, family peer support, and youth peer support. On July 12, 2018, CMS approved the State's Plan Amendment, which amended the NH Title XIX State Plan to include a section to provide home and community-based services to children with serious behavioral health issues through a coordinated model. The services were effective July 2018.

Additional 1915 waivers. Each of the below waivers are federally required to be cost effective and are fully appropriated in the State fiscal years 2020-2021 budget.

Choices For Independence 1915 (c) Waiver. This waiver provides adult medical day services, home health aide, homemaker, personal care, respite, supported employment, financial management services, adult family care, adult in-home services, community transition services, environmental accessibility services, home-delivered meals, non-medical transportation, participant directed and managed services, personal emergency response system, residential care facility services, skilled nursing, specialized medical equipment services, supportive housing services for aged individuals ages 65 years and older (no maximum age and physically disabled and other disabilities ages).

Acquired Brain Disorder 1915(c) Waiver. This waiver provides community participation services, respite, service coordination, supported employment services, assistive technology support services, community support services (CSS), crisis response services, environmental and vehicle modification services, participant directed and managed services - PDMS (formerly consolidated acquired brain disorder services), residential habilitation/personal care services, specialty services, wellness coaching for individuals with brain injuries aged 22 years and above.

Development Disabilities 1915(c) Waiver. This waiver provides community participation services, residential habilitation/personal care services, respite, service coordination, supported employment, assistive technology support services, community support services (CSS), crisis response services, environmental and vehicle

modification services, participant directed and managed services (PDMS) formerly consolidated developmental services, specialty services, wellness coaching for individuals with autism, DD and ID for all ages.

In Home Supports 1915 (c) Waiver. This waiver provides enhanced personal care, consultations, environmental and vehicle mods, family support/service coordination, respite care for individuals w/autism, ID and DD from birth to age two years.

Freedom of Choice Managed Care, 1915 (b). This waiver provides for enrollment in Mandatory Managed Care for State Plan Services for Currently Voluntary Populations.

Litigation. Various aspects of New Hampshire Medicaid are the subject of litigation and potential 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 the captions that reference DHHS or New Hampshire Medicaid.

As mentioned above, DHHS has received approval from the Centers for Medicare and Medicaid Services (CMS) of a waiver under Section 1115 of the Social Security Act of 1933, as amended, for the implementation of its Granite Advantage Health Care Program for coverage of the New Adult Group under the Patient Protection and Affordable Care Act. That waiver approval includes a waiver of Section 1902a(10) thus permitting eligibility for benefits to be conditioned on satisfying work and community engagement requirements. To date, litigation challenging the Secretary’s determination under Section 1115 that work and community engagement requirements promote the objectives of the Medicaid program has been filed in every state in which the Medicaid agency has implemented such a work and community engagement requirement pursuant to a CMS issued waiver. See *Stewart v. Azar, et al., Civ. Action No. 18-152 (USDCDC)(Kentucky Waiver)*, and *Gresham, et al. v. Azar, Civ. Action No. 1:18-cv-01900 USDCDC (Arkansas)*.

On July 29, 2019, the US District Court for the District of Columbia vacated New Hampshire’s section 1115 waiver requirement. The court decision both prohibited the implementation of the work and community engagement requirement and also invalidated the waiver of 90-day retroactive coverage. As of the decision date, Granite Advantage members at this time no longer needed to meet the 100-hour monthly participation requirement or request any type of exemption as a condition of continued eligibility to keep their Medicaid coverage. Additionally, the 90-day retroactive coverage has been reinstated for the Granite Advantage population. The cost of reinstating the 90-day coverage is accounted for in the current fiscal year 2020-2021 budget.

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 below sets forth the long-term debt of the State outstanding as of June 30, 2019.

Debt Statement as of June 30, 2019 (In Thousands)

<u>General Obligation Bonds:</u>		
General Improvement	\$571,028	
Highway	85,648	
University System of New Hampshire	97,748	
Total Direct General Obligation Debt		\$754,424
<u>Revenue Bonds:</u>		
Turnpike System ⁽¹⁾	335,855	
GARVEE ⁽²⁾	105,100	
Total Revenue Bond Debt		\$440,955
<u>Contingent (Guaranteed) Debt:</u>		
Water Pollution and Waste Disposal Bonds issued by Political Subdivisions	0	
Business Finance Authority	56,106	
Local School District School Bonds	17,630	
Total Contingent Debt		\$73,736
Total Debt		\$1,269,115
<u>Less: Self-Supporting and Contingent Debt:</u>		
General Fund Self-Supporting Debt ⁽³⁾	33,752	
Turnpike System Revenue Bonds	335,855	
Highway Fund	85,648	
GARVEE	105,100	
Water Pollution and Waste Disposal Bonds issued by Political Subdivisions	0	
Business Finance Authority	56,106	
Local School District School Bonds	17,630	
Liquor Commission	36,058	
State Revolving Fund	13,304	
School Building Aid	61,279	
Fish & Game	1,534	
Total Self-Supporting and Contingent Debt		\$746,266
Total Net General Fund Debt ⁽⁴⁾		\$522,849

(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.

Chapter 17 of the Laws of 2014 authorized \$200 million in general obligation bonds for the completion of the Interstate 93 widening project. Chapter 276:210-211, Laws of 2015, amended the legislation by specifically authorizing a federal Transportation Infrastructure Finance and Innovation Act (“TIFIA”) loan as an alternative to a traditional general obligation bond issue including, without limitation, a pledge of the revenue collected from adjustments under RSA 260:32-a for rates that exceed \$0.18 per gallon less required distributions under RSA 235:23, I, on said revenues.

On May 24, 2016, the State entered into the TIFIA financing agreement to fund the construction of the remaining portions of the I-93 project. The loan, established at a 1.09% rural TIFIA interest rate, will fund \$200 million in project costs along the I-93 corridor from Salem to Manchester, New Hampshire. The debt service payments are to be funded by a portion of the revenue collected from the increase in the road toll that was effective July 1, 2014. The road toll increase was projected to generate approximately \$34 million annually and generated \$35.8 million for fiscal year 2019. The increase will expire once all debt service payments for the I-93 project have been made and the financing is fully amortized (June 2034). The full \$200 million loan is expected to be drawn down monthly over the next several years. The State will pay interest only on the outstanding balance until 2025, when principal repayment will begin on a level debt service basis to maturity, June 1, 2034. The TIFIA loan agreement also requires that the State expend certain annual amounts of the increased road toll revenues on non-federally aided highway projects in the State. In the event, the State does not meet these requirements the interest rate on the loan will increase to 2.17% until the spending requirements are met. In addition, the TIFIA loan agreement provides for a default rate of interest equal to 3.09%. As of June 30, 2019 the amount drawn on the TIFIA loan was \$141.1 million on a GAAP accrual basis, which amount was \$18.5 million less than originally expected.

The table above does not include the outstanding TIFIA loan balance as of June 30, 2019 in order to reconcile Total Direct General Obligation Debt outstanding of \$754 million with scheduled Direct General Obligation Debt Service principal payments of \$754 million.

In addition to the debt presented above, at June 30, 2019, the State had short and long-term capital leases outstanding of \$2.9 million and \$12.9 million, respectively, 78% 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,				
	2015	2016	2017	2018	2019
Direct General Obligation Debt	\$ 918,168	\$ 827,558	\$ 806,138	\$ 785,384	\$ 754,424
Contingent (Guaranteed) Debt	85,988	80,366	73,495	69,766	73,736
Less: Self-Supporting Debt	(332,258)	(301,796)	(312,448)	(306,219)	(305,311)
Total Net General Fund Debt	671,898	606,128	567,185	548,931	522,849
Per Capita Debt ⁽¹⁾ :					
Direct General Obligation Bonds	\$691	\$620	\$604	\$585	\$558
Net General Fund Debt	\$506	\$454	\$425	\$409	\$386
Ratio of Debt to Personal Income ⁽¹⁾					
Direct General Obligation Bonds	1.27%	1.11%	1.08%	0.98%	0.91%
Net General Fund Debt	0.93%	0.81%	0.76%	0.69%	0.63%
Ratio of Debt to Estimated Full Value:					
Direct General Obligation Bonds	0.57%	0.50%	0.46%	0.43%	0.39%
Net General Fund Debt	0.42%	0.37%	0.33%	0.30%	0.27%
General Fund Unrestricted Revenues	1,397,673	1,528,800	1,503,190	1,595,673	1,622,002
Debt Service Expenditures ⁽²⁾	102,190	90,280	90,710	90,674	93,668
Debt Service as a Percent of General Fund Unrestricted Revenues	7.31%	5.91%	6.03%	5.68%	5.77%
Population (in thousands)	1,329	1,334	1,335	1,343	1,353
Total Personal Income (in millions)	72,541	74,388	74,687	80,122	83,143
Estimated Full Value (in thousands)	\$166,808,092	\$165,140,011	\$173,365,434	\$182,759,870	\$194,656,334

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

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

**Rate of Debt Retirement
as of June 30, 2018**

	General Obligation Debt	Net General Fund Debt
5 years.....	51%	52%
10 years.....	81	81
15 years.....	95	95
20 years.....	100	100

Recent Debt Issuances

In recent years, the State has issued bonds 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,				
	2015	2016	2017	2018	2019
Beginning Debt	\$ 956,406	\$ 918,168	\$ 827,558	\$ 806,139	\$ 785,384
Bonds Issued	151,144	0	118,260	70,855	63,410
Total Net Debt	1,107,550	918,168	945,818	877,024	848,794
Less: Bonds Paid	89,980	90,610	85,904	91,640	94,370
Defeasance	99,400	0	53,775	0	0
Ending Debt	\$ 918,168	\$827,558	\$806,139	\$ 785,384	\$ 754,424

TIFIA Loan

See the discussion above under the heading “Debt Statement” for information regarding the payment terms of this loan.

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, 2019. 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 \$117.5 million with expected subsidy payments of \$10.9 million over the remaining life of the bonds as of June 30, 2019. With the exception of 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 through 2019 and is expected to cause further reductions in fiscal year 2020 and beyond. The result in State fiscal year 2019 was a reduction of \$177,541 in subsidy interest payments on general obligation bonds. See “STATE FINANCES – State Revenues – Federal Sequestration.”

Direct General Obligation Debt as of June 30, 2019⁽¹⁾ (In Thousands)

<u>Fiscal Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	\$ 94,120	\$ 32,418	\$126,538
2021	82,025	28,099	110,124
2022	76,805	24,670	101,475
2023	67,360	21,043	88,403
2024	62,115	17,894	80,009
2025	58,925	15,087	74,012
2026	51,030	12,687	63,717
2027	46,910	10,386	57,296
2028	41,115	8,370	49,485
2029	33,980	6,518	40,498
2030	30,590	5,013	35,603
2031	22,555	3,802	26,357
2032	15,890	2,913	18,803
2033	17,330	2,294	19,624
2034	15,095	1,623	16,718
2035	14,924	1,058	15,982
2036	7,730	686	8,416
2037	8,195	394	8,589
2038	5,195	184	5,379
2039	2,535	51	2,586
Total	\$754,424	\$195,190	\$949,614

⁽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.

The State Treasury does not currently anticipate any temporary borrowings in fiscal years 2020 or 2021.

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, 2019, 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 bonds issued in May 2012 will be fully paid in September 2020. 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 and Sarah Mildred Long Bridge have been replaced and are in operation, with the cost split between New Hampshire and Maine. New Hampshire did not use GARVEE bonds as a means of financing the construction cost of either bridge. The New Hampshire Ten Year Transportation Improvement Plan 2017-2026, Chapter 324 of the Laws of 2016, modified RSA 228-A:2 to issue GARVEE bonds for 2 Connecticut River bridges located in Lebanon, New Hampshire and Hinsdale, New Hampshire. GARVEE bonds were not used to fund the Lebanon, New Hampshire bridge and bonding for these projects is not anticipated until State fiscal year 2021.

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

<u>Purpose</u>	<u>Guarantee Limit as of June 30, 2019</u>	<u>Remaining Guarantee Capacity as of June 30, 2019</u>
Local Water Pollution Control Bonds	\$50.0 million ⁽¹⁾⁽²⁾	\$50.0 million
Local School Bonds	95.0 million ⁽¹⁾⁽²⁾	73.3 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	115.0 million ⁽¹⁾⁽⁴⁾	58.3 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. See, for example, “LITIGATION – Other Matters - *Potential Claims Relating to PFAS Environmental Issues.*”

The following table sets out the State’s capital budget appropriations and bonds authorized for the 2020-21 biennium as authorized by Chapter 146, Laws of 2019.

Capital Appropriations and Bonds Authorized

	Biennium Ending June 30, 2021
Adjutant General	\$ 28,625,000
Administrative Services	23,345,000
Community-Technical College System	7,465,500
Corrections	7,404,000
Education	18,550,000
Environmental Services	23,861,670
Fish & Game	400,000
Health & Human Services	10,369,352
Information Technology	4,292,500
Judicial Branch	1,710,000
Liquor Commission	2,000,000
Pease Development Authority/Ports	756,250
Police Standards and Training	1,185,000
Natural and Cultural Resources	6,685,000
Safety	6,711,000
Transportation	106,373,987
University System of New Hampshire	10,000,000
Veteran’s Home	1,170,000
Gross Appropriations	<u>260,903,759</u>
Less-Federal, Local & Other Funds	<u>103,914,648</u>
Net Bonds Authorized	<u>\$156,989,111</u>
<u>Funding of Bonds</u>	
Highway Funded	\$ 24,245,150
Other Funded	7,762,000
General Funded	<u>124,981,961</u>
Net Bonds Authorized	<u>\$156,989,111</u>

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 to follow are as of June 30, 2019.

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 \$336 million of such bonds were outstanding as of June 30, 2019.

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 \$98 million of such bonds were outstanding as of June 30, 2019. 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, 2019, no bonds remain outstanding 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 and are guaranteed by the State. As of June 30, 2019, no bonds remain outstanding under this program.

State Guaranteed Local School Bonds. The Governor with the advice and consent of the Council may agree to award an unconditional State guarantee for the payment of not more than \$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, 2019, \$21.7 million of principal and interest was guaranteed under this program. This amount includes approximately \$18 million of principal due on such bonds.

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, 2019, all previously outstanding bonds guaranteed under this program have 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, 1993, and 2015 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. As of June 30, 2019, \$20 million of such guaranteed bonds were outstanding, all of which mature on November 1, 2020. The Authority expects to refinance these bonds with State guaranteed refunding bonds to be issued prior to the maturity date.

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; \$13.8 million of such guaranteed revenue bonds were currently outstanding as of June 30, 2019.

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 \$115 million at any time.

As of June 30, 2019, \$27.4 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.

Pursuant to legislation enacted with the state budget in September 2019, the Authority may recommend that the Governor and Council award State guarantees of certain indebtedness of businesses located in unincorporated areas of the state, but the total principal amount of indebtedness guaranteed for such purposes may not exceed \$30 million at any time. This \$30 million is calculated separately from and unrelated to the aforementioned \$115 million.

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, 2019, the Pease International Tradeport had 4.86 million square feet of new or renovated office/R&D/manufacturing space with over 250 companies employing more than 10,500 direct hires with another 5,125 indirect hires resulting from companies not located at Pease but doing business with companies at Pease.

As of June 30, 2019, PDA was 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, 2019 was \$48.9 million. The \$105.0 million unconditional State guarantee was 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 PDA comprehensive development plan for a research district at the PDA. Bonds have never been issued under these statutory provisions, and the authority to issue the \$35.0 million of State-guaranteed development bonds was repealed by Chapter 346, Laws of 2019.

The remaining 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. Under this program, there is currently no debt outstanding; however, there remains capacity to borrow up to \$48.9 million on a one-time basis pursuant to this guarantee.

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, 2019, no outstanding debt was guaranteed under this program.

New Hampshire Municipal Bond Bank. The New Hampshire Municipal Bond Bank (“NHMBB”) 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. As of June 30, 2019, the amount of bonds issued and outstanding pursuant to the NHMBB reserve fund requirement totaled \$796.3 million.

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 nonprofit educational and healthcare facilities; 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 enterprise revenues.

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 both a cost-sharing multiple-employer pension plan (the "Pension Plan") and a medical subsidy plan (the "Medical Subsidy Plan" 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, 2019, there were approximately 48,288 active, 2,552 inactive vested, 12,530 inactive non-vested, and 38,352 retired members of the System. The System provides service, disability, death and vested deferred pension retirement benefits to its members and their beneficiaries. The Medical Subsidy Plan provides 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 some part of 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 System flows back to the State. See "HEALTH CARE COVERAGE FOR RETIRED EMPLOYEES."

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 plan through the Medical Subsidy Plan. The Medical Subsidy Plan is 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. Under current law, the cash outflow necessary to make benefit payments will continue until all benefits are paid. By law effective July 1, 2011, the maximum benefit payable is capped and the subsidy amount is not to be increased, provided, however, that all legislative provisions are subject to amendment or modification, within constitutional limits. Medical subsidy payments are made directly to former employers (State and local governments) 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. For information regarding additional health care benefits provided directly by the State for retired employees, see "HEALTH CARE COVERAGE FOR RETIRED EMPLOYEES" below.

Additional information pertaining to the Pension Plan is contained in the State's audited financial statements for the year ended June 30, 2019 at note 11 and in the Required Supplementary Information about the System (page 106), which financial statements are included as Exhibit A to this Information Statement. The System's audited financial statements for the year ended June 30, 2019 are also included in the State's Comprehensive Annual Financial Report for the year ended June 30, 2019 (the "2019 State CAFR"), which report is also incorporated herein by reference and may be accessed at <https://das.nh.gov/accounting/reports.asp>. The 2019 State 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 its web site at www.nhrs.org. Currently available reports include the System's Comprehensive Annual Financial Report for the year ended June 30, 2019 (the "2019 System CAFR") and CAFR Schedules, GASB Statement Nos. 67 and 74 Plan Reporting and Accounting Schedules June 30, 2019, both available at <https://www.nhrs.org/funding-and-investments/reports-valuations/annual-report-archive>, along with the most recent full actuarial valuation, the Actuarial Valuation Report as of June 30, 2017 (the "2017 Actuarial Valuation"). The 2011-2015 Experience Study, which is the most recent available actuarial experience study, is also available at that website location. 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 2015 Actuarial Valuation on September 13, 2016, and used that valuation to certify the employer contribution rates for the 2018-2019 biennium at that same meeting. The Board of Trustees (the "Board") accepted the 2017 Actuarial Valuation on September 11, 2018, and used that valuation to certify the employer contribution rates for the 2020-2021 biennium at that same meeting.

At its December 10, 2019 meeting, the Board accepted the 2019 System CAFR, which included certain preliminary 2019 actuarial valuation results. The final 2019 actuarial valuation (the "2019 Actuarial Valuation") is expected to be accepted by the Board at its August 2020 meeting, which is customary for rate setting valuations that occur in odd-numbered years.

See also *Results of Actuarial Valuations* and *GASB Statements No. 67 and 68* below.

Financing

The financing of the System is provided through both member and employer contributions from the State and political subdivisions. 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 to the same extent as is certified."

The Pension Plan is divided into two membership groups. Group I consists of State and local employees and teachers. Group II consists of firefighters and police officers. The Medical Subsidy Plan is divided into four membership 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 a one-time payment 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. As a result of significant legislative changes made in 2011 to pension eligibility, benefits and other provisions, 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 budgets adopted for fiscal years after 2013 did not include any State funding for local employer contributions. See “*Total Employer Contributions to NHRS*” tables below.

Chapter 224, Laws of 2011 included many changes to eligibility and pension benefits, primarily for new members and members that were not vested as of January 1, 2012. These changes were 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 used to calculate pension benefits will be calculated using the highest five years’ salary rather than the 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.

The Actuarially Determined Contribution (“ADC”) (formerly referenced as the Annual Required Contribution or ARC) from the State to the NHRS shown below represents both Pension Plan and Medical Subsidy Plan 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 ADC	State Share			State Share % of Total	Local Share	Local Share % of Total
			For State Employees	On Behalf of Local	Total			
2021	\$503.7	100%	\$98.7	\$0.0	\$98.7	20%	\$405.0	80%
2020	488.8	100%	95.6	0.0	95.6	20%	393.2	80%
2019	479.9	100%	97.4	0.0	97.4	20%	382.5	80%
2018	466.9	100%	92.8	0.0	92.8	20%	374.1	80%
2017	425.8	100%	90.2	0.0	90.2	21%	335.6	79%
2016	415.7	100%	87.1	0.0	87.1	21%	328.6	79%
2015	381.2	100%	85.0	0.0	85.0	22%	296.2	78%
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%

Starting in fiscal year 2007, changes were made to the way the Medical Subsidy Plan was accounted for and funded. For years prior to fiscal year 2008, and in accordance with State statute, 25% of employer contributions were credited to the 401(h) Medical Subsidy Subtrust 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, 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 Plan. At the time such rates were certified in 2005, the NHRS Board of Trustees was not aware that the Pension Plan would only be credited with 75% of the ARC for fiscal years 2008 and 2009.

2011-2015 Experience Study

On May 10, 2016 the Board of Trustees accepted an actuarial experience study (the “2011-2015 Experience Study”) for the period July 1, 2010 through June 30, 2015. The 2011-2015 Experience Study contains related information regarding the System and can be accessed in its entirety at <https://www.nhrs.org/docs/default-source/actuarial/july-1-2010---june-30-2015-experience-study.pdf?sfvrsn=4>. In addition to demographic and economic assumptions recommended by the System’s actuary, significant recommendations included reducing the 7.75% investment rate of return to within a range of 7.0% to 7.5% and reducing the 3.75% assumed payroll growth to within a range of 3.0% to 3.50%. The Board of Trustees voted on May 10, 2016 to adopt 7.25% as the assumed rate of return and a 3.25% payroll growth rate for all member groups except teachers, which was reduced to 2.75%, for developing the 2017 Actuarial Valuation.

2016-2019 Experience Study

On December 10, 2019, the Board of Trustees, in response to a recommendation from the System’s actuarial consultant, voted to initiate the next actuarial experience study earlier than required to cover the four year period July 1, 2015 through June 30, 2019 (the “2016-2019 Experience Study”). This action was taken to undertake the experience study in conjunction with the 2019 Actuarial Valuation. This decision will allow any changes in actuarial assumptions to be factored into the 2019 Actuarial Valuation, which will be used to set the required contribution rates for fiscal years 2022 and 2023. The Board expects to vote on any proposed revisions to actuarial assumptions prompted by the 2016-2019 Experience Study at a meeting in the early summer of 2020, to accept the 2019 Actuarial Valuation report at its August 2020 meeting, and then to use the 2019 Actuarial Valuation to certify rates at the Board’s September 2020 meeting.

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. For example, the 2017 Actuarial Valuation was used to set required contributions for fiscal years 2020 and 2021, and the 2019 Actuarial Valuation, when complete, will be used to certify required contributions for fiscal years 2022 and 2023.

The 2018 Interim Actuarial Valuation was accepted by the Board at its December 11, 2018 meeting. The net assets at actuarial value available to pay pension benefits was reported to be \$8,710.9 million. The market value of pension net assets as of June 30, 2018 was approximately \$126.0 million more than the actuarial value. The total pension accrued liability at June 30, 2017 was \$13,703.1 million, resulting in an unfunded accrued actuarial liability (“UAAL”) at June 30, 2018 of \$4,992.2 million and a funded ratio of 63.6%. The 2017 Actuarial Valuation was accepted by the Board at its September 11, 2018 meeting and the valuation was used to certify employer contribution rates for the fiscal year 2020-2021 biennium. The net assets at actuarial value available to pay pension benefits was reported to be \$8,165.7 million. The market value of pension net assets as of June 30, 2017 was approximately \$88.3 million more than the actuarial value. The total pension accrued liability at June 30, 2017 was \$13,208.9 million, resulting in an unfunded accrued actuarial liability (“UAAL”) at June 30, 2017 of \$5,042.8 million and a funded ratio of 61.8%. Because the UAAL is being funded at a level percent of payroll over a closed period (21 years remaining at June 30, 2018), 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. Actuarial Valuations can be viewed in their entirety at <http://www.nhrs.org/funding-and-investments/reports-valuations/annual-report-archive>.

The actuary for the Plans uses several actuarial assumptions including the investment return rate at 7.25% (and 3.25% for Medical Subsidy Plan for funding purposes) and the payroll growth rate at 3.25% (2.75% for teachers). 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 investment returns on 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. For example, the use of the corridor in the 2009 actuarial valuations for the Plans lowered the actuarial value of assets that would have otherwise been established in its absence and thus raised the required employer contribution rates in fiscal years 2012 and 2013.

The NHRS medical subsidy UAAL with the actuarial assumptions accepted by the Board as part of the 2015 Experience Study was \$652.8 million as of June 30, 2018, which represented a decrease of approximately \$5.0 million as compared to the UAAL as of June 30, 2017 of \$657.8 million, which was a decrease of approximately \$45.1 million as compared to the UAAL as of June 30, 2016. This liability is separate and in addition to the State’s 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 System’s actuarial valuations during the years 2015-2018, which contain 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 7.25% and 3.25% (2.75% for teachers), respectively. These assumptions were used for the 2015 and 2017 valuations and will be examined as part of the 2016-2019 Experience Study. Beginning in fiscal year 2018, future gains and losses will be amortized using a layered amortization approach (which means gains and losses for each year are amortized for a period of up to 29 years. The assumptions for the investment rate of return and payroll growth used in the prior valuation were 7.75% and 3.75%, respectively, and were the assumptions used to determine the contributions required for fiscal years 2016 through 2019.

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

	<u>Pension Plan</u>	<u>Medical Subsidy Plan</u>
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*	7.25%	3.25%
Projected salary increases*	5.6%	5.6%
<i>*Includes Price Inflation at</i>	2.5%	2.5%
Rate of Payroll Growth	3.25% (2.75% for teachers)	3.25% (2.75% for teachers)
Valuation Health Care Trend Rate	N/A	N/A-The Medical Subsidy Plans provide a specific dollar subsidy to be used for health care. 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. The rates for 2018 and 2019 were certified by

the Board of Trustees on September 13, 2016. The rates for 2020 and 2021 were certified by the Board of Trustees on September 11, 2018.

**Combined Employer Contribution Rates for Pension Plan and Medical Subsidy Plan For
Fiscal Years 2014-2021 Certified by the NHRS Board**

	Certified			
	<u>2014 and 2015</u>	<u>2016 and 2017</u>	<u>2018 and 2019</u>	<u>2020 and 2021</u>
Employees				
State	12.13%	12.50%	12.15%	11.93%
Political Subdivisions	10.77	11.17	11.38	11.17%
Teachers	14.16	15.67	17.36	17.80%
Police				
State	25.40	26.38	29.43	28.43%
Political Subdivisions	25.40	26.38	29.43	28.43%
Fire				
State	27.85	29.16	31.89	30.09%
Political Subdivisions	27.74	29.16	31.89	30.09%

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 2020 and 2021, the UAAL portion of the employer contribution rate for State Employees is 8.96%, for State police is 19.73% and State fire is 20.08%.

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 preliminary 2019 actuarial valuation information included in the CAFR Schedules, GASB Statement Nos. 67 and 74 Plan Reporting and Accounting Schedules June 30, 2019, which were used in connection with the 2019 System CAFR, projected that the UAAL payment for the pension plan would increase from approximately \$374 million in fiscal year 2020 to approximately \$631 million in fiscal year 2039, the last year of the amortization period. This projection assumes a 7.25% actuarial rate of return and these amounts will likely change when the final 2019 Actuarial Valuation is completed in August 2020. In addition, actual experience will likely differ from the assumptions used in each actuarial valuation and the actual amounts to be contributed with respect to “normal costs” and the UAAL amortization may be higher or lower than currently projected and, depending upon actual future circumstances, such variances could be material. The State’s share of total employer contributions to the System for the year ended June 30, 2019 was approximately 20% and is expected to remain at 20% for fiscal years 2020 and 2021. The State’s share in future years may vary. See “*GASB Statements No. 67 and 68*” below.

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 Plan. Fiscal year 2011 legislation authorized the transfer of all but funds needed to pay the temporary supplemental annuity (TSA) 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. Fiscal year 2018 legislation authorized a TSA payment to retirees that met certain criteria. This TSA was generally funded by the State at a cost of \$3.9 million and was paid to approximately 7,795 eligible retirees. The actuarial funding status as of June 30, 2018 is based upon the 2018 Interim Actuarial Valuation accepted by the Board at the December 11, 2018 meeting. The actuarial valuation as of June 30, 2019 is expected to be presented to the Board in the summer of 2020. Preliminary information provided to the System indicates that the funded ratio as of June 30, 2019 was 64.8%; however, this ratio is subject to change when the final actuarial valuation as of June 30, 2019 is delivered, which valuation will reflect any assumption changes prompted by the 2016-2019 Experience Study and will be used for fiscal year 2022 and 2023 contribution rate setting purposes.

NEW HAMPSHIRE RETIREMENT SYSTEM
TEN YEAR HISTORY OF PENSION PLAN ACTUARIAL FUNDING STATUS
FISCAL YEARS 2010-2019
(All Dollar Amounts in Thousands)

Actuarial Valuation Date (June 30)	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio
2019	\$9,121,933	\$14,075,344	\$4,953,411	64.8%
2018	8,710,939	13,703,148	4,992,209	63.6
2017	8,165,684	13,208,449	5,042,765	61.8
2016	7,636,066	12,732,866	5,096,800	60.0
2015	7,280,761	12,303,636	5,022,875	59.2
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

Note: 2019 values are preliminary and were prepared for inclusion in the 2019 System CAFR. These amounts are subject to change in the final version of the 2019 Actuarial Valuation, which is expected to be accepted by the Board in August 2020.

Note: Liabilities were determined under the entry age normal actuarial cost method.

Source: Information for fiscal years 2016, 2017, 2018 and 2019 is shown in the CAFR Schedules and GASB 67 Plan Reporting and Accounting Schedules prepared by the System's actuary for each respective year. Information for fiscal year 2014 and 2015 are shown in the respective Actuarial Valuation reports. Information for fiscal years 2010 through 2013 is derived from the System's CAFR for the applicable years. The fiscal years 2013 through 2017 schedule of net pension liability using the new GASB 67 and 68 is shown in footnote 6, of the 2017 System CAFR and is not presented in this table. As a result, the information presented in this table will differ from that shown in the 2017 System CAFR.

NEW HAMPSHIRE RETIREMENT SYSTEM
TEN YEAR HISTORY OF MEDICAL SUBSIDY PLAN FUNDING STATUS
FISCAL YEARS 2010-2019
(All Dollar Amounts in Thousands)

Actuarial Valuation Date (June 30)	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio
2019	\$36,646	\$657,597	\$620,951	5.6%
2018	36,777	689,577	652,800	5.3
2017	38,853	696,548	657,695	5.6
2016	27,350	730,132	702,782	3.7
2015	19,515	761,342	741,827	2.6
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

Note: 2019 values are preliminary and were prepared for inclusion in the 2019 System CAFR. These amounts are subject to change in the final version of the 2019 Actuarial Valuation, which is expected to be accepted by the Board in August 2020.

Note: Liabilities were determined under the entry age normal actuarial cost method.

Source: Information for fiscal years 2016, 2017, 2018 and 2019 is shown in the CAFR Schedules and GASB 67 Plan Reporting and Accounting Schedules prepared by the System's actuary for those respective years. Information for fiscal year 2015 is derived from the June 30, 2015 Actuarial Valuation Report with assumptions updated from the 2015 Experience Study; information for fiscal years 2010 through 2014 is derived from the System's CAFR for applicable years.

GASB Statements No. 67 and 68

GASB Statements No. 67 and 68, issued on June 30, 2012, set forth new standards that modified the accounting and financial reporting of the State's pension obligations. The standards for governments that provide employee pension benefits require the State to report in its statement of fiduciary 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 standards require immediate recognition of more pension expense than was previously required. The rate used to discount projected benefit payments to their present value is 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 or (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 Plan meets the criteria in (a) and the assumed rate of return of 7.75% as established by the Board was initially used as the discount rate. The new standards were effective for the System in fiscal year 2014 and for the State in fiscal year 2015. (See State of New Hampshire CAFR Notes to the Basic Financial Statements: Note 1, Section U and Note 11). NHRS has reflected the new GASB 67 requirements beginning in the fiscal year 2014 CAFR that was issued in December 2014. The initial GASB 68 report was issued using June 30, 2014 data. GASB 68 reports are available on the NHRS website at: <https://www.nhrs.org/employers/employer-resources/gasb/gasb-reports>.

The Pension Plan is a cost-sharing, multiple-employer plan. Accordingly, the State's obligation with respect to the Pension Plan is a proportionate share, as determined in accordance with GASB 67 and GASB 68. For the Pension Plan as a whole, the Total Pension Liability ("TPL") and Pension Plan's fiduciary net position reported as of June 30, 2019 were approximately \$13.982 billion and \$9.170 billion, respectively, resulting in a Net Pension Liability ("NPL") of approximately \$4.812 billion reported as of June 30, 2019. As of June 30, 2018 the TPL and fiduciary net position reported by the System were approximately \$13.652 billion and \$8.837 billion, respectively, resulting in an NPL of approximately \$4.815 billion reported as of June 30, 2018.

GASB 67 requires that a Pension Plan's reporting date must be identical to its measurement date; however GASB 68 allows employers to have a measurement date up to one year before their reporting date, so there is a one year lag between the Plan's reporting date and the State's reporting date. For the System's NPL reported as of June 30, 2019, the portion allocable to the State was approximately \$0.904 billion and will be reported in the 2020 State CAFR. For the System's NPL reported as of June 30, 2018 the portion allocable to the State was approximately \$0.887 billion and was reported in the 2019 State CAFR.

The System did not experience a "crossover date" in connection with determination of the NPL and accordingly, the measurement of the State's NPL for both fiscal years 2018 and 2019 assumes a 7.25% discount rate which is the same as the expected rate of return of Plan investments for the System. The rate of return on the market value of assets for the fiscal year ended June 30, 2018 was 8.9% and for the fiscal year ended June 30, 2019 was 5.7%.

The NPL can fluctuate up and down from year to year. The major contributors for fluctuations in the NPL are the difference between the projected and actual earnings on investments, the difference between expected and actual experience, changes in benefits and changes in assumptions.

Implementation of GASB 68 also requires setting forth the sensitivity of the NPL using an assumed discount rate that is one percentage point lower and one percentage point higher than the current rate. For the State's portion of the Plan's NPL reported as of June 30, 2019, a 1% decrease in the discount rate would increase the State's NPL from \$0.904 billion to approximately \$1.211 billion while a 1% increase in the discount rate would decrease the State's NPL to approximately \$0.651 billion. For the Plan's reported NPL as of June 30, 2018, a 1% decrease in the discount rate would increase the State's NPL from \$0.887 billion to approximately \$1.180 billion and a 1% increase would lower it to approximately \$0.641 billion.

While GASB 68 changes the way state and local governments report pension benefits in their financial statements it does not impact pension funding requirements or contribution amounts. To date, the State has

generally contributed to the System 100% of the amounts required to be so contributed, as determined in accordance with actuarial valuations.

GASB Statements No. 74 and 75

GASB Statements No. 74 and 75, issued on June 30, 2015, set forth new standards that modified the accounting and financial reporting of the State's Postemployment Benefit Plans Other Than Pension Plans (OPEB), including the System's Medical Subsidy Plan. See "HEALTH CARE COVERAGE FOR RETIRED EMPLOYEES" for information regarding the State's OPEB liability. The following discussion in this section pertains to the System's Medical Subsidy Plan.

The new standards for governments that provide postemployment benefits other than pensions require the State to report in its statement of fiduciary net position a net OPEB liability, defined as the difference between the total OPEB 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 OPEB to current employees, retirees and their beneficiaries. The new standards require immediate recognition of more OPEB expense than was previously required. The rate used to discount projected benefit payments to their present value is 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 OPEB of current employees, retirees and beneficiaries and the OPEB plan assets are expected to be invested using a strategy to achieve that return or (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 Medical Subsidy Plan meets the criteria in (a) and the assumed rate of return of 7.25% as established by the Board was used as the discount rate. The new standards were effective for the System in fiscal year 2017 and for the State in fiscal year 2018. NHRS has reflected the new GASB 74 requirements beginning in the System's fiscal year 2017 CAFR that was issued in December of 2017 and continued into the 2018 System CAFR issued in December of 2018. In June of 2018, the initial GASB 75 report was issued with a reporting date of June 30, 2017 using June 30, 2016 data, and in January of 2019 the GASB 75 report with a reporting date of June 30, 2018 was issued. GASB 74 and 75 reports are available on the NHRS website at: <http://www.nhrs.org/employers/employer-resources/gasb/gasb-reports>.

The Medical Subsidy Plan is a cost-sharing, multiple-employer plan. Accordingly, the State's obligation with respect to the Medical Subsidy Plan is a proportionate share, as determined in accordance with GASB 74 and GASB 75. For the Medical Subsidy Plan as a whole, the Total OPEB Liability ("TOL") and Medical Subsidy Plan's fiduciary net position reported as of June 30, 2019 were approximately \$475.3 million and \$36.8 million, respectively, which results in a Net OPEB Liability ("NOL") of approximately \$438.4 million as of June 30, 2019. As of June 30, 2018, the TOL and Medical Subsidy Plan's fiduciary net position reported were approximately \$495.2 million and \$37.3 million, respectively, which results in a Net OPEB Liability ("NOL") of approximately \$457.8 million as of June 30, 2018. GASB 74 requires that System's Medical Subsidy Plan reporting date must be identical to its measurement date; however GASB 75 allows employers to have a measurement date up to one year before their reporting date, there is a one year lag between the System's Medical Subsidy Plan reporting date and the State's reporting date. For the System's TOL reported as of June 30, 2019, the portion allocable to the State was approximately \$90.4 million and will be reported in the 2020 State CAFR. For the System's TOL reported as of June 30, 2018, the portion allocable to the State was approximately \$92.4 million and was reported in the 2019 State CAFR.

The System did not experience a "crossover date" in connection with determination of the NOL and accordingly, the measurement of the State's NOL for fiscal year 2017 assumes a 7.25% discount rate, which is the same as the expected rate of return of Pension Plan investments for the System. The dollar weighted rate of return on the market value of assets for the fiscal year ended June 30, 2018 was 8.77% and for the fiscal year ended June 30, 2019 was 5.58%. This dollar weighted measure may differ from the performance returns listed in the Investment section below.

The NOL can fluctuate up and down from year to year. The major contributors for fluctuations in the NOL are the difference between the projected and actual earnings on investments, the difference between expected and actual experience, changes in benefits and changes in assumptions.

Implementation of GASB 75 also requires setting forth the sensitivity of the State’s NOL using an assumed discount rate that is one percentage point lower and one percentage point higher than the current rate. For the State’s portion of the Medical Subsidy Plan’s NOL reported as of June 30, 2019, a 1% decrease in the discount rate would increase the State’s portion of the NOL from approximately \$90.4 million to approximately \$98.1 million while a 1% increase in the discount rate would decrease the State’s NPL to approximately \$83.8 million. For the NOL reported as of June 30, 2018, a 1% decrease would increase the State’s portion of the NOL with respect to the Medical Subsidy Plan from approximately \$92.4 million to approximately \$96.1 million and a 1% increase would lower it to approximately \$81.8 million. GASB 74 also requires setting forth the sensitivity of the NOL to the healthcare cost trend assumption. However, since the Medical Subsidy benefits are a fixed stipend, there is no sensitivity to change in the healthcare cost trend assumption and no such analysis is required.

While GASB 75 changes the way state and local governments report postemployment benefits other than pensions in their financial statements, it does not impact OPEB funding requirements or contribution amounts. To date, the State has generally contributed to the System 100% of the amounts required to be so contributed, as determined in accordance with actuarial valuations. The GASB 75 report issued by the System is solely limited to liabilities attributable to the Medical Subsidy Plan and does not include other medical benefit liabilities for insurance provided to State employees or retirees. See “HEALTH CARE COVERAGE FOR RETIRED EMPLOYEES.”

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 statutorily required 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, 2019 was approved and accepted by the NHRS Board of Trustees at its December 10, 2019 meeting.

The target allocation and range for each asset class, as most recently adopted by the Board on May 14, 2019 are as follows:

<u>Asset-Class</u>	<u>Target Allocation</u>	<u>Allocation Range</u>
Domestic Equity	30%	20 – 40%
Non-U.S. Equity	20	15 – 25
Fixed Income	25	20 – 30
Real Estate	10	5 – 20
Alternative Investments	15	5 – 25

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

Annualized Investment Returns

<u>Asset Class</u>	<u>Percent of Assets</u>	<u>Periods Ending June 30, 2019</u>			
		<u>1-Year</u>	<u>3-Years</u>	<u>5-Years</u>	<u>10-Years</u>
Total Fund	100.0%	5.7%	9.3%	6.4%	9.9%
<i>Total Fund Custom Index</i>		7.6%	9.1%	6.8%	10.0%
Domestic Equity	28.0%	6.0%	13.2%	9.1%	13.9%
<i>Domestic Equity Blended Benchmark*</i>		10.4%	14.2%	10.7%	14.9%
Non-US Equity	18.5%	2.1%	9.8%	3.4%	7.4%
<i>Non-US Equity Blended Benchmark*</i>		1.3%	9.4%	2.2%	6.5%
Fixed Income	24.1%	6.4%	3.5%	2.8%	5.2%
<i>Fixed Income Blended Benchmark*</i>		8.1%	2.8%	3.2%	4.4%
Real Estate	10.1%	7.1%	8.9%	10.7%	10.9%
<i>Real Estate Blended Benchmark*</i>		5.5%	6.6%	8.8%	9.5%
Alternative Investments	18.2%	6.9%	9.9%	7.4%	7.7%
<i>Alternative Investments Blended Benchmark*</i>		8.8%	9.8%	9.3%	12.1%
Cash	1.1%	2.3%	1.5%	0.9%	0.5%
<i>91 Day Treasury Bills</i>		2.3%	1.4%	0.9%	0.5%

* 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. Assets are 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 2009 to 2018**

<u>Fiscal Year</u>	<u>Actuarial Rate of Return</u> (Per Actuarial Valuation Reports) ⁽¹⁾	<u>Actuarial Value of Assets</u> (in thousands)	<u>Market Value Rate of Return</u> (NHRS CAFRs)	<u>Market Value of Assets</u> (in thousands)
2019	6.55%	\$9,158,579	5.7%	\$9,207,615
2018	8.40	8,747,715	8.9	8,874,175
2017	9.11	8,204,537	13.5	8,293,261
2016	6.83	7,663,416	1.0	7,460,945
2015	10.72	7,300,276	3.5	7,530,056
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

⁽¹⁾ Fiscal years 2016 and later actuarial information in the table above is from the respective CAFR & GASB 67 Plan Reporting & Accounting Schedules. The fiscal year 2015 actuarial information is from the June 30, 2015 Actuarial Valuation Report with assumptions updated from the 2015 Experience Study. Both reports were prepared by the System's actuarial consultant.

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. 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 \$9.1 billion as of June 30, 2019. (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.) For the twelve months ending June 30, 2019, the System's total fund net-of-fees investment return (at market) was 5.7%. 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.

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.

The 2020 legislative session has begun, and there have been some proposals that if passed would impact the System. These proposals included potential legislation that would:

- Push back the current recalculation of a Group I retiree's pension benefit at age 65 to the member's full retirement age under the federal Social Security system.
- Establish a committee to study ensuring workforce maintenance through enhancement of the retirement system.
- Change the application of 2011 amendments to certain Group II retirement system provisions to apply to Group II members who are vested prior to July 1, 2021.

The 2019 legislative session included, but was not limited to, legislation that:

- Granted a 1.5% cost-of-living adjustment (COLA) on the first \$50,000 of the pension benefit to retirees who retired on or before July 1, 2014, or any beneficiary of such member who is receiving a pension benefit. The COLA will take effect on the retired member's first anniversary date occurring after July 1, 2020.
- Required that the annual costs to the retirement system of preparing statutorily required fiscal analysis of proposed legislation be reimbursed to NHRS by the state. These costs relate mainly to actuarial fees.
- Classified annual attendance stipends or bonuses as earnable compensation for NHRS provided that they are paid pursuant to a collective bargaining agreement, personnel policy, or other agreement applicable to substantially all employees and the amount of which is determined by reference to the amount of sick days an employee used in the calendar or fiscal year. The legislation also enabled summer adjunct wages earned by full-time community college faculty to be included as earnable compensation.

NHRS cannot predict what additional changes, if any, may be proposed or enacted into law in the current or future legislative sessions.

HEALTH CARE COVERAGE FOR RETIRED EMPLOYEES

In addition to pensions, many state and local governmental employers provide Other Post Employment Benefits (OPEB) as part of the total benefit component of compensation offered to attract and retain the services of qualified employees. OPEB includes postemployment healthcare, as well as other forms of postemployment benefits (for example, life insurance) when provided separately from a pension plan. From an accrual accounting perspective, the cost of OPEB, like the cost of pension benefits, generally should be associated with the periods in which the exchange occurs (matching principle), rather than with the periods (often many years later) when benefits are paid or provided. However, in current practice, most OPEB plans are financed on a pay-as-you-go basis.

GASB Statements No. 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 ("Medical Subsidy Plan"). GASB Statement No. 43 was replaced by GASB Statement No. 74 and was effective for NHRS's financial statements for the Fiscal Year 2017. Similar to GASB Statement No. 43, GASB Statement No. 74 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 required 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. GASB Statement No. 45 was replaced by Statement No. 75 and was effective for the Fiscal Year 2018 State CAFR. GASB Statement No. 75 requires the entire unfunded OPEB liability that is currently recognized in the footnotes of the State's financial statements for the State's self-funded employee and retiree health benefit program ("State OPEB Plan") to be recognized on the State's balance sheet.

GASB Statement No. 75 requires the State to record the Total OPEB Liability on its balance sheet, as the State does not have assets accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75. In calculating the Total OPEB Liability recorded as of June 30, 2019, the State used a measurement date of June 30, 2018, which was determined based upon the results of the actuarial valuation as of December 31, 2016 with updated assumptions required under GASB Statement No. 75, including the use of the Municipal Bond Index rate as the discount rate of 3.87% as of June 30, 2018, resulting in a Total OPEB Liability of \$1.9 billion. The State OPEB Plan is a single employer primary government with component units plan, therefore, the State, as the primary government, has recorded a Total OPEB Liability on its balance sheet of \$1.8 billion as of June 30, 2019. The remaining amount of \$109 million is allocable to component units of the State. Effective January 1, 2019, the State implemented a Medicare Advantage Plan which resulted in a \$183 million decrease in the Total OPEB liability as of June 30, 2019.

GASB Statement No. 75 also requires the State to record its proportionate share of the Net OPEB Liability (NOL) of the NHRS Medical Subsidy Plan discussed earlier. NHRS administers a cost-sharing multiple employer

defined benefit postemployment healthcare plan for qualified retired members. This plan has assets accumulated in a trust that meet the criteria in paragraph 4 of GASB Statement No. 75. Therefore, the State has recorded a NOL of \$92.4 million as of June 30, 2019 for its share. The State's proportionate share of 20.2% represents the projected long-term share of contributions to the Medical Subsidy Plan relative to the projected contributions of all participating entities, as determined by NHRS actuaries.

The State OPEB Plan is administered under State law which 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 OPEB Plan. As required by RSA 21-I:30-b, (I)a, the Fund includes a reserve equal to at least 3% of the estimated annual self-insured claims and administrative expenses. However, as a result of claims volatility the State currently maintains a statutory reserve of 5% of estimated annual self-insured claims and administrative expenses for the Retiree Health account. In addition as required by law, the State maintains an incurred but not reported amount that is calculated by the State's actuary. The State maintains amounts that exceed the required reserve as cash flow reserve and, if appropriate, the State implements a working rate holiday or adjusts the working rate in order to spend-down the cash flow reserve.

In the past, eligible retirees did not contribute toward the cost of health care. However, effective July 1, 2009, retirees on the non-Medicare eligible plan (typically those under the age of sixty-five) contributed \$65 per month per covered retiree or spouse. From July 1, 2011 to December 31, 2015, the premium contribution changed from this flat dollar amount to a percentage amount equal to twelve and one-half percent (12.5%) of the total monthly premium for each retiree and spouse. From January 1, 2016 to September 30, 2017, the premium contribution percentage increased to seventeen and one-half percent (17.5%) of the total monthly premium. Beginning October 1, 2017, the premium contribution percentage increased in the State's budget and trailer bill to twenty percent (20%) of the total monthly retiree health premium. As of January 1, 2020, the non-Medicare premium contribution is \$198.94 per covered retiree or spouse.

On February 8, 2017, New Hampshire Department of Administrative Services submitted a draft Long Term Study of Retiree Health Benefits prepared by the Segal Company, the State's health care consultant and actuary, to the members of the Joint Legislative Fiscal Committee. This study identified the following strategies for managing the state's short-term and long-term Retiree Health Benefits costs: (1) implementing a private Medicare exchange with a defined contribution to a Health Reimbursement Account, (2) implementing a Medicare retiree premium cost share, (3) eliminating the Medicare retiree prescription drug plan, (4) eliminating Retiree Health Benefits for new hires or for spouses of future hires, (5) implementing a Medicare Advantage Plan, and (6) implementing a defined dollar amount for non-Medicare retirees. The Long Term Study of Retiree Health Benefits is available at <https://das.nh.gov/riskmanagement/rmu-reports.aspx>. After review of the proposed strategies, the Legislature implemented the Medicare retiree premium cost share in the fiscal year 2018-2019 budget.

The fiscal years 2018 and 2019 budget and trailer bill (HB 517: Chapter 0156, Laws of 2017) implemented one of the strategies identified in the Long Term Study of Retiree Health Benefits and established a first-ever premium contribution by Medicare-eligible State retirees. Effective January 1, 2018, retirees and spouses enrolled in the Medicare eligible plan with a date of birth on or after January 1, 1949 are required to contribute ten percent (10%) of the monthly premium. The calendar year 2019 monthly premium contribution for Medicare-eligible retirees/spouses who were born January 1, 1949 or later is \$32.04. As of December 2019, approximately 3,500 retirees and spouses pay the 10% Medicare premium contribution out of approximately 10,000 total Medicare retirees and this number will grow in coming fiscal years as the number of retirees/spouses born on or after January 1, 1949 increases. The calendar year 2020 monthly premium contribution for Medicare eligible retirees/spouses born on or after January 1, 1949 remains \$32.04 per retiree/spouse.

There are two ways the Non-Medicare and Medicare premium contribution amounts can change. As was enacted in the budget trailer bill, the Legislature can amend State law that defines the amount of the premium contribution. In addition, the Joint Legislative Fiscal Committee that generally meets monthly has the authority to approve changes to the non-Medicare and Medicare premium contribution amounts. 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 (Police and Fire) 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 \$90.6 million to cover approximately 12,500 retirees and dependents in fiscal year 2019 on a pay-as-you-go (cash) basis. The State does not pre-fund OPEB costs. However, in 2013, the State passed a law authorizing the creation of an OPEB trust account in which resources could accumulate for purposes of funding retiree health benefits. To date no funds have been paid into the trust.

In 2014, 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. To comply with GASB Statement No. 75, Segal provided the State with a GASB Statement No. 75 Accounting Valuation Report for Reporting Date June 30, 2019. GASB Statement No. 75 does not mandate the prefunding of postemployment benefit liabilities. The State currently plans to only partially fund Retiree Health Benefits on a pay-as-you-go basis, at an actuarially determined rate. The pay-as-you-go contributions made in fiscal year 2019 were \$51.3 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” on the following page. NHRS medical subsidy payments are not included because the related obligation is excluded from the calculation of the Net OPEB Liability for the Retiree Health Benefit Plan. In addition, Employer Group Waiver Plan Subsidies (EGWP), the federal subsidies received for sponsoring a Medicare Prescription Drug Plan (Part D), are excluded pursuant to guidance promulgated by GASB Statement No. 75. Other small differences will exist because of timing between cash and accrual basis of accounting.

In accordance with GASB 75, the Total OPEB Liability for the State’s primary government and component units, which was measured as of June 30, 2018 was \$1.9 billion. With no actuarial value of assets this results in a Net OPEB Liability of \$1.9 billion, as compared to a Net OPEB Liability as of June 30, 2017, updated under GASB 75, of \$2.2 billion. The decrease in the Net OPEB Liability is primarily due to the implementation of a fully insured Medicare Advantage Plan effective January 1, 2019. The decrease in the Total OPEB Liability is also due to an increase in the discount rate, required by GASB 75, from 3.58% as of June 30, 2017 to 3.87% as of June 30, 2018. The GASB 75 updated report assumes a salary scale, mortality, disability, turnover and retirement rates consistent with NHRS based on its 5-Year Experience Study of July 1, 2010 through June 30, 2015. This amount does not include the State’s share of the UAAL from the NHRS Medical Subsidy plans discussed below.

During December 2019, the State issued its biennial OPEB valuation report for the State Retiree Health Plan as of December 31, 2018. The actuarial valuation reflects a Net OPEB Liability for the State and component units of \$1.8 billion, which will be reported in the State’s annual financial statements for the fiscal year ending June 30, 2020. This is a \$0.1 billion decrease from the Net OPEB Liability reported in the State’s annual financial statements for the fiscal year ended June 30, 2019. The most recent complete State OPEB Plan liability actuarial valuation as of December 31, 2018, dated December 20, 2019, is posted to the State’s website at <https://das.nh.gov/riskmanagement/rmu-reports.asp>.

As described above under “STATE RETIREMENT SYSTEM,” the NHRS currently provides medical subsidy payments to the State Retiree Health Benefit Plan 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. As of June 30, 2018 the NHRS Medical Subsidy Plan was 5.3% funded; 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 to the Retiree Health Benefit Plan. In the June 30, 2019 CAFR, the State

reported a net OPEB liability of \$92.4 million for its proportionate share of the NHRS Medical Subsidy Net OPEB liability, which was reported by NHRS as of June 30, 2018.

**State Retiree Health Funding Sources
(\$ in millions)**

<u>Fiscal Year</u>	<u>General Fund</u>	<u>Self-Supporting Agencies</u>	<u>NHRS Medical Subsidy</u>	<u>Other Sources (i.e. Rebates, Rx Subsidies, Retiree Contrib.)</u>	<u>Total Revenue</u>	<u>Total Costs</u>
2019	\$31.1	\$17.5	\$11.4	\$27.8	\$87.8	\$90.6
2018	35.6	20.7	12.0	24.9	93.2	88.4
2017	33.3	19.9	12.3	23.4	88.9	84.8
2016	32.5	19.3	12.8	19.4	84.0	85.4
2015	33.8	16.3	13.1	16.7	79.8	79.0
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

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. In June 2017 the Commission fulfilled its duties relative to the OPEB Valuation as of December 31, 2016.

In preparation for the fiscal year 2018 CAFR OPEB reporting under GASB 75, the Retiree Health Commission reconvened on July 25, 2018, to review the updated assumptions that the State's actuaries used to update the State's OPEB valuation as of December 31, 2016 for the fiscal year 2018 CAFR. GASB 75 requires changes to the discount rate assumption (from the long-term expected yield on the State's assets to the yield for a 20-year, tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher) and the actuarial calculation method assumption that were approved at the prior Retiree Health Commission meeting on June 28, 2017. Additionally, the State's actuaries suggested a lower prescription drug trend (11% to 9%) in assumption due to lower prescription drug trends industry wide. The lower prescription drug trend is consistent with the State's recent prescription drug experience and the Retiree Health Benefit fiscal years 2020-2021 Budget Rates. The Retiree Health Commission members voted unanimously to accept the updated OPEB assumptions for the fiscal year 2018 CAFR. The Commission reconvened on October 15, 2019 to review the updated assumptions that the State's actuaries used to prepare the GASB 75 Accounting Valuation Report for the fiscal year 2019 CAFR, as well as to approve the assumptions to be used in calculating the State's OPEB valuation as of December 31, 2018.

STATE RETIREE HEALTH BENEFITS PLAN CHANGES

Over the last few years, the State has successfully managed and addressed funding challenges for Retiree Health Benefits. In June 2015, DAS projected a \$10.6 million deficit in the Retiree Health Benefits budget based off of a \$5.6 million budget shortfall, an unanticipated \$4 million projected increase in pharmacy costs following an industry-wide increase in pharmacy cost trends from 8% to 13%, and an unanticipated decrease of approximately \$1 million in Employer Group Waiver Program (EGWP) revenues, in this case federal Medicare prescription drug subsidies. Between July and October 2015, DAS worked with the Joint Legislative Fiscal Committee over the course of five Fiscal Committee meetings to manage this projected deficit. In October 2015, the Fiscal Committee approved: (1) prescription drug plan copay and maximum out-of-pocket increases projected to save a total of \$2 million, and (2) an increase in the Non-Medicare eligible retiree premium contribution from 12.5% of premium to 17.5 % of premium projected to save \$2.8 million. The remaining budget shortfall of \$5.8 million plus the cost of

the Retiree Health Long Term Study (\$0.3 million) resulted in an estimated \$6.1 million budget shortfall for fiscal years 2016-2017. To address this shortfall, the Fiscal Committee approved transfers in fiscal years 2016 and 2017 totaling \$150,000 in General Funds from the DAS budget to the Retiree Health Benefit Plan and the release of \$800,000 from the Retiree Health Benefit Reserve account into the cash flow reserve. This was possible because the Retiree Health Benefit Plan held a \$5.4 million dollar cash flow reserve that had slowly accrued since calendar year 2012 due to better than projected claims experience that was available to close the gap.

As contemplated, DAS did use cash flow reserve funds during fiscal years 2016-2017 to meet retiree health expenses. In fiscal year 2016, DAS used \$574,000 in cash flow reserve to account for a deficit of General Funds in the Retiree Health account. Similarly, in fiscal year 2017, DAS used \$1.772 million in cash flow reserve to cover a deficit in General Funds.

The Legislature made further Retiree Health Benefit Plan changes in the fiscal year 2018 – 2019 budget and accompanying trailer bills to help manage the growing cost of the Retiree Health Benefit Plan. HB 517 amended RSA 21-I: 30 (Laws 2017 Chapter 156:6-10) effective January 1, 2018 to include a first-time ever 10% monthly premium contribution for Medicare retirees born on or after January 1, 1949. HB 517 also increased the monthly premium contribution percentage paid by Non-Medicare retirees from 17.5% to 20% effective October 1, 2017.

The fiscal years 2018-2019 Retiree Health Benefits budget totaled \$171.4 million, an increase of \$25.4 million over fiscal year 2017. The fiscal years 2018-2019 budget estimates were based on medical and pharmacy trends for the Medicare eligible and non-Medicare eligible Retiree Health Benefit Plans and a projected annual increase in plan enrollment. For fiscal years 2018 and 2019, the non-Medicare eligible retiree plan projected medical trend was 5% and the Medicare eligible retiree plan projected medical trend was 2.5%. The projected pharmacy trend for all retiree health benefit plans was 13% for fiscal years 2018 and 2019. The total budget also included a 4% annual increase in enrollment in the Medicare eligible retiree plan in fiscal years 2018 and 2019. The \$25.4 million increase included a \$14 million increase in General Funds, \$8 million increase in retiree premium contributions, and \$3.4 million increase in other funds.

Fiscal years 2018 and 2019 claims experience have come in lower than projected and the Retiree Health Budget lapsed approximately \$14.8 million to the General Fund at the end of the biennium. Additionally, the favorable claims experience has resulted in cash flow reserves of approximately two months of projected annual self-insured expenses. Considering the historical increase in the Retiree Health Benefit cash flow reserve and projected claims through the end of calendar year 2018, the State implemented a one time, one month, working rate (premium) holiday for the Retiree Health Benefit Plan in October 2018. The Retiree Health Benefit Plan holiday spent down a total of \$5.4 million in retiree cash flow reserves which equaled approximately \$1.7 million General Fund savings, \$2.95 million Other State agency savings, \$700,000 retiree premium contribution savings, and \$77,000 savings to Legislators, retired Judges, and other self-payers enrolled in the Retiree Health Benefit Plan. In addition to the premium holiday, the calendar year 2019 non-Medicare working rates include an adjustment of \$3 million to decrease the calendar year 2019 working rate in an effort to reduce the retiree health cash flow reserve. As of June 30, 2019, the Retiree Health cash flow reserve equaled approximately \$9.9 million.

DAS continues to review and analyze cost containment options for the Retiree Health Benefit Plan. As such, Anthem, the State's medical TPA, presented the concept of a Medicare Advantage option for the State's Medicare eligible retirees to DAS in the fall of 2017. In 2018, implementation of a Medicare Advantage Plan was not a viable option because Anthem's New Hampshire Medicare Advantage network was inadequate. However, by early 2018 the Medicare Advantage network had grown and DAS worked with Anthem and Segal to review and analyze Medicare Advantage as an option for its retirees effective January 1, 2019. On June 20, 2018, Governor and Executive Council approved an amendment to the State's existing contract with the medical third party administrator, Anthem, which authorized the State, effective January 1, 2019, to replace the self-funded Medicare supplemental coverage with a fully-insured Medicare Advantage Plan (Medicare Part C plan). This was a change in the funding mechanism to provide medical benefits for the State's approximately 9,900 Medicare retirees and it did not in substance change the medical benefits coverage that Medicare retirees received prior to the Medicare Advantage Plan. As a group Medicare Advantage plan, Anthem provides State retirees with an enhanced level of care coordination and retirees did not experience any change in their out-of-pocket costs and did not have to change doctors.

By moving to a Medicare Advantage plan, the State benefits from enhanced federal Medicare funding resulting in an estimated \$11.8 million in savings over calendar years 2019 and 2020. This federal funding will help mitigate future increases in the Retiree Health Benefits budget that are driven by increasing numbers of retirees and increases in medical and pharmacy costs.

STATE RETIREE HEALTH BENEFIT BUDGET FOR FISCAL YEAR 2020 AND 2021 AND TREND ASSUMPTIONS

The Retiree Health Plan in the approved operating budget for fiscal years 2020-2021 totals \$154.4 million, a decrease of \$26.4 million from fiscal year 2019. The updated projection and budget need as compared to fiscal year 2019 is presented in the chart below:

	FY19 Authorized Budget	FY20 Budget	\$ Decrease FY19 to FY20	FY21 Budget	\$ Decrease FY19 to FY21	\$ Decrease Total Biennium
GF	\$42,778,200	\$33,746,000	(\$9,032,200)	\$36,320,800	(\$6,457,400)	(\$15,489,600)
Other Funds	\$47,629,000	\$40,980,900	(\$6,648,100)	\$43,360,600	(\$4,268,400)	(\$10,916,500)
Total	\$90,407,200	\$74,726,900	(\$15,680,300)	\$79,681,400	(\$10,725,800)	(\$26,406,100)

The fiscal year 2020-2021 recommended Retiree Health Benefit Plan Budget assumes a 4% increase in total enrollment for the Medicare Eligible Retiree Plan and the Non-Medicare Eligible Retiree Plan is assumed flat, at the October 2018 enrollment numbers, throughout the 2020-2021 biennium. The recommended budget assumes a prescription drug trend of 9% for the non-Medicare Retiree Plan and 7% for the Medicare Retiree Plan and a medical trend of 6% for the non-Medicare Retiree Plan. The recommended budget assumes the contracted fully insured Medicare Advantage rates for calendar year 2019 and calendar year 2020 and then assumes a 5% medical trend for Medicare Retiree Plan for the remainder of fiscal year 2021.

The \$26.4 million decrease in the fiscal years 2020-2021 Retiree Health Benefit Plan Budget as compared to fiscal year 2019 is primarily due to savings associated with moving to a fully insured Medicare Advantage Plan effective January 1, 2019, a lower projected prescription drug trend, and lower than projected claims and enrollment in fiscal year 2019. Medicare Advantage is the primary contributor to the decrease in the Retiree Health Benefit Plan Budget. As noted above, in the Medicare Advantage Plan, the State is estimated to save \$11.8 million over calendar years 2019 and 2020 from enhanced federal Medicare Funding. The projected prescription drug trend assumed in the fiscal year 2019 budget rates was 13% and in the fiscal year 2020 and 2021 budget rates, the prescription drug trend for the Medicare plan is 7% and the Non-Medicare plan remains at 9%. In addition, the most recent Prescription Benefit Manager (PBM) procurement resulted in estimated claims savings of 4% due to improved financial terms in the PBM contract with Express Scripts effective January 1, 2019. Finally, in the fiscal year 2018-2019 recommended Retiree Health Plan Budget the Non-Medicare enrollment was assumed flat and the Medicare enrollment assumed a 4% annual increase, based on October 2016 enrollment, and in fiscal year 2018, the Non-Medicare enrollment has decreased 3% and the Medicare enrollment has only increased by 3.2%.

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, 2018, the date of the most recent actuarial valuation, there were 66 active participants and 59 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 almost 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, 2015, none of the bonds issued by the State for this purpose remained outstanding.

Additional information regarding the Judicial Plan is contained in the 2019 State CAFR at note 11 and on page 80. The Judicial Plan’s audited financial statements for the period ended December 31, 2018 are included in the 2019 State CAFR in the portions pertaining to the State’s Fiduciary Funds on pages 45 and 46, although the information regarding the Judicial Plan is combined with information pertaining to the Pension Plan. There are combining schedules for these statements on page 134 and the Judicial Plan is separately presented on pages 126 and 127.

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, 2018 and the most recent Actuarial Valuation Report dated as of December 31, 2018 (the “2018 Judicial Actuarial Valuation”). Similar reports for prior years are also available from the Judicial Plan at the address set forth above.

The actuary for the Judicial Plan has prepared actuarial computations under GASB 67 and 68 with respect to the Judicial Plan for the year ended December 31, 2018. The report shows a total pension liability as of December 31, 2018 of \$99,061,395, a fiduciary net position (market value of assets) of \$55,049,604, and a resulting net pension liability (analogous to the unfunded accrued liability) of \$44,011,791. The report further notes that the Judicial Plan decreased the discount rate to calculate its liabilities from 7.00% to 6.675%. A 1% decrease or 1% increase in the discount rate would increase or decrease the net pension liability to \$53,114,925 or \$36,136,763, respectively. The actual net pension liability as of future dates will, of course, vary from these amounts and the variances may be material.

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
2016	48,088,712	45,529,454	51	75.40	FY 18-19
2018	56,819,438	38,592,810	60	69.40	FY 19-20

The State contributions expected to be paid in the 2018-2019 and 2020-2021 biennium to the Judicial Plan total \$6,304,628 and \$6,279,304, respectively. 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, 2018 data was issued in July 2018.

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
January 1, 2016	\$46,905,875
January 1, 2018	\$57,931,041

The actuary for the Judicial Plan uses several actuarial assumptions in the 2018 Judicial Actuarial Valuation including the investment return rate at 6.675% and an annual wage inflation rate and cost of living increase of 2.75%. 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 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, 2018 actuarial valuation 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 following table sets forth a summary of certain assumptions used in the 2018 Judicial Actuarial Valuation.

**New Hampshire Judicial Retirement System
Actuarial Assumptions**

Actuarial Cost Method	Entry age normal
Amortization Method	Level dollar
Amortization Period	Closed 30 years From 01/01/2010
Asset valuation method	5-year smoothed market
Investment rate of return	6.675%
Wage and Cost of Living Inflation	2.750%

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”) and the NHTA – Command Staff. 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. On October 4, 2012, the Teamsters Local 633 were certified by the Public Employee Labor Relations Board (PELRB) and in accordance with RSA 273-A:10 were selected to represent the NH State Corrections Officers and Corrections Officer Corporals. In 2014, the State Police Command Staff decertified from the SEA and created the NHTA – Command Staff bargaining unit.

The State began negotiations with the SEA, NHTA, NEPBA and the Teamsters in October, 2018. The Collective Bargaining Agreements expired on June 30, 2019 and remain in effect until new agreements are reached. The parties reached impasse during negotiations and went to fact finding, as provided for under State law. The fact

finder released her report on November 12, 2019, and a 10-day confidential period where the parties discuss the report and try to reach an agreement expired on November 22, 2019. The parties met on November 21, 2019 to discuss the fact finder's reports and to try to reach an agreement. The State has reached an executed agreement with the Teamsters and the NEPBA Local 260 Liquor Investigators. The State is still negotiating with the remaining unions.

CYBERSECURITY RISKS

The State relies on the use of information technology as a critical enabling factor to support citizens, businesses, and all aspects of State government. The State also relies on its access to the Internet to conduct essential operations.

The State faces the same external cyber threats as any other entity connected to the Internet, including phishing attacks, ransomware, malware-embedded emails, denial of service and network based attacks. Internal cyber threats (commonly referred to as "Insider Threat") also exist, and the most common result is a breach of confidential or sensitive information.

In order to counter known and unknown cyber threats, the State employs a wide variety of defensive strategies. These include products deployed at every level of the enterprise architecture, from network perimeter devices to the user desktop, as well as hardware and software protections focused on the most prevalent cyber-attacks against the email system, web and application servers, databases, and user endpoint devices.

The State also administers a comprehensive cybersecurity training and awareness program, which all employees are required to complete annually. The State coordinates and shares cyber event information with state and federal entities, such as the Department of Homeland Security and also with cyber-focused public organizations such as the Multi State Information Sharing and Analysis Center (MS-ISAC) and the National Association of State Chief Information Officers (NASCIO). In 2018, the State conducted a series of cyber incident response exercises that involved multiple State agencies, the New Hampshire National Guard, and local critical infrastructure organizations. As a result of this exercise program, the State completely revised its Cyber Disruption Plan, which outlines incident escalation and de-escalation points, procedures, roles and responsibilities, and operational resources in the event of a cyber-incident. In late 2019, the Department of Information Technology ("DIT"), in conjunction with the Division of Homeland Security and Emergency Management, has assembled a draft document that outlines Emergency Support Function 17 (Cybersecurity) ("ESF-17"), which describes the concept of operations, response actions and responsibilities for major cyber events in a manner similar to other state emergency support functions. The functions of ESF-17 have already been incorporated into the state Cyber Disruption Plan.

In recent years, the State has experienced one significant internal data breach that involved the unauthorized access and public posting of certain personal information for as many as 15,000 clients of one state agency. The breach was contained and mitigation measures put in place to address the conditions that allowed the breach to occur. In the follow-up to the breach, the State found no evidence that the information had been misused or further distributed before it was contained and removed from public access.

The DIT recently entered into a contract for an independent, Comprehensive Cybersecurity Risk Assessment, which was approved by the Governor and Executive Council in October 2019. The DIT anticipates that the work of the Cybersecurity Risk Assessment will take place approximately from November 2019 through April 2020, although the contract permits a period of performance of an entire year should the State deem it necessary and in its best interests. The Cybersecurity Risk Assessment will primarily be a technical assessment and will focus on a survey of all IT assets, followed by security assessments of the state's network architecture, servers and endpoints, applications and data. It will conclude with an assessment of the State's cybersecurity program. The winning bidder was selected based on its depth of cybersecurity expertise; current contract experience serving the NH Secretary of State as well as other government organizations in New England; and the technical merits of its proposal. The information gathered from this cybersecurity assessment may contain detailed and highly sensitive network or vulnerability information. As a result, the DIT reserves the right to invoke a new exemption to RSA 91-A:5 (XI), in order to shield and protect information from public disclosure which could otherwise aid an adversary in an attempted security breach of the State's IT infrastructure.

While there can be no guarantees against a future cyber-attack resulting in some impact, the State has taken an expansive, multi-pronged approach to protect against, detect, respond to, and recover from a potential cyber event. The State has also obtained an insurance policy for “Data Security and Privacy Cyber Liability” (the current policy extends through August 2020). This policy includes coverage for privacy/media liability, incident (breach) response, network extortion, digital data recovery, business interruption costs, terrorism, and prior acts. The “prior acts” coverage extends coverage to claims for unknown data breaches that occurred prior to the inception of the policy. Notwithstanding the planning and actions taken to date, the State cannot assure that future incidents or possible unknown prior events will not have a potential material impact on the State’s operations or financial condition.

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:

Contoocook Valley School District v. State et al. On March 13, 2019, several plaintiffs, including a school district and three individuals, sued the State claiming that it has failed to meet its obligation to fund an adequate education. The plaintiffs assert that certain costs like transportation, school nurses, food services, facilities, teacher benefits, and superintendents, must, as a matter of State constitutional law, be funded by the State and are currently not funded by the State. The plaintiff requested \$16,961,843.75 be paid to the school district by April 1, 2019.

On June 5, 2019, the trial court issued an order finding that RSA 198:40-a, II, the statutory mechanism the State uses to make adequate education payments to school districts is unconstitutional. The court did not, however, require the State to pay the plaintiffs any amount of money, and denied the plaintiffs’ claims to that effect. Instead, the trial court required the legislature to fix the statute on a prospective basis. The State timely appealed the trial court’s order. The case remains pending on appeal. Briefing remains underway.

State v. Purdue Pharma; State v. Janssen/Johnson & Johnson; State v. McKesson Corp and Cardinal Health; State v. Mallinckrodt; State v. Richard S. Sackler, et al. The State has filed suit against these three opioid manufacturers (Purdue Pharma, Janssen, and Mallinckrodt), as well as against two opioid distributors (McKesson and Cardinal Health) and just recently filed against four members of the Sackler family, owners of Purdue Pharma, alleging unfair or deceptive business practices, Medicaid fraud, nuisance and other common law counts. The Sackler complaint includes a fraudulent conveyance count. All cases are in Merrimack County Superior Court. The Purdue and Janssen cases have survived motions to dismiss by the defendants and discovery is on-going. The two distributors filed their motion to dismiss with a hearing held in December, 2019. The court has not yet issued an order. The Mallinckrodt defendants have filed their motion to dismiss with a hearing not yet scheduled. The Sackler complaint was filed on September 16, 2019. Trial in the Purdue Pharma case was scheduled for June 2020, however, on September 14, 2019, Purdue filed bankruptcy in the southern district of New York. The court has ordered a temporary injunction in both the Purdue and Sackler litigation. The State is also participating in multistate settlement discussions, along with other attorneys general, aimed at a global resolution with all opioid related defendants (manufacturers, distributors and major pharmacy chains). It is not possible at this stage to predict any recovery amounts that would come to the State.

NHHA v. Sylvia Matthews Burwell, USDC 15-cv-460-LM: New Hampshire Hospital Association (“NHHA”) filed a lawsuit against Centers for Medicare & Medicaid Services (CMS) seeking to prevent the application of CMS answers to FAQ’s 33 and 34 concerning audit requirements that require hospitals to exclude any payments related to Medicaid recipients from third parties (TPL), including Medicare or private insurance, from claimed uncompensated care, arguing CMS’ had engaged in illegal informal rulemaking and that the substance was not authorized by the CMS statute. NHHA requested that the application of the audit requirements related to

uncompensated care be enjoined prospectively to future years disproportionate share reporting and calculations and retroactively to the then pending 2011 audit findings that several million dollars would have to be recouped from the critical care hospitals and several of the major hospitals. The State was not a party to this lawsuit, but has acknowledged that it would be bound by any order issued to CMS, as the State has adopted the CMS requirements for calculation of uncompensated care as the basis for how disproportionate share (DSH) payments are made.

Following a Preliminary Injunction hearing in January 2016, on March 11, 2016 the New Hampshire Federal District Court enjoined CMS from enforcing these audit requirements on procedural grounds for failure to use formal rulemaking and also found a likelihood of success on the merits.

In August 2016, CMS filed a notice of rulemaking to adopt a rule that would memorialize its position. On April 3, 2017 CMS published notice adopting the final rule, which became effective on June 2, 2017.

As a result of the Court's order, not only is recoupment of the 2011 overpayments based on TPL enjoined, but the hospitals were allowed in the current year, and will need to be allowed going forward as long as the injunction is in place, to claim uncompensated care without deducting these third party payments. In the last fiscal year this resulted in approximately a \$17 million increase in the DSH payments owed to hospitals. The State has filed a motion for permissive intervention indicating that it supports CMS statutory authority to adopt the substance of FAQ 33 and 34. That motion was denied.

On March 3, 2017, the federal court granted the hospitals' summary judgment motion in part, finding that CMS did not have authority to adopt these substantive interpretations by FAQ. This final order assumed that CMS could adopt its interpretation through rulemaking. A permanent injunction has been entered. The court rejected a request by the Hospitals to challenge the validity of the newly enacted rule in this action. CMS appealed to the First Circuit Court of Appeals the portion of the decision rejecting their authority to enforce the FAQ's. Briefs were filed, and oral argument was held on January 9, 2018. Although CMS has indicated it does not seek to enforce the FAQ's retroactively against the New Hampshire Hospitals, if CMS were to prevail on its appeal, it is unclear whether they would have the legal option to do so. The State filed an amicus brief in partial support of CMS's authority for the policies. On April 4, 2018 the First Circuit issued the decision upholding the trial court decision. CMS has not filed an appeal to the United States Supreme Court, so this case is closed.

NHHA v. Centers for Medicare and Medicaid Services (Azar), USDC 1:17-cv-349-JD: On August 10, 2017, the New Hampshire Hospital Association (NHHA) filed a new lawsuit against Centers for Medicare & Medicaid Services (CMS) seeking to challenge the validity of the recent adoption by rule on June 2, 2017 of the policies in FAQ's 33 and 34. (See above case). The rule requires hospitals to exclude any payment related to Medicaid recipients from third parties (TPL), including Medicare or private insurance, from claimed uncompensated care. The Hospitals argue that CMS failed to comply with the Regulatory Flexibility Act and other statutes that require financial impact analysis during rulemaking and that the substance of the rule is not authorized by the CMS statute. CMS answered and a briefing schedule was set, however oral argument, which was set for April 17, 2018, was canceled by the court given decisions in other courts.

Similar litigation has been brought against CMS in several other jurisdictions. On February 9, 2018, the court for the Western District of Missouri issued a decision ruling against CMS on this issue and enjoining CMS from enforcing the Final Rule. On March 6, 2018, the D.C. District Court issued a decision which also found the rule exceeds the statutory authority and is invalid. In addition, the D.C. Court considered nationwide impact and vacated the rule. CMS appealed the Missouri and D.C. court decisions. The D.C. Circuit case has been briefed and oral argument is scheduled for April 9, 2019. CMS acknowledged that, while the D.C. decision stands, it cannot impose the rule anywhere. CMS requested that oral argument and decision in the New Hampshire federal litigation go forward. On September 25, 2018, the New Hampshire District Court issued an order denying the cross motions for summary judgment, finding the case moot in light of the decisions from other districts, and dismissing the case. Judgment has been entered against CMS. However, on August 13, 2019 the U.S. Court of Appeals for the District of Columbia issued a decision upholding the CMS rule and reversed the order invalidating the rule. It is unclear what impact this will have on the New Hampshire litigation or whether there will be a further appeal.

No stay was obtained by CMS of the D.C. District Court order. Therefore, the CMS rule did not apply at the time the MET and DSH payments were made in April and May 2018. The possible impact to the State budget of

the CMS rule being invalidated could have been similar to the impact of the preliminary and permanent injunction of up to approximately \$30 million. However, in May 2018, the Hospitals and the State entered a new seven year agreement regarding payment of MET and DSH, which included resolution of MET and DSH payments for 2018 and replaced the June 2014 Agreement. Because the May 2018 settlement results in the total level of DSH or other payments generated from the MET tax no longer being dependent on the federal definition of uncompensated care the outcome of this case should not impact the State obligation to pay DSH or the state budget. Therefore, while it is not possible to predict the outcome of this case at this time, it is unlikely that it could have a significant effect on State's obligations while the May 2018 settlement is in place.

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. The case has been stayed given the construction of a new women's prison on the grounds adjacent to the Men's Prison –Concord. The groundbreaking ceremony occurred on August 18, 2014. The new women's prison is now complete and housing the women inmates, but the parties continue to discuss how the implementation of programs will be monitored going forward. Trial was scheduled for September 2019. However, the parties have reached a settlement arrangement under which the case will be stayed for a period of years subject to the Department of Corrections meeting certain benchmarks with respect to the new women's prison. If those benchmarks are met, the case will be dismissed with prejudice. In the event the matter is re-opened, it will be amended and restructured.

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. The State has filed a motion seeking dismissal of all claims to which the plaintiff has filed an objection. It is not possible to predict the outcome of this case at this time. The court dismissed the plaintiff's original complaint filed holding that the law does not recognize a right to breastfeed (as opposed to expressing milk) in the workplace. The court did, however, provide the plaintiff with leave to file an amended complaint, which she did in November 2015. Plaintiff's new complaint raised claims under the ADA, Title VII, and for wrongful termination. DHHS filed a motion to dismiss these claims on exhaustion and statute of limitations grounds, as well as for the failure to state a claim upon which relief can be granted. On August 16, 2016, the court granted DHHS' motion as to the Title VII claim, but denied it with regard to the ADA and wrongful termination claims. On October 26, 2016, DHHS filed a motion for summary judgment on the pleadings, asserting Eleventh Amendment immunity. On May 6, 2017, the court granted DHHS's motion, thereby ending the litigation. The plaintiff has re-filed her claims in state court within one year of the May 6, 2017 order, asserting RSA 508:10 applies.

The State moved to dismiss the action on sovereign immunity grounds. The trial court initially denied the motion to dismiss. The State moved for reconsideration. The plaintiff objected. On February 21, 2019, the trial court issued an order granting the State's motion for reconsideration and dismissing the case in its entirety as barred by the three-year statute of limitations in RSA 541-B:14. The plaintiff has appealed. The matter has been fully briefed and oral argument completed. The parties await an order from the New Hampshire Supreme Court.

Conservation Law Foundation, Inc. v. Pease Development Authority, et al and Notice of Intent to File Suits Against PDA. On November 10, 2016, CLF filed its Complaint pursuant to Section 505 of the Federal Water Pollution Control Act ("Clean Water Act") alleging the following violations: (1) discharging stormwater from systems of conveyances to the waters of the United States without a permit; (2) failure to obtain coverage under the required Clean Water Act National Pollutant Discharge Elimination System ("NPDES") permit; and (3) failure to comply with the specific requirements of any such permit. CLF alleged that each separate violation of the Clean Water Act subjects PDA to a penalty of up to \$37,500 per day per violation for all violations occurring from January 12, 2009 through November 2, 2015 and \$51,570 for penalties that are assessed on or after August 1, 2016, for

violations that occurred after November 2, 2015. CLF sought the full penalties allowed by law. In addition to civil penalties, CLF sought declaratory relief and injunctive relief to prevent further violations of the Clean Water Act. CLF seeks an order from the court requiring PDA to correct all identified violations by implementing permitting requirements; and seeks recovery of costs and fees associated with this matter. On February 8, 2017, PDA filed a motion to dismiss the Complaint on 11th amendment grounds. The Court granted PDA's motion to dismiss as to all retrospective relief. The claim for prospective injunctive relief remains. The parties reached a settlement agreement in January, 2019, and this case was administratively closed as of March 22, 2019.

C.C. v. DCYF. Two separate cases involving the same plaintiff have been filed against DCYF and other defendants in Merrimack County Superior Court, alleging negligence in the placing of the plaintiff in a foster home and a residential facility. DCYF has moved to dismiss both cases as barred by sovereign immunity, including under the three-year statute of limitations contained in RSA 541-B:14 and the discretionary function exception to RSA 541-B. The trial court denied the motion to dismiss. DCYF filed a petition for original jurisdiction challenging the trial court's order. The New Hampshire Supreme Court granted the petition. The parties are awaiting a briefing schedule.

Additional litigation and threatened litigation relating to the Department of Health and Human Services, Division of Children, Youth, and Families ("DCYF"). DCYF is currently defending or has been advised of several claims relating to physical and sexual abuse of children either directly or indirectly under the supervision of DCYF. Other than the litigation described above (*T.C. et al. v. State of New Hampshire, Department of Health and Human Services, Division of Children, Youth, and Families ("DCYF") et al.*) none of these claims appear to individually exceed \$2 million; however, the aggregate of the claims may be more than \$2 million cumulatively. It is not possible to predict the outcome of these cases at this time.

Town of Hampton, New Hampshire v. State of New Hampshire. On February 14 2018, the Town of Hampton filed this lawsuit against the State, seeking various forms of declaratory, injunctive, and monetary relief. According to the complaint, the lawsuit arises out of a 1933 deed in which a portion of Ocean Boulevard in Hampton was transferred from the Town to the State, as well as a series of "long standing issues affecting the Town from the presence of the [State's] property and operations occurring in Hampton." The Town seeks "a determination of the respective rights and obligations of the Town and the State with respect to a number of aspects of the State's activities."

The Town's complaint contains five separate counts. Through those counts, the Town seeks declarations and related injunctive relief that the State is liable for all maintenance of Ocean Boulevard, including maintenance for the sidewalks, crosswalks, and the "proper drainage of water that runs off of Ocean Boulevard and its sidewalks," the recovery of monetary damages from the State based on the State's collection of revenues from certain paid parking spaces in the Town, monetary damages representing the fair value of various municipal services (including fire, police, and public works) provided by the Town, and monetary damages based on a "fair share of the revenues received over the last three years" from the State's operation of business activities on the subject property. The Town also claims, on equal protection grounds, that the State's distribution to municipalities of Meals and Rooms Tax revenues pursuant to RSA chapter 78-A is unconstitutional as applied to the Town. The Town seeks a declaration that it is entitled to a greater distribution based on the Town's "large seasonal visitor population" as opposed to the Town's smaller "year-round population."

On May 1, 2018, the State filed a motion to dismiss the Town's lawsuit in its entirety. The Town subsequently filed a motion to compel responses to certain discovery requests, which the Town contended were needed in order to adequately respond to the State's motion to dismiss. In July 2018, the court denied the Town's motion to compel. The Town thereafter filed a voluntary nonsuit without prejudice, and indicated that it intends re-file the lawsuit at a later date. It is not possible to predict the outcome of the threatened litigation at this time.

Estate of Champney v. Department of Safety. There is the potential for litigation, brought on behalf of the estate of Jesse Champney, arising from an officer-involved fatal shooting. On December 24, 2017, Mr. Champney fled from State Police during a pursuit related to an alleged stolen vehicle. After Mr. Champney's vehicle came to a stop off the road, a State Police officer attempted to take him into custody, and Mr. Champney fled on foot. Mr. Champney refused to surrender and threatened to shoot the Trooper. The officer shot him, and he died at the scene. It is not possible to predict the outcome of the case at this time.

Cianbro Corporation v. NHDOT and MDOT. This matter is a contract dispute concerning the Sarah Mildred Long Bridge which connects Maine and New Hampshire over the Piscataqua River. Cianbro is the prime contractor on the bridge replacement project, and has brought a Request for Equitable Adjustment through the MDOT internal adjudication process. Cianbro has sought an additional \$16.9 million and 164 additional days to complete the work. Cianbro alleged that the construction delays and cost overruns all stem from faulty design plans. Although MDOT has administered the project, both MDOT and NHDOT have traditionally each contributed 50% of all construction costs. However, pursuant to the interstate agreement, MDOT is responsible for costs that are primarily related to design issues. After a mediation, MDOT, NHDOT and Cianbro settled this claim for a total of \$5 million. The NHDOT share of this settlement was \$1,817,500 (36% of the total) which was believed to be the cost to litigate the claim. The funding source for the settlement was Consolidated Federal Aid, Highway Contract Payments.

John Doe, on behalf of himself and all others similarly situated v. Commissioner Jeffrey Myers, Southern New Hampshire Medical Center, and the New Hampshire Circuit Court District Division. An individual, who was admitted to Southern New Hampshire Medical Center's Emergency Department after a suicide attempt, sued in the Federal District Court for the State of New Hampshire alleging habeas corpus relief, declaratory judgment, and appointment of a class for unconstitutional deprivation of liberty interests and lack of procedural due process based on an alleged systemic practice where individuals who may be experiencing mental health crises are involuntarily detained in hospital emergency rooms without the State providing them with due process, appointed counsel, or an opportunity to contest their "detention." This practice is sometimes referred to as "psychiatric boarding." Plaintiff is represented by the New Hampshire American Civil Liberties Union ("ACLU") who is also asking for class certification for similarly situated individuals in New Hampshire. The ACLU alleges that, as of October 31, 2018, approximately 46 adults and 4 minors were "boarded" in emergency rooms. The State will be defending both the Commissioner and the Circuit Court system.

The complaint includes 5 counts requesting relief: Count I, a class action claim alleging violations of the Fourteenth Amendment to the United States Constitution for deprivation of liberty; Count II, a class action procedural due process claim under the New Hampshire Constitution Part I, Article 15; Count III, a class action claim alleging violations of RSA 135-C:31, I; and Count IV, an individual claim on behalf of John Doe for habeas corpus relief. On November 13, 2018, Count IV was voluntarily dismissed by Plaintiff as he moved to a voluntary stay status at the hospital. The overall relief requested is declaratory judgments regarding the various counts and injunctions to discontinue the alleged violations. There is also an accompanying motion for class certification.

The New Hampshire Hospital Association and numerous other hospitals intervened in the matter. They filed a complaint-in-intervenor asserting a Fifth Amendment takings claim against the State, a Fourteenth Amendment due process claim, and other state-law based claims.

The State moved to dismiss the original complaint and the complaint-in-intervenor for lack of State action and for failure to state a claim. The State also objected to the motion for class certification. In response, the plaintiff and the intervenors amended their complaints. More plaintiffs entered the case through the amended complaint and asserted claims against certain of the intervenor hospitals for false imprisonment. The intervenor hospitals added a Fourth Amendment unreasonable seizure claim into their complaint against the State.

The State subsequently moved to dismiss the amended complaint and amended complaint-in-intervenor on substantially the same grounds on September 16, 2019. Thereafter, three of the four hospitals that had been sued for false imprisonment answered the plaintiffs' amended complaint. Two of those hospitals included cross-claims for indemnification, contribution, and a violation of certain provisions of RSA 135-C, a state statute. The cross-claims have been dismissed on immunity grounds. The motions to dismiss were finally briefed on January 17, 2020. The parties are now awaiting a decision in the case.

New Hampshire Lottery Commission v. William Barr, Attorney General. In January 2019, the United States Department of Justice ("USDOJ") issued a memorandum adopting as an official position of the agency a very broad interpretation of the federal Wire Act, 18 U.S.C. § 1084. This interpretation reverses a prior interpretation of the USDOJ from 2011 finding that the Wire Act applies only to sports betting and therefore does not prohibit States from selling lottery tickets over the Internet. The USDOJ's recent reversal of the 2011 interpretation appears to prohibit the use of wire transmissions to engage in state conducted lottery activity. The New Hampshire Lottery

Commission has sued the Attorney General and the USDOJ in the United States District Court for the District of New Hampshire to declare this new interpretation of law erroneous and for a declaration that the Wire Act does not extend to state-conducted lottery activity. If the USDOJ's new interpretation is correct, and the Wire Act does extend to state-conducted lottery activity, New Hampshire may lose substantial revenues. Under the narrowest interpretation of the USDOJ's opinion, the State would face a loss of approximately \$6 to 8 million annually. Under the broadest interpretation of the USDOJ's opinion, the State could face a loss of approximately \$90 million annually. The case was structured and fully briefed by April 8, 2019.

On June 3, 2019, the federal district court issued an order setting aside the USDOJ's new interpretation of the Wire Act under the federal Administrative Procedure Act. The USDOJ has filed a notice of appeal. A briefing schedule has now issued in the case. The parties remain in the process of briefing the matter.

Charles F. v. N.H. Youth Development Center. On August 2, 2019, the New Hampshire Attorney General's Office received notice that an individual known as Charles F. was seeking to recover damages against the N.H. Youth Development Center for personal injuries sustained from 1994 to 1995. Though unknown at this time, the allegations could include numerous sexual assault injuries. Depending on the number of incidents involved for which the plaintiff might choose to seek recovery, potential liability in the case could exceed \$2 million. The State agency would have numerous defenses to such a lawsuit, including timeliness defenses.

David Meehan v. N.H. Dept. of Health and Human Services. On January 11, 2020, the plaintiff, on behalf of himself and all others similarly situated, sued the Department of Health and Human Services, the Acting Commissioner of the Department, the Division of Juvenile Justice Services, the Division of Children, Youth, and Families, the Sununu Youth Services Center f/k/a the Youth Development Center, and multiple individual defendants in Merrimack County Superior Court for (1) negligent hiring, training, supervision, and retention, (2) negligence, (3) breach of fiduciary duty, (4) civil conspiracy, (5) violation of civil rights, (6) violation of Title IX, 20 U.S.C. § 1681(a), and (7) violation of the right to an education under Part I, Article 83 of the New Hampshire Constitution. The allegations assert that the plaintiff, and others similarly situated, suffered decades of physical abuse, sexual abuse, mental/emotional abuse, solitary confinement, and deprivation of education while in the care, custody, or control of the Youth Development Center. The number of class members is not disclosed in the pleading, but a footnote indicates that counsel for the lead plaintiff already represents thirty-five other members of the class.

This case has not yet been served on the State defendants. The State defendants will have one or more legal defenses in this action, including sovereign immunity. This State also does not believe this matter is amenable to class certification or treatment. In addition, in late 2019, the Attorney General's Office began a criminal investigation into matters related to the allegations in this complaint. The State cannot predict the impact of the criminal investigation on how and when the civil cases will be litigated. Potential damages could be significant if the State has liability in these matters. However, it is not possible to predict the outcome of these cases at this time.

Isaacs v. Dartmouth Hitchcock Medical Center and Isaacs v. USC Keck School of Medicine. In these cases, filed in the United States District Court for the District of California, the plaintiff seeks \$18.5 million in damages under the Racketeer Influenced and Corrupt Organizations Act ("RICO") against multiple different defendants, including the New Hampshire Board of Medicine. The plaintiff also asserts a 42 U.S.C. § 1983 claim and two state law tort claims against the New Hampshire Board of Medicine. In the first case, a default entered against the New Hampshire Board of Medicine. The New Hampshire Board of Medicine, however, has moved timely to lift the default and press its defenses, including many jurisdictional defenses such as improper service of process, lack of personal jurisdiction, Eleventh Amendment sovereign immunity, failure to state a claim, and other defenses. The plaintiff subsequently filed a motion of voluntary dismissal as to all parties. The plaintiff then tried to amend the voluntary dismissal to reverse the default against the Board of Medicine. The Board moved to strike the amended dismissal. The court granted the motion to strike. The default has therefore been extinguished. The plaintiff then re-filed what appears to be the identical same action in the same court. Service of process has been accepted and the action will be defended. These actions are viewed as meritless and will likely be dismissed entirely on jurisdictional grounds.

Simone v. Monaco, et al. Richard Simone filed a complaint on May 8, 2019 in the U.S. District Court, District of Massachusetts, alleging that New Hampshire State Trooper, Andrew Monaco, and Massachusetts State

Trooper, Joseph Flynn, used excessive force when effecting an arrest after a high speed vehicle chase that terminated in Nashua, New Hampshire. Simone also named the Department of Safety Commissioner Quinn and two other state troopers for failing to intervene and failing to adequately train Monaco. Simone is claiming damages in the amount of \$6 million. Trooper Monaco's request for the State to defend and indemnify him in this lawsuit was denied. Monaco has since been served with process and has retained private counsel. On November 12, 2019, the court dismissed all of the New Hampshire defendants that were served, including Monaco, from the case for lack of personal jurisdiction. The other Department of Safety employees named as defendants have not yet been served with process and the deadline for service has expired. If and when the defendants are served, the State will seek to dismiss the complaint for lack of personal jurisdiction and failure to timely serve the defendants under Civil Rule 3(m). It is not possible to predict the outcome of the threatened litigation at this time.

Robyn White v. v. Matthew Locke, et al. Robyn White filed a complaint in the U.S. District Court, District of New Hampshire, alleging that New Hampshire State Troopers Matthew Locke and Haden Wilber subjected her to an unconstitutional search and falsified evidence in connection with her arrest for drug possession. The complaint was filed on October 15, 2019. The State filed a Motion to Dismiss on December 16, 2019 that is still pending at this time. As this matter is in the preliminary stages of litigation, it is not possible to predict the outcome of this matter.

Conservation Law Foundation v. N.H. Fish and Game Dept. (Powder Mill Hatchery). On October 31, 2018, the Conservation Law Foundation ("CLF") filed its complaint pursuant to Section 505 of the Federal Water Pollution Control Act ("Clean Water Act") alleging violations by the Powder Mill State Fish Hatchery of the hatchery's federal National Pollutant Discharge Elimination System ("NPDES") Permit. Specifically, the suit alleges the following violations: (1) discharging effluent that has resulted in state water quality standards violations in the receiving waters; (2) discharging effluent that has impaired the use of receiving waters; (3) discharging formaldehyde in concentrations exceeding the limits stated in the facility's NPDES permit; (4) discharging effluent causing violation of the pH limits stated in the facility's NPDES permit; (5) discharging cleaning water in violation of the NPDES permit; and (6) failing to implement and maintain a best management practices plan as required by the NPDES permit. The suit names the Department of Fish and Game, the Executive Director, the Fish and Game Commission, and each of the Fish and Game Commissioners. CLF alleged that each separate violation of the Clean Water Act subjects the Department to a penalty of up to \$51,570. In addition to civil penalties, CLF sought declaratory relief and injunctive relief to prevent further violations of the Clean Water Act. CLF also seeks injunctive relief to remediate past effluent and seeks recovery of costs and fees associated with this matter. Following briefing on the Department's partial motion to dismiss, CLF voluntarily dropped the Department and the Commission from the suit. The motion to dismiss further seeks to prohibit an award of civil penalties or injunctive relief to remediate past effluent on Eleventh Amendment grounds. A hearing on the Department's motion was held on October 8, 2019. Prior to the hearing, the plaintiff withdrew several of the claims challenged by the motion. The court denied the State's motion to dismiss on the remaining claims but held that it was without prejudice, thereby allowing the State to raise them later in the case.

The Parties filed cross-motions for summary judgment on November 27, 2019. CLF seeks summary judgment on all counts, while the State seeks summary judgment on Counts II, III, VI, and VII, as well as on CLF's request for injunctive relief to remediate past effluent on 11th amendment grounds. Objections and replies were filed in January, 2020.

On December 31, 2019, US EPA issued a draft NPDES permit, which would largely moot the remedies portion of the case when the permit becomes final. Settlement discussions have commenced, but it is not possible to predict the outcome of the case at this time.

Other Matters

Department of Education Financial Review. On September 8, 2016, the New Hampshire Department of Education (NHDOE) participated in a Pilot Fiscal Review of its grant administration and fiscal management process, which was conducted by the U.S. Department of Education's Office of State Support (OSS). The primary goal of the fiscal review was to ensure that implementation of Title I, Part A; Title II, Part A; Title III, Part A; and School Improvement Grants was consistent with the fiscal and administrative requirements contained in the Uniform Administrative Requirements, Cost Principles and Audit Requirements (Uniform Guidance) and the Education Department General Administrative Requirements (EDGAR). The funds at issue total \$3.3 million dollars in federal

dollars and are related to potential unsupported personnel expenditures made using funds from the programs included in the fiscal review. NHDOE will be conducting an independent audit of its personnel expenditures related to these programs. Once this audit is complete, a further determination will be made as to whether additional corrective action, such as repayment of program funds, may be necessary. Until the audit is complete, it is not possible to predict the outcome of this review.

Potential Liability Relating to Conway Bypass Corridor Project. During fiscal year 2017, the State recorded an expense of \$21 million to recognize the impairment of certain assets that had been previously capitalized as part of the State Department of Transportation's project to upgrade the Conway, New Hampshire bypass corridor. This project had multiple segments, some of which were completed, and some were not completed in the timeframes required by the U.S. Department of Transportation Federal Highway Administration ("FHWA"). Capitalized expenses which met the State's definition for impairment included both preliminary engineering and right of way related expenses. The State is in the process of determining what portion, if any, of either the preliminary engineering or right of way related expenses that were incurred utilizing federal funds, would result in a potential liability to FHWA. As certain segments of the project were completed, only the bypass segment of the expenditures is at risk of being deemed ineligible by FHWA. The State has been advised that formal guidance in making this determination is forthcoming from FHWA, however, the State has not received this guidance or any demand for payment as of this date. As such, the State is unable to determine the likelihood of an unfavorable outcome, or the amount or range of any liability if an unfavorable outcome occurs.

Potential Claims Relating to PFAS Environmental Issues. The Pease Development Authority ("PDA") is a state governmental authority, created for the federal government to transfer the Pease Air Force Base to the State. PDA established the Pease International Tradeport ("Tradeport") to manage and operate the real estate obligations and the airport. The federal government, through the United States Air Force, retains some ownership rights in property at the Tradeport, particularly in the airport area. Potential environmental issues may exist involving possible contamination of soil and water at the Tradeport. The Air Force and the New Hampshire Air National Guard, which is located at the Tradeport, have used fire-fighting foams, such as aqueous film forming foams ("AFFF"), to extinguish fires that involve jet fuel. AFFF is known to contain perfluoroalkyl and polyfluoroalkyl substances ("PFAS") which may be released into the air, soil, and water.

PDA was sued for potential Clean Water Act violations, including contributing to possible PFAS contamination of the Great Bay, in the case of *Conservation Law Foundation, Inc. v. Pease Development Authority, et al.* That case was settled in January 2019. There are currently no claims against PDA or the State relating to PFAS contamination.

The Air Force announced, in January 2020, that it will be performing an occupational health study of former and active duty personnel who served at Pease Air Force Base or the Pease National Air Guard Base. The focus of the study will be to determine if there is a higher incidence of cancer for those assigned to the bases during the time period of January 1970 to December 2018. At this time, it is not possible to predict the outcome of this study and if it will have any possible liability for PDA or the State.

The following matters relating to PFAS environmental issues should also be noted.

State v. National Foam Inc., et al. (AFFF PFAS) – On May 30, 2019, the State filed suit against National Foam and several other manufacturers of Aqueous Film Forming Foam ("AFFF") which contains one or more fluorinated substances that have caused contamination of the State's groundwater and surface water. The case was removed to federal court and is now in the Multi-District Litigation court in South Carolina. The defendants have been given extensions of time with respect to filing an answer. The MDL parties are engaged in discovery, which is anticipated to continue for several months. The State's experts have not yet been able to quantify damages.

State v. 3M, et al. (PFAS) – On May 30, 2019, the State filed suit against manufacturers of various fluorinated chemicals for statewide contamination of the State's groundwater and surface water. The case is in Hillsborough Superior Court (North). The defendants filed partial motions to dismiss on the State's trespass and enhanced compensatory damages claims, and challenged venue in Hillsborough County. The defendants also filed a motion to sever and stay the State's fraudulent transfer claim. The State objected on November 22, and the defendants filed replies on December 20, 2019. The State's experts have not yet been able to quantify damages.

In addition, there is currently pending in the Legislature a bill, SB 496, which if enacted into law would establish a drinking water protection program, including low interest loans to qualifying public and non-profit water systems to remediate PFAS contamination. The bill appropriates \$50 million and authorizes the State Treasurer to issue up to \$50 million of general obligation bonds for this purpose. Such bonds may be issued with maturities of up to 30 years and shall be payable from General Fund revenues and moneys, if any, derived from lawsuits against PFAS manufacturers. This bill is subject to the legislative process and there can be no assurance that this bill or any similar bill will be enacted into law.

FINANCIAL STATEMENTS

Fiscal Year 2015. The State issued the financial statements for the fiscal year ended June 30, 2015 on January 15, 2016 with an unqualified auditor's opinion from KPMG. In March, the State received a statewide management letter from KPMG detailing concerns identified during the fiscal year 2015 audit. The management letter identified certain significant deficiencies and other findings (not material weaknesses). The State has remedied some of these issues already and continues to work diligently on the remaining issues identified. The management letter is available at <http://www.gencourt.state.nh.us/LBA/AuditReports/contractedaudits.aspx>.

In the audit of the Liquor Commission, the State received a management letter identifying a material weakness and several significant deficiencies regarding financial management and certain internal controls. The State had received a similar letter for fiscal year 2014. The State has continued to experience turnover of Liquor Commission financial personnel but it continues to pursue internal control improvement efforts.

Also, as a result of the fiscal year 2015 audit conducted over the State Revolving Fund ("SRF") by the Audit Division of the Office of Legislative Budget Assistant, the State received a management letter identifying a material weakness and several significant deficiencies regarding financial management and certain internal controls. The management letter is available at <http://www.gencourt.state.nh.us/LBA/AuditReports/financialreports.aspx>.

Single Audit. The fiscal year 2015 Single Audit of Federal Financial Assistance Programs conducted by KPMG resulted in certain compliance findings (material weaknesses and significant deficiencies) identified during the audit and can be found within the audit report located on the State's website at <http://www.gencourt.state.nh.us/LBA/AuditReports/contractedaudits.aspx>.

Fiscal Year 2016. The State issued the financial statements for the fiscal year ended June 30, 2016 on January 31, 2017 with an unqualified auditor's opinion from KPMG. In May 2017, the State received a statewide management letter from KPMG detailing concerns identified during the fiscal year 2016 audit. The management letter identified certain control deficiencies and other observations (not material weaknesses). Subsequent to the audit, the State experienced turnover in some key financial management positions, but has implemented additional internal controls to remedy some of these issues and continues to work diligently on the remaining issues identified. The management letter is available at <http://www.gencourt.state.nh.us/LBA/AuditReports/contractedaudits.aspx>.

In the audit of the Liquor Commission, similar to fiscal years 2014 and 2015, the State received a management letter identifying a material weakness and several significant deficiencies regarding financial management and certain internal controls. The Liquor Commission has taken steps to strengthen its financial reporting controls, including engaging financial consultants to assist in the preparation of the fiscal year 2017 financial statements, as well as assist in other internal control improvement efforts.

Also, as a result of the fiscal year 2016 audit conducted over the State Highway Fund by the Audit Division of the Office of Legislative Budget Assistant, the State received a management letter identifying a material weakness and several significant deficiencies regarding financial reporting and certain internal controls. The management letter is available at <http://www.gencourt.state.nh.us/LBA/AuditReports/financialreports.aspx>.

Single Audit. The fiscal year 2016 Single Audit of Federal Financial Assistance Programs conducted by KPMG resulted in certain compliance findings (material weaknesses and significant deficiencies) identified during

the audit and can be found within the audit report located on the State's website at <http://www.gencourt.state.nh.us/LBA/AuditReports/contractedaudits.aspx>.

Fiscal Year 2017. The State issued the financial statements for the fiscal year ended June 30, 2017 on December 22, 2017 with an unqualified auditor's opinion from KPMG. The 2017 audited financial statements were filed with the Municipal Securities Rulemaking Board through its Electronic Municipal Market Access System on December 27, 2017.

The State received a statewide management letter from KPMG in March 2018 detailing concerns identified during the fiscal year 2017 audit. The management letter identified certain control deficiencies and other observations (not material weaknesses). The State has implemented additional internal controls to remedy some of these issues already and continues to work diligently on the remaining issues identified. The management letter is available at <http://www.gencourt.state.nh.us/LBA/AuditReports/contractedaudits.aspx>.

In the audit of the Liquor Commission, similar to fiscal years 2014 through 2016, the State received a management letter identifying a material weakness and significant deficiencies regarding financial management and certain internal controls. The Liquor Commission has continued to take steps to strengthen its financial reporting controls, including engaging financial consultants to assist in the preparation of the fiscal year 2017 financial statements, as well as assist in other internal control improvement efforts. Additional internal controls have been implemented to remedy several prior year issues and the Commission continues to pursue internal control improvement efforts in order to address the remaining issues identified. The management letter is available at <http://www.gencourt.state.nh.us/LBA/AuditReports/financialreports.aspx>

Single Audit. The fiscal year 2017 Single Audit of Federal Financial Assistance Programs conducted by KPMG resulted in certain compliance findings (material weaknesses and significant deficiencies) identified during the audit and can be found within the audit report located on the State's website at <http://www.gencourt.state.nh.us/LBA/AuditReports/contractedaudits.aspx>.

In addition to the Single Audit of Federal Financial Assistance Programs, KPMG was engaged to examine the State's assertions regarding the amounts of payroll costs charged to various federal programs administered by the United States Department of Education (US DOE). The examination was required by the US DOE based on a review of state compliance performed by the US DOE Office of State Support. The subsequent report issued on September 6, 2018 is available on the State's website at <http://www.gencourt.state.nh.us/LBA/AuditReports/ContractedAudits/DOE%20Payroll%20Cost%20Audit.pd>.

The report identifies \$3.38 million of unsupported payroll costs spanning State fiscal years 2014 through 2016. The final determination regarding the ultimate liability to the State for the unsupported costs are dependent on language in the US DOE's rules.

Fiscal Year 2018. The State has issued financial statements for the fiscal year ended June 30, 2018 on December 27, 2018 with an unqualified auditor's opinion from KPMG. The 2018 audited financial statements were filed with the Municipal Securities Rulemaking Board through its Electronic Municipal Market Access System on December 28, 2018.

The State received a statewide management letter from KPMG in March 2019 detailing concerns identified during the fiscal year 2018 audit. The management letter identified certain control deficiencies and other observations (not material weaknesses). The State has implemented additional internal controls to remedy these issues and will continue to work diligently on the issues identified. The management letter is available at <http://www.gencourt.state.nh.us/LBA/AuditReports/contractedaudits.aspx>.

In the audit of the Liquor Commission, similar to fiscal years 2014 through 2017, the State received a management letter identifying a material weakness and significant deficiencies regarding financial management and certain internal controls. The Liquor Commission has continued to take steps to strengthen its financial reporting controls, including engaging financial consultants to assist in the preparation of the fiscal year 2018 financial statements, as well as assist in other internal control improvement efforts. Additional internal controls have been implemented to remedy several prior year issues and the Commission continues to pursue internal control

improvement efforts in order to address the remaining issues identified. The management letter is available at <http://www.gencourt.state.nh.us/LBA/AuditReports/financialreports.aspx>.

Single Audit. The fiscal year 2018 Single Audit of Federal Financial Assistance Programs was conducted by KPMG and resulted in certain compliance findings (material weaknesses and significant deficiencies) identified during the audit and can be found within the audit report located on the State's website at <http://www.gencourt.state.nh.us/LBA/AuditReports/contractedaudits.aspx>.

Fiscal Year 2019. The State issued financial statements for the fiscal year ended June 30, 2019 on December 20, 2019 with an unqualified auditor's opinion from KPMG. The 2019 audited financial statements were filed with the Municipal Securities Rulemaking Board through its Electronic Municipal Market Access system on December 23, 2019.

In connection with its audit of the State's financial statements for the fiscal year ended June 30, 2019, KPMG also issued a separate report on internal control over financial reporting and on compliance and other matters. The report may be accessed at http://www.gencourt.state.nh.us/LBA/AuditReports/ContractedAudits/State_ML_2019.pdf. The report cited two significant deficiencies in internal control, the more notable of which pertains to a longstanding policy of the State regarding how it accounts for excess business taxes paid, as reported annually by the Department of Revenue Administration at <https://www.revenue.nh.gov/publications/reports/index.htm>. These amounts or "credit carryovers" represent the amount of overpaid BPT and BET amounts that taxpayers elect to apply to future taxes owed rather than requesting a refund. The State's policy to date has been to record a tax refund payable for accumulated credit carryovers only to the extent the aggregate credit carryovers in a particular fiscal year exceed estimated additional tax revenues attributable to that fiscal year but arising from future audits of taxpayers.

The State initially estimated the gross amount of credit carryovers as of June 30, 2019 to be approximately \$224 million and the incremental fiscal 2019 tax revenues to be generated by audits to be approximately \$214 million, resulting in a net tax refund payable (liability) of \$10 million. Further review resulted in an adjusted credit carryover estimate of \$85 million. KPMG recommended in its report that the State discontinue its practice of offsetting credit carryovers with future tax audit revenues and analyze the impact on the General Fund and Education Fund of recognizing related refunds of BPT and BET revenues in those funds.

The State's response to this issue is included in the KPMG report. The State notes that it has reviewed this issue each year since fiscal 2011 but to date has not generally adjusted its cash basis tax revenues to account for the full credit carryover amounts. In any year where the calculated credit carryover liability exceeds the calculated future audit revenues, the State has recorded a net liability at the General Fund level, which impacts the budgetary surplus. In response to the KPMG report, the State intends to further refine its analysis of the credit carryover balances as of the end of each fiscal year and evaluate whether other changes should be made to its accounting policies, consistent with current budget practices. Any changes in the State's accounting policies related to this issue, if determined to be desirable, are currently expected to be implemented for the fiscal 2020 financial statements. However, the State has made no decisions yet on any such changes nor can it predict how KPMG may view any changes.

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.

This Information Statement contains forecasts, projections and estimates that are based on current expectations. In light of the important factors that may materially affect the financial condition of the State of New Hampshire generally and other economic and financial matters, the inclusion in this Information Statement of such

forecasts, projections and estimates should not be regarded as a representation by the State that such forecasts, projections and estimates will occur. Such forecasts, projections and estimates are not intended as representations of fact or guarantees of results.

This 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 of New Hampshire and various state agencies and authorities, receipt of federal grants, litigation, arbitration, force majeure events and various other factors that are beyond the control of the State and its various agencies and authorities. Because of the inability to predict all factors that may affect future decisions, actions, events or financial circumstances, what actually happens may be different from what is set forth in such forward-looking statements. Forward-looking statements are indicated by use of such words as “may,” “will,” “should,” “intends,” “expects,” “believes,” “anticipates,” “estimates” and other.

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.

References to web site addresses presented herein are for informational purposes only and may be in the form of a hyperlink solely for the reader’s convenience. Unless specified otherwise, such web sites and the information or links contained therein are not incorporated into, and are not part of, this Information Statement.

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 2019
(Included by Reference and Filed with the
Municipal Securities Rulemaking Board)



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