



State of New Hampshire

ANNUAL CITIZENS REPORT

FOR THE FISCAL YEAR ENDED
June 30, 2009



Prepared By:

DEPARTMENT OF ADMINISTRATIVE SERVICES

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State of New Hampshire's
Annual Citizens Report
For Fiscal Year Ended
June 30, 2009



Department of
 Administrative Services
 25 Capitol Street
 State House Annex
 Room 310
 Concord, NH 03301
 (603) 271-3373

[http://
 admin.state.nh.us/
 accounting](http://admin.state.nh.us/accounting)

**Prepared by the Department of
 Administrative Services**

Linda M. Hodgdon, Commissioner

Division of Accounting Services

Edgar R. Carter, Comptroller

Stephen C. Smith, Administrator

Diana L. Smestad

Kelly J. Brown

State Officials



Photo(L-R) Back: Commissioner Hodgdon, Councilor Burton,
Councilor Wiczorek, Councilor Shea
Front: Councilor Hollingworth, Governor Lynch, Councilor Pignatelli.

Selected State Officials as of June 30, 2009:

Governor

John H. Lynch

Executive Council

Raymond S. Burton, District 1

John D. Shea, District 2

Beverly A. Hollingworth, District 3

Raymond J. Wiczorek, District 4

Debra B. Pignatelli, District 5

President of the Senate

Sylvia B. Larsen

24 Senators

Speaker of the House of Representatives

Terie Norelli

400 Representatives

Message From the Governor

To: The Citizens of the State of New Hampshire
and the Honorable Members of the Legislature

I am pleased to accept the *Fiscal Year 2009 State of New Hampshire Annual Report to the Citizen's*.

The national recession caused significant challenges in New Hampshire, as in other states, in 2009. Unemployment increased and businesses and families struggled to make ends meet. The recession also had a significant impact on the fiscal year 2009 state budget: general fund revenues were twelve percent (12%) below plan and six percent (6%) below the prior year.

The State of New Hampshire acted early to respond to the drop in state revenues, making cuts across state government to ensure a balanced budget for 2009. At the same time, we began work on the 2010-2011 budget. Unlike many other states, we completed our budget on time, cut spending and avoided major new taxes.

As we cut spending, we did so with the goal of improving efficiency, effectiveness, and accessibility. We eliminated programs, boards, and commissions that were no longer central to our mission; we closed buildings; we encouraged the use of technology to streamline the delivery of services; and we reduced personnel costs where possible. This was done to protect our core investments in public safety, education, and the safety net for our most vulnerable citizens.

Despite our challenges, we made progress this year as well. The State of New Hampshire launched its new statewide enterprise resource planning system, NH FIRST, which has modernized our business practices, increased the efficiency of our financial management system, and will make it possible for state government to look at spending across state agencies and prepare monthly spending reports to share with the public. The biennial budget constructed in 2009 took key steps toward improving the viability and affordability of our retiree health care benefits and retirement system. And a number of our largest agencies, including the Division of Motor Vehicles and the Department of Health and Human Services, moved more of their service offerings online, improving delivery for citizens and reducing operating costs for state government.

Two thousand nine was a challenging year for the State of New Hampshire and for families and businesses across the state. In the face of these challenges, New Hampshire remains better positioned than most states. We continue to have one of the lowest unemployment rates in the nation; our tax burden is one of the lowest in the nation; and we have the fourth-lowest spending by government per capita.

By making tough decisions and providing steady leadership, New Hampshire will emerge from this recession in a better place than many of our neighboring states. From the legislature to state employees to the people of our great state, I am appreciative of all the hard work that went into meeting our collective challenges in 2009.

Sincerely,



John H. Lynch
Governor

Economic Highlights of the Granite State

New Hampshire's economy, like that of the region, went from decline to very low growth in the second half of 2009. As in the national economy, the regional economy is showing some signs of improvement, but the outlook is for a slow and weak growth coming out of the recession.

Employment in the region has been experiencing decline since early 2008 and is expected to continue to decline till fourth quarter 2010. The region is expected to lose over 400,000 jobs or 5.8% of employment before the decline ends. New Hampshire has not weakened as much as the region or the nation. Since the beginning of the recession through July 2009, the U.S. job base declined 5%, the region 4%, while the state lost only 3%, and New Hampshire's unemployment rate has remained below New England and U.S. averages. Looking forward, private service producing employment in the state is expected to grow by 1.2% annually through 2013. Educational and health services will post the highest annual job growth at 2.5%, followed by professional and business services at 2.1%.

The housing market in New Hampshire is showing signs of stabilization but is still working to recover from its fall. From the peak, home sales have declined by approximately forty percent and home prices are down approximately twenty percent. Housing prices are not expected to begin increasing until the end of 2010. Household wealth and consumer confidence have had significant setbacks through the recession, and it will take a long period of time for consumer spending and the housing market in the region to recover.

As New Hampshire exits this recessionary period, the state remains in a stronger position than the rest of the region. New Hampshire has continued to receive high quality of life rankings in CQ Press' Most Livable State Awards, ranking first in standard of living, and the most livable state and is expected to outperform the region in recovery due to the state's diverse economy, educated workforce, low poverty and low unemployment.

Information Provided by New England Economic Partnership, Ross Gittell and James R. Carter Professor, Whittemore School of Business and Economics, University of New Hampshire (11/09.)

New Hampshire's Scoreboard

<i>New Hampshire's Economic Scoreboard for 2009</i>		
<i>Categories</i>	<i>NH's National Rank</i>	<i>NH's Rank in New England</i>
Favorable Tax Climate	1st	1st
Standard of Living (by inverse of poverty rate 2007)	1st	1st
Child and Family Well-Being (Annie E. Casey Foundation, 2009)	1st	1st
Safest State (Lowest crime rank, 2009)	1st	1st
Most Livable State (CQ Press, 2009)	1st	1st
Healthiest State (CQ Press, 2009)	5th	2nd
College Educated Population	8th	4th

Source: Dennis Delay, NH Center for Public Policy Studies

Message From the Commissioner

We would like to present our fiscal year 2009 Annual Report to the Citizens, prepared by the Department of Administrative Services. It is our hope that this report provides an overview of the state's core finances in a format that is useful and informative to the citizens of New Hampshire.

This report presents selected financial information for the state's general fund and education trust fund, including unrestricted revenue performance and a surplus statement, as well as financial information on a government-wide basis, in accordance with generally accepted accounting principles (GAAP). Readers that have a need for more information regarding the accounting policies, the various required accounting disclosures, and the financial status of individual state funds and component units, should obtain a copy of the state's Comprehensive Annual Financial Report (CAFR). The CAFR, which includes the independent auditors' report, can be accessed by viewing our website or by contacting the Department.

We are pleased to announce that last years report received the Award for Outstanding Achievement in Popular Annual Financial Reporting from the Government Finance Officer's Association. This prestigious award recognizes conformance with the highest standards for preparation of state and local government reports.

Along with other states in the region, New Hampshire's 2009 revenue collections suffered because of the deepening recession. Total General and Education Fund unrestricted revenue ended the year \$315.3 million or 12.5% under fiscal 2009 estimates. In response to the recessionary pressures, the state issued or expanded several executive orders to help curb fiscal 2009 spending; including appropriation reductions and freezes of non-essential purchases and vacant positions. In addition, \$40 million of school building aid was bonded and \$56.4 million of Federal American Recovery and Reinvestment Act (ARRA) monies were applied to fiscal 2009.



After these and other efforts, a total of \$79.7 million of the State's Rainy Day Fund was needed to cover the remaining undesignated, unreserved deficit in the state's General and Education Trust Funds, leaving the Rainy Day Fund with a balance of \$9.3 million at June 30, 2009.

Moving into fiscal 2010, the state's revenue plan assumed some recovery in the second half of the year. However, General and Education Fund revenue collections for the first seven months of fiscal year 2010 continued to come in under plan. Given this trend, on January 15, 2010, as required by law, I released a statement that revenues for fiscal years 2010 and 2011 were expected to be below plan by \$33.3 million and \$31.7 million, respectively. With the uncertainty of the national and regional economies, these estimates are likely to change and even worsen. The state will be monitoring revenue collections closely. The Governor and Legislature continue to work on a plan to address a recently projected \$140-\$200 million general fund shortfall for the 2010-2011 biennium, and will pursue spending reductions and other strategies in order to maintain a balanced budget during these challenging economic times.



Linda M. Hodgdon, Commissioner

Major Initiative

Enterprise Resource Planning (ERP)

The State of New Hampshire has been working for many years to replace our antiquated budgeting, financial and human resource systems that did not meet our business needs. In July of 2008, the first phase of this project was completed to replace the budgeting system and to implement a new chart of accounts thereby improving clarity of expenditures. In July of 2009, an enterprise-wide financial system (ERP) was implemented to replace the twenty-five year old mainframe general ledger system. This second phase was a major undertaking to improve the sustainability, accountability, and efficiency of financial administration, processing controls, and management information. The human resource component is the third leg that will be initiated toward the end of this biennium.

This entire project is very complex and has a wide-ranging effect on how state agencies operate, manage their finances, and interact with vendors and citizens of New Hampshire. This new system encompasses both payments and revenue collection including the following functions: Procurement, Accounts Payable, Accounts Receivable, General Ledger and Grants Administration. The new processes have been designed with the goal of improving efficiency, speed of processing and the state's cash-flow.

The decision to invest in this project was based on several criteria not the least of which are: (1) our need to take advantage of modern processing technology to reduce costs and delays in associated paperwork, cycle-time for state procurement, payment and revenue collection. (2) The state had for many years relied on a system that had been customized to the point it could no longer be serviced or maintained by the original vendor. For decades, we have relied on experienced staff to manage the platform. As people transitioned to other jobs or retired, it became increasingly difficult to recruit new talent interested in supporting this old system. The technology itself was limited, archaic, and presented sustainability risks we needed to eliminate.

The scale and scope of this new system has been a significant undertaking given that each agency has a distinct mission/purpose and over the course of 25 years internal processes evolved to help them meet their individual business needs because the mainframe system did not. In addition, those internal processes were not uniform. A singular migration was therefore much more complicated than otherwise would be the case. Nonetheless, after three years of perseverance, unexpected delays and technical challenges, state staff were trained and the system was made operational on July 6th. This introduced new business processes in requisitions and purchasing, accounts payable, accounts receivable, and general accounting transactions.

As with any complex technical project, there have been unexpected issues, requiring analysis, diagnosis, and correction. These results can create problems for people who depend on them. All enterprise implementations experience challenges and this one is no different. We continue to be very pleased with all that has gone well and we work diligently on those issues that have yet to be fully resolved.

Major Initiative - Continued

American Recovery and Reinvestment Act of 2009

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

In fiscal year 2009, the State received \$32.2 million in ARRA funding related to an increased federal Medicaid reimbursement rate of 6.25% on Medicaid claims paid from October 1, 2008 through June 30, 2009. It is estimated that the State will receive \$91.2 million and \$54 million from this ARRA funding in fiscal year 2010 and 2011, respectively.

The ARRA provides significant State funding through a provision known as the State Fiscal Stabilization Fund. The State's allocation totals \$200.8 million. As required by federal law, the State budgeted 81.8 percent (\$164 million) of its allocation for education. In each of fiscal years 2010 and 2011, \$80 million is budgeted in the Education Trust Fund for educational adequacy payments to local school districts. Additionally, the Community College System and the University System will receive \$1.1 million and \$3 million, respectively, in fiscal year 2010. The State will request reimbursement from the federal government for all amounts based on the timing of expenditures made at the local school district, college, and university system levels. The ARRA provides that a portion of the State Fiscal Stabilization Fund can be used by states for public safety and other government services. The State has allocated this flexible portion to fund other State government services of \$34 million in fiscal year 2009 and \$2.5 million over fiscal years 2010 and 2011. The State will request reimbursement from the federal government as expenditures are incurred. The \$34 million related to fiscal year 2009 has been received by the State.

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

Department of Education	\$97.2 million
Department of Transportation	\$235.8 million
Department of Environmental Services	\$73.3 million
Department of Health and Human Services	\$56.5 million
Office of Energy and Planning	\$58.6 million
Department of Labor	\$39.5 million
Department of Justice	\$11.9 million
Department of Employment Security	\$11.1 million

The State is also applying for competitive grant funds in the areas of Broadband, Health Information Technology, and Education which may yield additional ARRA funds for the State.

Education

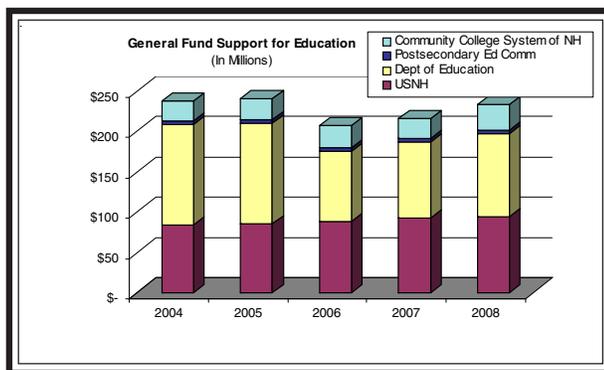
Virginia M. Barry, Ph.D. was sworn in as the Commissioner of Education on June 1, 2009. She is leading the Department through a process to transform NH's educational system designed around the four broad assurance areas signed onto by Governor Lynch in the spring when the State Fiscal Stabilization funds were accepted; Standards and Assessments, Effective Teachers and Leaders, Data Systems, and Turnaround of Struggling Schools. The Department is drawing on reform strategies that have demonstrated improvement across the state, as well as envisioning new, innovative efforts that will improve student achievement and prepare students for college, career and citizenship.

During the 2009 school year, state aid for local schools districts was allocated in the following ways: (1) Adequate Education Grants \$891.0 million; (2) Building Aid \$42.8 million; (3) Catastrophic Aid \$32.2 million; (4) Tuition and Transportation for Career and Technical Programs \$7.2 million; (5) Charter School Tuition \$3.6 million; and (6) Kindergarten Aid \$957,600.

Marc Tucker, President of the National Center on Education and the Economy and Staff Director for the New Commission on the Skills of the American Workforce has chosen to work with NH to focus on two significant and critical system changes (1) State College Board Examination Review System; and (2) The opportunity for students to demonstrate academic ability as a full time college student as early as age 16.

NH has significantly reduced its dropout rate to less than 10 percent for school year 2007-08. Governor John Lynch has established the goal of 0 dropouts by 2012, and educators at all levels in the state are working hard to accomplish this goal. Four pilot schools are documenting a validation process for high school Extended Learning Opportunities. The pilot is setting the framework by which school districts across the state can document the learning that takes place beyond the traditional classroom. Comprehensive plans are active in school districts and communities across the state, including the additional state funding for alternative programs in every region. Progress will be tracked in real time for school year 2009-2010, through NH's unique student information system. This system will also enable educators to inform instruction through analysis of multiple assessments. This tool enables schools to consider the impact of interventions provided through the Response to Intervention (RTI) model. Educators can create individual or district assessments to increase the understanding of student skills.

The Department is entering its fifth administration of the tri-state New England Common Assessment Program (NECAP), testing reading and mathematics in grades 3-8 and 11, and writing in grades 5 and 8. Science assessment was introduced in spring of 2008, for students in



grades 4, 8, and 11. This is the first year that Maine will join the other three member states in developing and administering the NECAP tests in reading and mathematics to students in grades 3 through 8, and writing in grades 5 and 8. With Maine as a member of the NECAP partnership, all states will benefit from a lower per-pupil cost for the test administration. The addition of the expertise of Maine educators will allow the NECAP partner states to

maintain the high quality of the NECAP tests, even in a time of diminishing funds.

Education - Continued



The Community College System of NH (CCSNH) took several major steps forward over the year, enhancing academic facilities, increasing enrollment, strengthening transfer relationships with four-year colleges and universities, and working with NH businesses on important workforce training initiatives.

CCSNH consists of seven colleges, located across New Hampshire (see map)

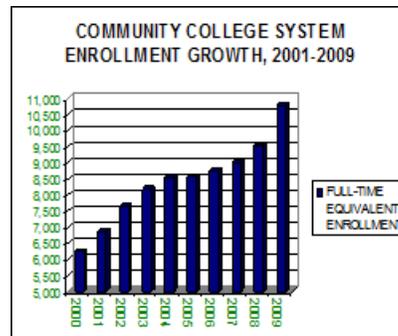
Great Bay Community College in Portsmouth
 Lakes Region Community College in Laconia
 Manchester Community College
 Nashua Community College
 NHTI-Concord's Community College
 River Valley Community College in Claremont and Keene
 White Mountains Community College in Berlin



New Hampshire's community colleges offer associate degrees, certificate programs, business and industry training, and transfer pathways to baccalaureate institutions. As community colleges are increasingly recognized for the key role they play in providing opportunities and strengthening the regional and state economy, CCSNH is at work meeting increased demands and ensuring the quality of its programs.

Enrollment has continued its upward trend (see chart) as growing numbers of students of all ages recognize the benefits of attending one of New Hampshire's community colleges. In 2009 CCSNH saw a 12% enrollment increase over the previous year.

Over the last year, the system continued its efforts to expand and upgrade facilities across the state in order to ensure a high-quality learning environment for students. CCSNH was also the recipient of federal funding through the American Recovery and Reinvestment Act that will be used to



upgrade the energy



efficiency of its facilities.



CCSNH and partner institutions created two exciting new resources for NH students in 2009. Branded as "NH Transfer," these resources include a database containing course transfer information from all seven community colleges, the institutions of the University System of NH (USNH), Southern New Hampshire University and Franklin Pierce University. Students and advisors can use this database to plan a seamless transfer pathway. CCSNH also worked with USNH to introduce the "Connections" program, an enrollment partnership enabling NH students initially not accepted to UNH, Keene or Plymouth to enroll for one year at one of New Hampshire's community colleges (or Granite State College) and then transfer seamlessly into the University System college to which they had initially applied. This groundbreaking program holds great promise for NH students as it increases access to NH's public post-secondary institutions.

Self - Insurance Initiative

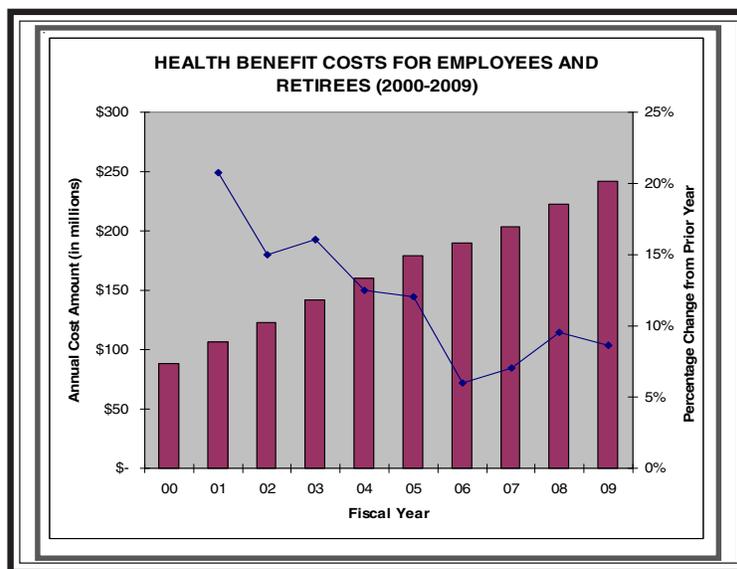
Employee Benefit Risk Management Fund

Chapter 251, Laws of 2001, authorized the Commissioner of Administrative Services to provide a self-funded alternative to traditional insurance programs for employee benefits to aid in controlling the rise in health benefit costs. As a result, a new fund, titled the Employee Benefit Risk Management Fund (EBRMF), was established in October 2003. The fund was created to manage the state's self-insurance program and to pool all resources to pay for the costs associated with providing employee benefits for state employees and retirees.

Agencies are charged an actuarially determined "working rate", which is paid into this fund on a bi-weekly basis and efficiently controlled through the state's payroll system. The working rate is intended to cover the costs of anticipated claims, administrative fees and reserve requirements. Claims payments by the third party administrator to the healthcare providers are reimbursed by the state out of this fund weekly.

Now in its fifth full year of self-funding, the state has achieved, considerable cost savings. The average annual percent change in health costs has decreased from 17% for fiscal 2000-2003 to 9.3% for fiscal 2004-2009. In addition, during fiscal 2009, \$11.6 million of accumulated fund surplus was credited to the agencies as a rate holiday. The dental plan became self-funded in December 2007, and ended fiscal 2009 with a small surplus. At June 30, 2009, the EBRMF ended the year with a surplus of \$12.4 million and cash on hand of \$35.7 million.

The state continues to analyze the activity in this fund, and contracts with a consulting firm to assist and provide actuarial, claims audit and general consulting services in order to evaluate the ongoing performance of this fund and to determine the best way to control health benefit costs through this arrangement.



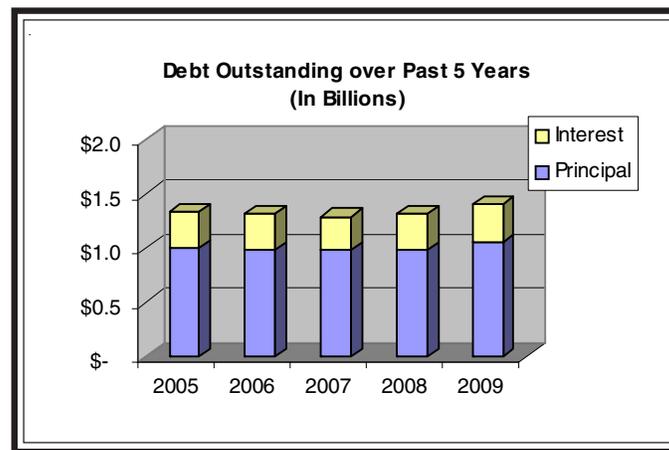
Debt Administration

The state may issue general obligation bonds, revenue bonds, and notes in anticipation of such bonds authorized by the Legislature and Governor and Council. The state may also directly guarantee certain authority or political subdivision obligations. At the end of the current fiscal year, the state had total bonded debt outstanding of \$1,055.6 million. Of this amount, \$811.5 million are general obligation bonds, which are backed by the full faith and credit of the state. The remainder of the state's bonded debt is Turnpike revenue bonds, which are secured by the specified revenue sources within the Turnpike System.

On November 4, 2008, the state issued \$149.6 million of general obligation capital improvement bonds. The interest rates on these serial bonds range from 4.0% to 5.0%, and the maturity dates range from 2010 through 2025.

On March 11, 2009, the state issued \$29.8 million of general obligation refunding bonds. The maturity dates on these serial bonds range from 2009 through 2018. These bonds were used to refund \$29.2 million of outstanding bonds. The refunding resulted in \$1.65 million in savings on a cash basis, representing a 5.5% savings over the life of the issue as measured by a net present value basis.

The state does not have any debt limitations, except for contingent debt guarantees, which are detailed in the state's Comprehensive Annual Financial Report (CAFR). Additional information on the state's long-term debt obligations can be found in Footnote's 5 & 16 of the CAFR.



Program Summary

In 1995, the NH Legislature and the Governor created a central umbrella agency, the Department of Health and Human Services, to make it easier for citizens to access programs and services and to reduce administration costs. DHHS' mission is *to join communities and families in providing opportunities for citizens to achieve health and independence*. DHHS is responsible for many of the regulatory and operations functions of New Hampshire's medical and health care, long term care, and social service systems including planning, delivery and financing of these three types of service. The Medicaid program with a total annual cost of \$1.4 billion is DHHS' largest program, consuming approximately 66% of the DHHS budget. The Medicaid program functions as a health and medical safety net for clients who meet income and medical eligibility criteria. This includes lower income elders, children, adults with children, low-income pregnant women, and disabled children and adults. Medicaid also finances long term nursing care for eligible seniors. In June 2009, the Medicaid program served 113,044 individuals, through a network of over 4,000 community providers. The Federal Medical Assistance Percentage (FMAP) for New Hampshire is normally 50% for most Medicaid services, but the American Recovery and Reinvestment Act (ARRA) increased FMAP during the period October 1, 2008, through December 31, 2010 by 6.2 percentage points plus additional increases based on the State's unemployment rate. Medicaid costs are driven by three factors: numbers of recipients, frequency of service (utilization) and the rates paid to service providers. The cost of the Medicaid program has been increasing, primarily the result of the increase in number of individuals served and utilization rates for certain services.

Other broad-based services managed by DHHS are protective services for children and seniors, Temporary Assistance to Needy Families, child care for eligible families, public health programs, federal Supplemental Nutrition Assistance Program (formerly food stamps), child support enforcement, licensing of regulated delivery systems, and programs for homeless and substance abusers. DHHS also operates a number of institutions including an acute care psychiatric hospital, transitional housing program for mental health clients, secure juvenile detention facility, one nursing home, and two substance abuse programs.

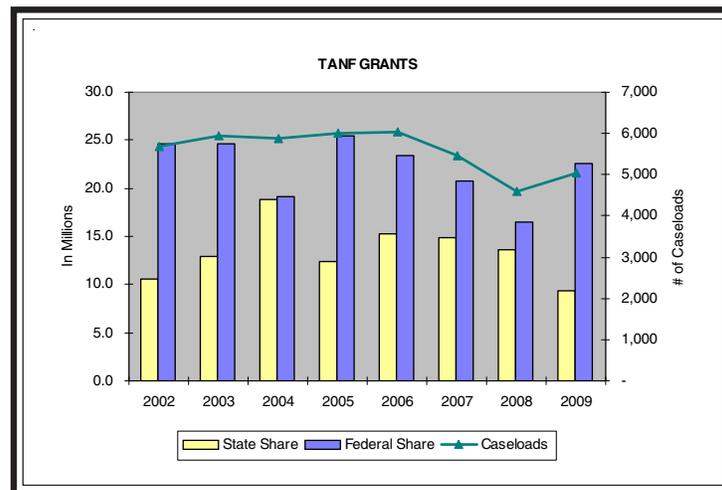
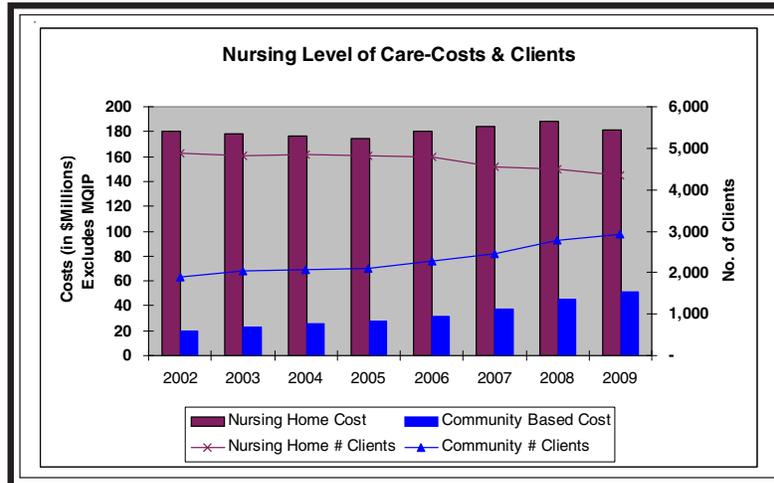
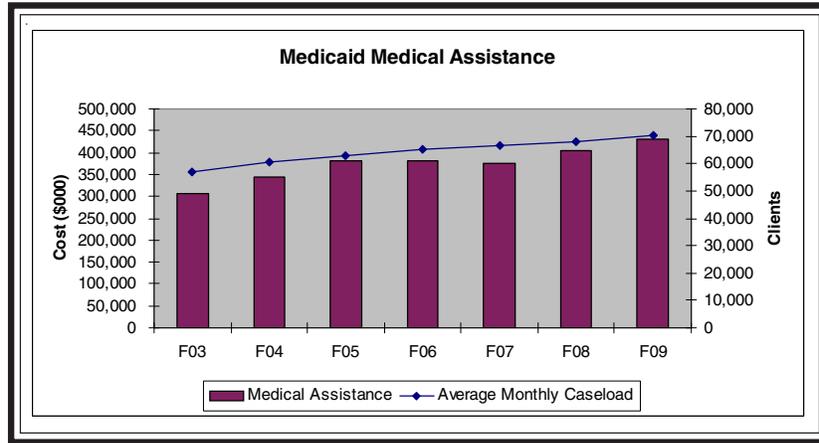
Although eligibility criteria have remained consistent and must remain so, for most programs, as required by ARRA, numbers of individuals qualifying for services began to increase dramatically in the spring 2009. Comparing June 2008 to June 2009:

- Total number of individuals receiving assistance-138,705 up 13.8%
- Individuals on Medicaid-113,044 up 9.4%
- Individuals on SNAP (food stamps) 83,789 up 29.9%
- Individuals on TANF and related programs 13,238 up 33.0%

Close to 40% of total state spending is for Health & Human Service Programs. Expenditures for Health & Human Services totaled \$2.0 billion in FY09, an increase of \$102.4 million (5.5%) from last year.

DHHS continually seeks cost containment efforts to improve administrative and program efficiencies in order to fund the increasing demand for services. Past efforts have included: consolidation of non-integrated service delivery systems, consolidation of developmental services area agencies, reductions in administrative costs across all service contracts, disease management, unified case management for dual diagnoses clients, and internal reorganization to streamline processes and maximize resources. Looking for ways to provide care in the community rather than high cost institutional placements continues to be a priority. Changes in service delivery for low-income elderly has reduced the number of Medicaid supported nursing home beds from 5,114 in 2000 to 4,478 in June, 2009, while the number of elderly supported in the community has increased from 1,318 to 3,009 during the same period. The new Work Participation Plan implemented in 2007 to help parents of the Temporary Assistance to Needy Families (TANF) program move to financial independence through work has resulted in work participation rates increasing from 27% to nearly 50%. These efforts take on increased importance in the coming months as the Department must reduce personnel costs by over 10% and find other savings through transformation of the way it contracts for services and manages the eligibility process. The significant focus for SFY10 and SFY11 will be to work with community stakeholders to identify strengths, weaknesses, opportunities, and threats to safety net and client improvement programs in the various regions of the State for the three broad service categories: health and medical services, long term care services, and social services, keeping in mind the DHHS mission to join communities and families in providing opportunities for citizens to achieve health and independence.

Health & Human Services



Public Works

During fiscal year 2009, the New Hampshire Department of Transportation (DOT) continued to improve and upgrade the state's transportation system, making travel safer and more accessible for NH tourists and its residents.

Transit expansion takes hold and grows: Commuters on the I-93 corridor have new choices for their travel, thanks to a new bus service initiated in November 2008 by the NHDOT through its Bureau of Rail & Transit. The Department contracted with Boston Express Bus to offer service from Manchester, Londonderry and Salem to Boston and Logan Airport. The service operates seven days a week from downtown Manchester and from new park and ride lots and bus terminals at Exit 5 in North Londonderry and Exit 2 in Salem, and weekdays from a new terminal at the Exit 4 park and ride lot. In all, travelers can choose from 60 round trips available on the new system. Early returns are positive, with ridership exceeding 1,000 per weekday.

Ridership on local transit systems continues to grow as well. Double-digit increases in ridership that took place in Keene, Nashua, Lebanon and other communities when gasoline prices peaked have held steady as the public recognizes the importance of the transit alternative.

Enhancing New Hampshire's Transportation System: During FY 2009, a total of 65 construction projects amounting to \$178 million were completed and accepted for maintenance by NHDOT Operations forces. The Department opened 75 contacts for bids involving approximately \$295 million in work performed by 36 contractors. These projects included highway and bridges, pavement resurfacing, guardrail upgrades, traffic signal installations or replacements, park and ride facilities, sidewalks and bicycle trails, wetland creation, and landscaping and the state and municipal levels.

Major Roadway/Bridge work completed in FY 09 included:

- Upgrade Granite Street @ Exit 5 (\$31.2 million)
- Pavement widening, reclamation along the first two mile segment within the city of Claremont with full box reconstruction in the remaining segment in the Town of Newport. The Ram Brook Bridge at the eastern end will be replaced. (\$13.3 million)
- Replacement of the bridge over the Pemigewasset River between the towns of Holderness and Plymouth and Route 175A. Route 175A will be reconstructed from the intersection with Route 3 in Plymouth to I-93. Route 175A will be realigned to intersect Route 3 in Plymouth. (\$12.5 million)
- US 3 Replace bridge over local road & Suncook River. (\$11.7 million)
- NH 26, reconstruction from 3 miles west of Dixville town line easterly 2.5 miles to include replacement of bridges: 202/059 over Balsam Pond Outlet and 201/062 & 177/068 over Mohawk River (\$8.6 million)
- Reconstruction and widening of US 3/NH 11 beginning approximately 440 meters west of the intersection of Old State Road to the Belmont/Laconia town line. Reconstruction and realignment of approximately 100 meters of the Laconia Bypass SB and NB off ramps. (\$8.9 million)
- I-93 replace Cross Street Bridge – 089/052 and approaches Salem (\$6.7 million)
- I-93 and I-293 from I-293 in Manchester north 2 miles to exit 7 (\$4.9 million)

American Recovery and Reinvestment Act (ARRA): The amount of transportation investment and work in calendar year 2009 was historic, with \$130 million in additional funding for roads and bridges provided by the American Recovery and Reinvestment Act of 2009 (ARRA). This essentially doubled the construction program, allowing for an additional 500 miles of pavement rehabilitation work, an infusion of funds into the rebuilding of Interstate 93 from Salem to Manchester, accelerated the construction of the Manchester Airport Access Road, and made it possible for the State of New Hampshire to fund 35 municipal road and bridge projects across the state by funding the reconstruction of Exit 20 of I-89 in Lebanon.

In addition to the 38 regular projects, the Highway Design Bureau advertised 12 projects valued at \$93,000,000 using ARRA funds. The NHDOT was second in the nation in obligating ARRA funds and getting the projects to contractors and their workers. This required an extremely aggressive project development process, and in most cases required design teams to completely develop the projects within a two to four month timeframe.

Public Works - Continued

ARRA funds made possible, either directly or indirectly, work on 72 bridges as part of roadway resurfacing projects. Similarly, applying ARRA funds to programmed state projects allowed allocation of original federal funds for use in construction of many municipal bridge replacement projects through the Municipally-Managed Bridge Program.

ARRA also provided an additional \$13.5 million for Transit projects and new buses, and \$4.9 million for improvements at airports in Manchester, Keene, Nashua and Gilford.

The Department's Red List reports bridges with known deficiencies. The calendar year Red List reported 139 state-owned bridges on the list, with 19 added while 17 were removed during the year.

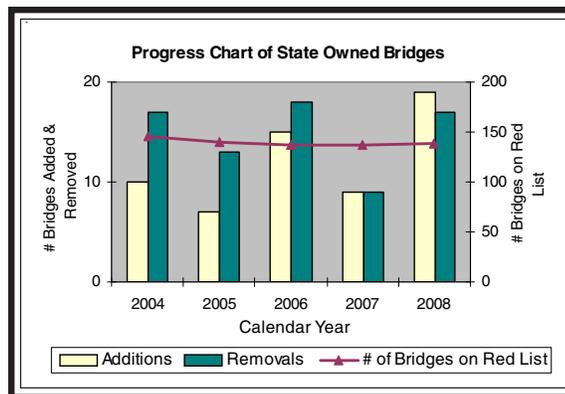
Highway Maintenance: During the 2009 fiscal year, NHDOT Highway Maintenance Patrol Crews mobilized and quickly responded to multiple emergency cleanup operations for major storm events from July to December 2008.

Patrol Crews cleared damages from the tornado event of July 24, 2008 that shut down roads, power lines, ruined homes, roads and forest land in locations from Deerfield to Alton where the tornado touched down multiple times.

Three months later Highway Maintenance Patrol /Crews in Districts 2, 3, 4, 5, and 6 combined forces for a remarkable emergency cleanup during and after the December 12, 2008 record-breaking ice storm that crippled northern Massachusetts and New Hampshire, from the Seacoast to the Lakes Region to the Monadnock region. Unprecedented damage to power lines left an estimated 250,000 customers in New Hampshire alone without power. Highway Maintenance patrol crews alongside other DOT personnel (Traffic, Fuel Distribution, Bridge Maintenance etc.) performed cleanup operations swiftly, efficiently and creatively while dealing with no electrical power – finding generators for fueling sites so vehicles and emergency operations could continue without interruption, clearing roads of tree debris so public utility crews could enter to repair damaged wires as swiftly as possible, distributing DOT resources for temporary use as needed, assisting other state agencies, coping with defunct traffic signals, and prioritizing cleanup first to vital public and private emergency services.

FY 2009 Facts and Figures:

- Bureau of Bridge Design inspectors performed 1,432 regularly scheduled inspections on state bridges and 1,069 regularly scheduled inspections on municipal bridges. In addition, 29 underwater inspections were performed for specific bridges.
- For FY 2009, Fuel Distribution Section supplied 4.95 million gallons of motor fuels, a decrease of approximately 300,000 gallons from last year.
- 107,663,153 vehicles passed through the Turnpike Toll System in FY 2009. This resulted in an approximate 4.21% increase in revenue over FY '09 or approximately \$104,672,894 in total revenue.
- There were 224,012 E-ZPass (electronic tolling) accounts at the end of FY 2009, an increase of over 15,350 accounts over FY '08. As of June 30, 2009, E-ZPass market share was at 59.6%.
- The Bureau of Aeronautics processed registrations for 115 airports and more than 1,246 aircraft.



Surplus: General & Education Funds

(In Millions of dollars)

	FY 2007	FY 2008			FY 2009		
	Total	General	Education	Total	General	Education	Total
Undesignated Fund Balance, July 1	\$ 34.4	\$ 61.7	\$ -	\$ 61.7	\$ 17.2	\$ -	\$ 17.2
Additions:							
Unrestricted Revenue	2,291.2	1,483.9	882.8	2,366.7	1,360.2	842.2	2,202.4
Executive Order Revenue					15.1		15.1
Total Additions	2,291.2	1,483.9	882.8	2,366.7	1,375.3	842.2	2,217.5
Deductions:							
Appropriations Net of Estimated Revenues	(2,275.7)	(1,575.8)	(897.1)	(2,472.9)	(1,509.2)	(897.7)	(2,406.9)
Less Lapses	46.1	61.6	(0.3)	61.3	71.2	3.0	74.2
Total Net Appropriations	(2,229.6)	(1,514.2)	(897.4)	(2,411.6)	(1,438.0)	(894.7)	(2,332.7)
GAAP and Other Adjustments	(14.3)	7.9	(0.7)	7.2	2.1	(0.4)	1.7
ARRA Stabilization					18.4		18.4
Current Year Balance	47.3	(22.4)	(15.3)	(37.7)	(42.2)	(52.9)	(95.1)
Fund Balance Transfers (To)/From:							
Rainy Day Fund	(20.0)				79.7		79.7
Highway Fund		(6.8)		(6.8)	(1.8)		(1.8)
Education Trust Fund		(15.3)	15.3		(52.9)	52.9	
Undesignated Fund Balance, June 30,	\$ 61.7	\$ 17.2	\$ (0.0)	\$ 17.2	\$ -	\$ -	\$ (0.0)
Reserved for Rainy Day Account	89.0	89.0		89.0	9.3		9.3
Total Equity	\$ 150.7	\$ 106.2	\$ (0.0)	\$ 106.2	\$ 9.3	\$ -	\$ 9.3

Fund Level Highlights

The fiscal year 2009 budget as originally adopted estimated a surplus of \$18.4 million would be available to begin fiscal year 2009. The actual General Fund surplus at June 30, 2008 totaled \$17.2 million. The General and Education Trust Fund revenues for fiscal year 2009 initially were \$2,204.4 million, which were \$315.3 million below plan. After including \$15.1 million of additional revenues included in Executive Order's discussed below, total General and Education Trust Fund revenues were \$2,217.5 million for fiscal year 2009.

Throughout fiscal year 2009, the State's revenue outlook for the year continued to deteriorate. To close the fiscal year 2009 gap, the following actions were taken:

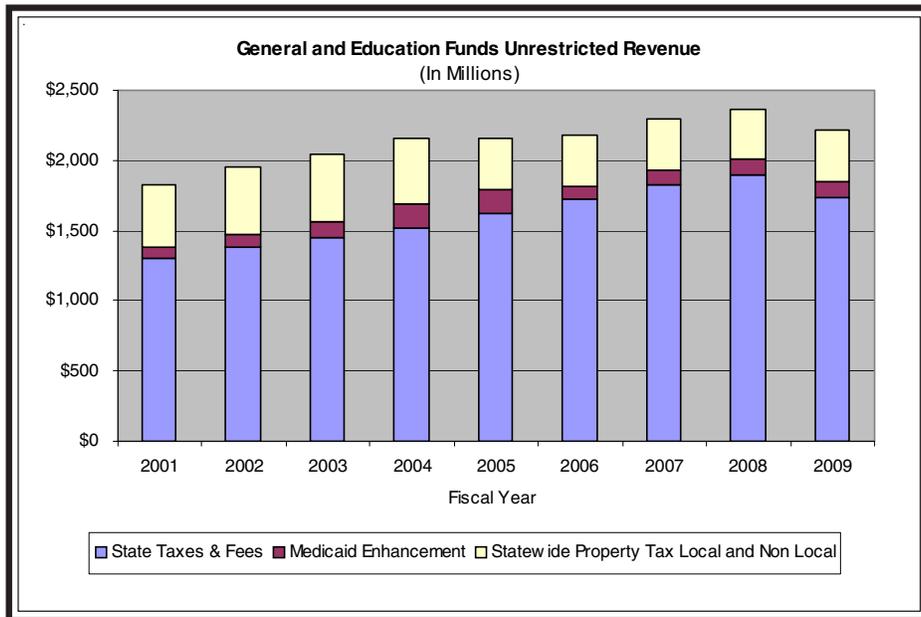
- Chapter 144, Laws of 2009 ("HB2"), directed that \$65 million be liquidated from the \$110 million surplus in the medical malpractice insurance fund. This fund was originally established in the 1970s to provide coverage as the insurer of last resort. The fund is administered by the Joint Underwriters Association ("JUA") and has accumulated a surplus in excess of required reserves. However, a group of medical providers ("Providers") in the State challenged the State's right to use this surplus and on January 28, 2010, the State Supreme Court decided in favor of the Providers' position, rendering this revenue action ineffective. As a result, \$65 million was transferred from the State's Rainy Day Fund in lieu of the amount from the JUA.
- Bonding of \$40 million in fiscal year 2009 school building aid payments.
- Applying increased federal Medicaid reimbursement rates from the American Recovery and Reinvestment Act (ARRA) of \$22.4 million to Medicaid costs incurred during fiscal year 2009.
- Applying \$34.0 million in unallocated State Fiscal Stabilization Funds from ARRA monies.
- Executive Order 2008-1, initially issued on February 22, 2008 and expanded with Executive Order 2008-8 to include all of fiscal year 2009 on June 17, 2008, reduced fiscal year 2009 expenditures by \$9.2 million.
- Executive Order 2008-9, issued on June 17, 2008, reduced fiscal year 2009 appropriations and increased miscellaneous revenues across all State agencies, and totaled \$30.1 million.
- Executive Order 2008-10 issued on November 21, 2008 further reduced fiscal year 2009 appropriations and increased miscellaneous revenues across all State agencies in addition to those in Order 2008-9 and totaled \$53.5 million.
- Executive Order 2008-11 significantly restricted, and in some instances eliminated, the use of overtime, consultants, tuition reimbursements, and other categories of spending for fiscal year 2009 estimated savings of \$5.0 million.
- Chapter 1, Laws of 2009 effective February 20, 2009 further reduced the shortfall by \$16.7 million primarily by transferring dedicated funds and reducing the General Fund contribution to the Highway Fund.

These and various other actions taken by the state along with ongoing efforts by agencies and departments statewide to manage expenses, contributed to fiscal year 2009 lapses coming in approximately \$20 million above estimates. After these measures, a total of \$79.7 million of the State's Rainy Day Fund was needed to cover the remaining undesignated, unreserved deficit in the state's general and Education Trust Funds, leaving the Rainy Day Fund with a balance of \$9.3 million at June 30, 2009.

General and Education Fund total net appropriations for fiscal year 2009, including budget reductions and lapses, were \$2,332.7 million, \$78.9 million (3%) below the prior year. Lapses

Unrestricted Revenue

Revenue Category	FY 2007	FY 2008			FY 2009			FY 2009 Combined Plan
		General	Education	Total	General	Education	Total	
Business Profits Tax.....	\$ 345.2	\$ 317.4	\$ 68.0	\$ 385.4	\$ 251.9	\$ 53.9	\$ 305.8	\$ 388.6
Business Enterprise Tax.....	253.5	77.7	155.0	232.7	61.9	123.4	185.3	285.4
Subtotal.....	598.7	395.1	223.0	618.1	313.8	177.3	491.1	674.0
Meals & Rooms Tax.....	209.8	206.7	7.6	214.3	203.6	6.1	209.7	230.0
Tobacco Tax.....	143.6	57.1	109.3	166.4	59.3	128.8	188.1	194.9
Liquor Sales and Distribution.....	124.7	133.1		133.1	146.0		146.0	153.6
Interest & Dividends Tax.....	108.1	118.7		118.7	97.1		97.1	126.0
Insurance Tax.....	97.9	95.9		95.9	94.2		94.2	98.3
Communications Tax.....	73.0	80.9		80.9	80.3		80.3	82.9
Real Estate Transfer Tax.....	137.4	77.7	38.6	116.3	53.5	27.7	81.2	145.6
Estate and Legacy Tax.....	0.6	0.2		0.2	-		-	-
Transfers from Lottery Commission.....	79.0	-	75.5	75.5		68.1	68.1	87.8
Transfers from Pari-Mutuel Commission.....	1.5		1.5	1.5		1.5	1.5	1.5
Tobacco Settlement.....	40.8	8.4	40.0	48.4	12.8	40.0	52.8	49.3
Utility Property Tax.....	21.8		24.2	24.2		29.0	29.0	23.6
Property Tax Retained Locally.....	363.3		363.1	363.1		363.7	363.7	363.0
Other.....	191.8	196.9		196.9	193.3		193.3	180.8
Subtotal.....	2,192.0	1,370.7	882.8	2,253.5	1,253.9	842.2	2,096.1	2,411.3
Net Medicaid Enhancement	-							
Revenues.....	83.3	93.1		93.1	99.6		99.6	91.8
Recoveries.....	15.9	20.1		20.1	21.8		21.8	14.6
Subtotal.....	2,291.2	1,483.9	882.8	2,366.7	1,375.3	842.2	2,217.5	2,517.7
Total.....	\$ 2,291.2	\$ 1,483.9	\$ 882.8	\$ 2,366.7	\$ 1,375.3	\$ 842.2	\$ 2,217.5	\$ 2,517.7



Unrestricted Revenue Highlights

Unrestricted revenue for the General and Education Funds for fiscal year 2009 totaled \$2,217.5 million which included \$15.1 million of revenue related to Executive Orders 2008-9 and 2008-10. Before additional executive order revenue, fiscal 2009 revenue was below the revised plan by \$315.3 million or 12.5% and \$164.3 million or 6.9% below the prior year. This revenue shortfall was driven primarily from Business Taxes, Real Estate Transfer Tax, and Interest and Dividends Tax, which were heavily impacted by the ongoing recessionary environment.

- Business Taxes (BPT & BET) totaled \$491.1 million for the year, which were \$182.9 million (27.1%) short of plan and \$127.0 million (20.5%) below the prior year.
- Real Estate Transfer Tax (RET) receipts totaling \$81.2 million were below the plan by \$64.4 million (44.2%) and below prior year by \$35.1 million (30.2%).
- Interest and Dividends (I&D) collections totaled \$97.1 million for the year, which were below the plan by \$28.9 million (22.9%) and below prior year by \$21.6 million (18.2%).

Reflecting the impact that the recession is having on discretionary spending, the Meals and Rooms Tax (M&R), Lottery Transfers and Liquor Sales were all below revised plan for the year.

M&R totaled \$209.7 million and were \$20.3 million (8.8%) short of plan and \$4.6 million (2.1%) below prior year. Lottery transfers were \$68.1 million or \$19.7 million (22.4%) short of plan and \$7.4 million (9.8%) below the prior year. Liquor sales totaled \$146.0 million or \$7.6 million (4.9%) below revised plan but were \$12.9 million (9.7%) above the prior year.

Government-Wide Financial Data: Net Assets

New Hampshire's government-wide financial statements include a Statement of Net Assets and a Statement of Activities. On both statements, governmental and business-type activities are segregated. Governmental Activities represent most of the state's basic services and are generally supported by taxes, grants, and intergovernmental revenues. Business-Type Activities are normally intended to recover all or a significant portion of their costs through user fees and charges to external users of goods and services.

The full accrual method of accounting is used, like many businesses, and recognizes revenue and expenses when the earning process is complete regardless of when cash is received or disbursed. This results in the broadest perspective on finances.

The Statement of Net Assets reports the state's total assets and liabilities. The difference between assets and liabilities represents net assets.

State of New Hampshire Condensed Statement of Net Assets			
Primary Government as of June 30, 2009			
(In Millions)			
	Governmental Business-Type		
	Activities	Activities	Total
Current assets	\$ 889.8	\$ 280.4	\$ 1,170.2
Capital assets	2,468.4	584.2	3,052.6
Other assets	283.5	6.8	290.3
Total assets	3,641.7	871.4	4,513.1
Long-term liabilities	1,072.1	240.4	1,312.6
Other liabilities	579.2	97.9	677.1
Total liabilities	1,651.3	338.3	1,989.6
Net assets:			
Invested in capital assets,			
net of related debt	1,695.7	341.4	2,037.1
Restricted	291.5	150.4	441.9
Unrestricted	3.1	41.4	44.5
Total net assets	\$ 1,990.3	\$ 533.2	\$ 2,523.5

The state's combined net assets (government and business-type activities) totaled \$2.5 billion at the end of 2009, compared to \$2.9 billion at the end of the previous year.

Investment in Capital Assets: The largest portion of the state's net assets (81%) reflects its investment in capital assets such as land, buildings, equipment, and infrastructure (roads and bridges), less any related outstanding debt used to acquire those assets. The state's investment in capital assets increased \$46.8 million from prior year. This increase was the result of a net increase in capital assets of \$110.7 million during the year combined with an increase in capital related debt of \$63.9 million. Although the state's investment

in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves generally cannot be used to liquidate these liabilities.

Restricted Net Assets: An additional portion of the state's net assets (18%) represents resources that are subject to external restrictions on how they may be used. Restricted net assets decreased \$189.5 million from prior year due largely to a decrease in unemployment compensation benefit reserves of \$114.5 million along with a reduction in revenue stabilization (Rainy Day) reserves during the year.

Unrestricted Net Assets: The state's unrestricted net assets, totaling \$44.5 million, decreased \$204.3 million from the previous year, due largely to weak performance from business taxes and real estate transfer taxes and the recognition of other postemployment benefit liabilities in accordance with governmental accounting standards. These assets may be used to meet the state's ongoing obligations to citizens and creditors. Internally imposed designations of resources are not presented as restricted net assets. At the end of both the current and prior fiscal years, the state was able to report positive balances in all three categories of net assets, both for the primary government as a whole, as well as for its separate governmental and business-type activities.

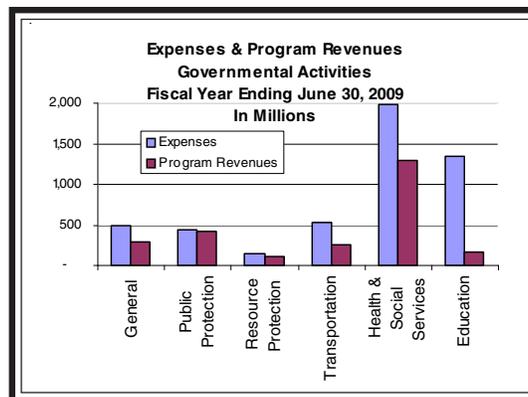
Governmental Type Activities

Governmental Activities

Direct expenses from Governmental activities of \$5.0 billion exceeded program revenues of \$2.5 billion resulting in a shortfall of \$2.5 billion. Program revenues, include charges for goods or services and Federal and Local Grants, which directly support program expenses. The shortfall of \$2.5 billion was funded through General Revenues primarily taxes.

Condensed Schedule of Expenses & Program Revenues			
Primary Government-Governmental Activities			
For Fiscal Years Ending June 30, 2009			
(In Millions)			
Functions/Programs	Expense	Program Revenues	Net Revenue/(Expense)
Governmental Activities:			
General government	\$ 495.7	\$ 290.1	\$ (205.6)
Administration of justice and public protection	438.3	426.1	(12.2)
Resource protection and development	139.6	108.4	(31.2)
Transportation	518.4	247.8	(270.6)
Health and social services	1,980.3	1,282.5	(697.8)
Education	1,346.2	170.6	(1,175.6)
Interest Expense	315		(315)
Total Governmental Activities	\$ 4,950.0	\$ 2,525.5	\$ (2,424.5)

A comparison of the cost of services by function for the state's governmental activities with the related program revenues is shown in the chart below. Note that the largest expenses for the state, Health and Social Services and Education, also represent those activities that have the largest gap between expense and program revenues. Since these expenses are least recovered from program revenues, the differences are made up from general revenues, which primarily represent state's taxes, such as the statewide property taxes, business profits tax, business enterprise tax, real estate transfer, tobacco, meals and rooms, interest and dividends, etc. Health and Social Services increased by 5.5% from the previous year, while Education expenses grew approximately 0.2%.



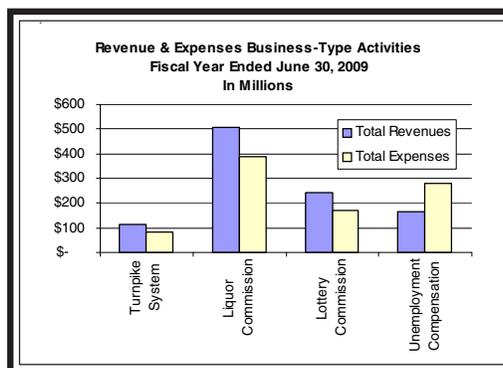
Business-Type Activities

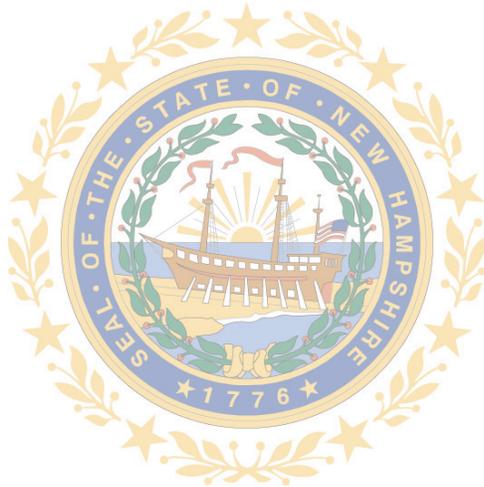
Business-Type Activities

Business-Type activities include the operations from the Liquor Commission, Lottery Commission, Unemployment Compensation Fund, and Turnpike Fund. A comparison of revenue and expenses for business-type activities is shown below. Charges for goods and services for the state's combined business type activities were more than adequate to cover the operating expenses and resulted in program revenue greater than expenses by \$109.6 million.

Condensed Schedule of Expenses & Program Revenues			
Primary Government-Business-Type Activities			
For Fiscal Year Ending June 30, 2009			
(In Millions)			
Functions/Programs	Expense	Program Revenues	Net Revenue/(Expense)
Business-type Activities:			
Turnpike System	\$ 80.4	\$ 111.5	\$ 31.1
Liquor Commission	385.8	507.5	121.7
Lottery Commission	172.6	243.9	71.3
Unemployment Compensation	280.4	165.9	(114.5)
Total Business-type Activities	<u>\$ 919.2</u>	<u>\$ 1,028.8</u>	<u>\$ 109.6</u>

- Sales growth from the operations of the Liquor Commission resulted in net income of \$121.7 million, a 9.0% increase from prior year, all of which was transferred to the General Fund to fund the general operations of the state.
- A decline in lottery ticket sales during the year contributed to a \$71.3 million or 7.7% decrease in net income from the Lottery Commission which was transferred to the Education Fund.
- Turnpike System net income increased by \$31.1 million or 8.2% as a result of growth in toll revenues primarily due to toll rate increases implemented during the year.
- The operations of Unemployment Compensation, resulted in a decrease in net assets of \$114.5 million as a result of the weakening economy leading to higher unemployment benefit payments this fiscal year.





**State of New Hampshire
Department of Administrative Services
Division of Accounting Services
25 Capitol Street
State House Annex Room 310
Concord, NH 03301**

<http://admin.state.nh.us/accounting/reports.asp>