

# State of New Hampshire's



## ANNUAL CITIZENS REPORT FOR THE FISCAL YEAR ENDED JUNE 30, 2008



**Prepared By:**  
**DEPARTMENT OF ADMINISTRATIVE SERVICES**

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# State of New Hampshire's *Annual Citizens Report* For Fiscal Year Ended June 30, 2008



**Prepared by the Department of  
Administrative Services**

Linda M. Hodgdon, Commissioner

**Division of Accounting Services**

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Kelly J. Brown

## State Officials



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

### Selected State Officials as of June 30, 2008:

#### **Governor**

John H. Lynch

#### **Executive Council**

Raymond S. Burton, District 1  
John D. Shea, District 2  
Beverly A. Hollingworth, District 3  
Raymond J. Wieczorek, District 4  
Debora 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

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

I am pleased to accept the *Fiscal Year 2008 State of New Hampshire Annual Report to the Citizen's*.

This year, we continued to make progress in ensuring that the State of New Hampshire is a place of opportunity for all our citizens. We took the actions necessary to ensure a balanced budget while protecting vital services; we improved the financial management of state government; we made significant progress toward ensuring the long-term viability and affordability of our state's Retirement System; and we created an honest, fiscally responsible 10-year highway transportation plan that will allow New Hampshire to move forward with critical infrastructure projects.

Despite a revenue shortfall of nearly \$50M in fiscal year 2008, we made the decisions necessary to reduce spending and balanced our budget, ending the year with a small surplus.

We have expanded centralized purchasing for state government to stretch taxpayer dollars further and began implementation this year of a new statewide enterprise resource planning system. This project will modernize the State of New Hampshire's business processes and increase the efficiency of our state's financial management system.

Working together, we made important reforms to the state Retirement System, helping to ensure its long-term viability and providing cost savings to local taxpayers. Our work helped to restore the system to solid financial footing and avoid employer rate increases of fifty percent or more.

We created an honest, financially responsible 10-year Highway Plan that makes important investments in reducing congestion and improving public safety. With this plan, we will be able to move forward with important projects across the state, including expanding Interstate 93 and the Spaulding Turnpike and repairing 80 critical red-listed bridges.

I am very proud of all we have accomplished this past year. I want to thank everyone involved in this effort from the legislature, to state employees, to the people of our great state. The involvement of people from across New Hampshire is essential in meeting the challenges we face.

Sincerely,



John H. Lynch  
Governor

## *New Hampshire's Scoreboard*

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<i>New Hampshire's Economic Scoreboard for 2008</i>		
<i>Categories</i>	<i>NH's National Rank</i>	<i>NH's Rank in New England</i>
Favorable Tax Climate	1st	1st
Healthiest State (CQ Press, 2008)	1st	1st
Standard of Living (by Poverty Rate 2005-2007)	1st	1st
Child and Family Well-Being (Annie E. Casey Foundation, 2007)	2nd	1st
Safest State (Lowest crime rate, 2006)	2nd	1st
Most Livable State (CQ Press, 2008)	1st	1st
College Educated Population	10th	4th

*Source: Dennis Delay, NH Center for Public Policy Studies*

*New Hampshire has continued to receive high quality of life rankings in CQ Press' (formally known as Morgan Quitno) Most Livable State Awards, ranking first in standard of living, Healthiest State, Favorable Tax Climate and the most livable state.*

We would like to present our fiscal year 2008 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.

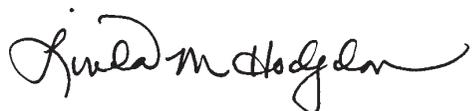
This report presents selected financial information for the state's general fund and education trust fund, including unrestricted revenue performance and a surplus statement, and financial information on a government-wide basis, in accordance with generally accepted accounting principles (GAAP). Readers 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.

New Hampshire, like other states, began to feel the effects of the developing economic crisis during the latter half of the year. In addition to the ongoing housing market downturn, business and consumer discretionary revenue sources began to weaken. Total General and Education Fund unrestricted revenue ended the year \$48.1 million or 3% under fiscal 2008 estimates. In response to economic pressures, the state issued several executive orders to help curb fiscal 2008 spending; including appropriation reductions, freezes in travel, equipment and vacant positions.

The General Fund surplus at the start of the fiscal year totaled \$61.7 million. As a result of revenue collections falling short of estimates, a combined General and Education Fund deficit of \$37.7 million was realized during the year of which \$15.3 million was in the Education Fund. After a General Fund transfer to eliminate the Education Fund deficit and a budgeted transfer of \$6.8 million from the General Fund to the Highway Fund, the General Fund ended the year with a surplus of \$17.2 million at June 30, 2008. The Rainy Day balance did not change during the year and remained at \$89.0 million.

Moving into fiscal 2009, the economic downturn has accelerated and unrestricted revenue is forecasted to fall short of estimates by as much as \$250 million. In anticipation, the executive orders issued in fiscal 2008 were also applicable to fiscal 2009. Additional executive orders have been issued to address fiscal 2009 deficits; including additional appropriation reductions, and freezes of non-essential purchases. In addition, a provision in law was made to bond up to \$40 million of the school building aid program. Taking these steps into account, the Governor continues to work on a plan to address a remaining revenue shortfall of up to \$100 million. Given the current nature of the national and regional economies and of the financial markets, these estimates are likely to change and could worsen.

The state will be monitoring revenues collections closely, and will continue to manage spending with budget reductions and program savings initiatives, as well as explore other options.



Linda M. Hodgdon, Commissioner

## *Economic Highlights of the Granite State*

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All indications are that New Hampshire's economy, like that of regions, is in a recession with difficult challenges ahead. To help overcome these challenges, New Hampshire continues to retain its advantages over other states in the region with low unemployment, low tax burdens, a highly educated and skilled workforce, and a small and accessible government. In addition, New Hampshire has continued to receive high quality of life rankings in CQ Press' (formally known as Morgan Quitno) Most Livable State Awards, ranking first in standard of living, and the most livable state.

Regional economic growth will continue to contract due to the broadening and deepening impact of the global credit crisis. The downturn that started in the real estate market and spread to the financial sector is now extending to retail trade and beyond to other sectors of the economy. Shrinking business and consumer confidence is leading to declining sales, investment and employment. As employment declines, further erosion of business and consumer confidence is expected to occur leading to further reductions in spending and more layoffs. Forecasting out to 2012, economists expect the region will lose about 250,000 jobs or 3.6% of employment. Unemployment is expected to rise to its highest rate since 1992, reaching as much as 8% but will remain below national averages. Real per capita income is expected to decline sharply in Q4 2008, at a 4.4% annualized rate and then be flat through 2009, not reaching 3% growth until 2011. Housing prices have been experiencing sharp declines across the region, but these declines are not as deep as those being seen in the more overheated markets around the country, nor the depressed Midwest markets. The peak-to-trough decline in median housing prices is expected to be 22% versus a forecasted national decline of 30%. A slow, weak economic recovery is expected across the region.

New Hampshire's Gross State Product is currently in a period of no or slow growth with signs that 2007-2008 may even experience a slight drop. Peak to trough employment declines in New Hampshire are forecasted to be 0.4%, with unemployment expected to approach 6%. Manufacturing jobs in New Hampshire have declined at a 1.8% annual rate from 2002-2007, however, this rate is expected to slow to a 0.2% average annual loss due to recent expansion in defense and precision instrument manufacturing. Leading employment growth sectors in New Hampshire are expected to be health services, business & professional services, information and high technology. Single family residential home sales have fallen 42% from the peak, but median housing prices have held up much better, declining only 11% from \$269,900 in 2005 to an estimated \$240,000 in 2008.

As New Hampshire enters this recessionary period, the state is in a stronger position than the rest of the region and the nation as a whole. Economists highlight the fact that New Hampshire's unemployment rate has remained below the New England and national averages, and though housing prices in the state have fallen, they are not anticipated to drop as sharply as other parts of the country. Consistent with past recessions, New Hampshire is forecasted to come out of this recession before the U.S. as a whole and outperform the region in recovery due to the state's diverse economy, educated workforce, low poverty, low unemployment and relatively affordable housing.

Economists remain concerned, however, as forecasting the extent and duration of the recession is difficult because it is being driven by the global and U.S. macro economies. Until financial systems stabilize and policymakers implement anticipated stimulus, risks to current outlooks remain firmly to the downside as the economy's slide will be much longer and deeper.

*Information Provided by New England Economic Partnership, Ross Gittell and James R. Carter Professor, Whittemore School of Business and Economics, University of New Hampshire.*

## **Enterprise Resource Planning (ERP)**

Enterprise Resource Planning (ERP) is an information technology industry term for integrated, multi-module application software packages designed to serve and support several business functions across an organization. An ERP system is a strategic tool that helps the organization improve operations and management by integrating business processes and helping to optimize the allocation of available resources. These systems are typically commercial software packages that facilitate collection and integration of information related to various areas of an organization such as finance, accounting, human resources, inventory, procurement, and customer service.

The 2005 capital budget and in subsequent laws the legislature has appropriated nearly \$22 million for the ERP project of which \$11.3 million has been spent to date. In April 2006, a vendor was selected and Ciber, Inc. and Lawson Software were awarded contracts and on July 26, 2006 the ERP project was officially kicked off under the project name of NH FIRST (New Hampshire Fundamental Improvements to Revitalize Systems/Services and Technology).

NH FIRST will be replacing the state's separate and antiquated budgeting, accounting and human resources systems with a new, fully integrated system, which will offer far more functionality than exists today and will support statewide business office functions. NH FIRST will use the latest information technology to allow information sharing with other agencies, vendors, and citizens like never before and will transform the way New Hampshire state government does business.

Due to resource constraints and the complex nature of this project, the original implementation approach could not be achieved and has been through two contract revisions. The current version of the contract modified the implementation phases of the system. The first phase (Phase I) targets a three step approach. The first step is the delivery of a new chart of accounts within the state's existing legacy financial system by July 1, 2008 to provide a foundation that could be used for the new ERP system. The new chart of accounts was successfully deployed on July 1, 2008. The second step targeted the delivery of the "new" budget development component of the ERP system so it could be used for fiscal years 2010-2011 budget planning. The new budget development system was deployed on August 1, 2008 and is currently operational. The third step was the development of the remaining core financial system modules, which are scheduled to be deployed at the end of fiscal year 2009. This effort is currently in progress. After the financial system modules are implemented, subsequent activity will be planned accordingly for human resources, payroll, benefits administration, asset management and additional advanced functionality during fiscal year 2010.

## *Self - Insurance Initiative*

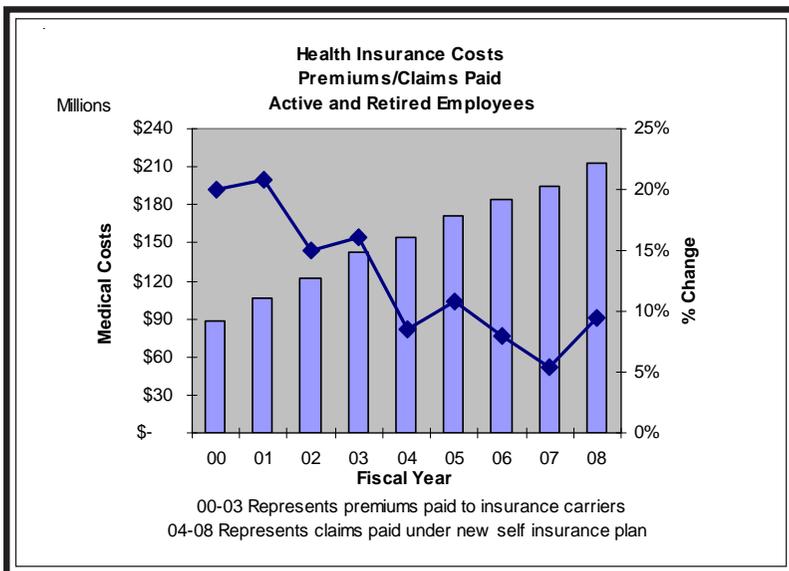
### Employee Benefit Risk Management Fund

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 insurance costs. As a result, a new fund, titled the Employee Benefit Risk Management Fund, was established beginning in October 2003. The fund was created to manage 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.

Agencies are charged an actuarially determined premium paid into this fund on a bi-weekly basis and efficiently controlled through the state's payroll system. These premiums are intended to cover the costs of claims presented, stop-loss coverage, administrative fees and reserve requirements. Claims payments by the third party administrator to the providers are reimbursed by the state out of this fund daily.

Although self-funding is still a relatively new undertaking for the state, considerable cost savings have been achieved. The average annual percent change in health costs has decreased from 18% for fiscal 2000-2003 to 8% for fiscal 2004-2008. In addition, during fiscal 2008, \$23.8 million of accumulated fund surplus was credited to the agencies as a rate holiday. Also, the dental plan became self-funded in December 2007, and ended fiscal 2008 with a small surplus. At June 30, 2008, the fund ended the year with a surplus of \$24.8 million and cash on hand of \$44.6 million.

The state continues to analyze the activity in this fund, and has contracted 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.



The Commissioner of the **Department of Education** (DOE), in collaboration with the Governor, established three goals for the New Hampshire DOE: (1) Reduce the dropout rate and increase the compulsory school attendance age; (2) Improve the quality of data coming from the New Hampshire Department of Education with which to make sound educational decisions and improve instruction; and (3) Implement the *Follow The Child Initiative*, wherein each child would receive a personalized education that assesses progress personally, socially, physically, and academically. The DOE has made significant progress toward implementing those goals, improving the condition of education in New Hampshire schools, and empowering teachers to personalize education for each child, through the *Follow The Child Initiative*.

*During the 2008 school year, state aid for local schools districts was allocated in the following ways: (1) Adequate Education Grants \$890.4 million; (2) Building Aid \$46.4 million; (3) Catastrophic Aid \$31.7 million; (4) Tuition and Transportation for Career and Technical Programs \$6.5 million; and (5) Kindergarten Aid \$850,800.*

*Follow The Child Initiative.*

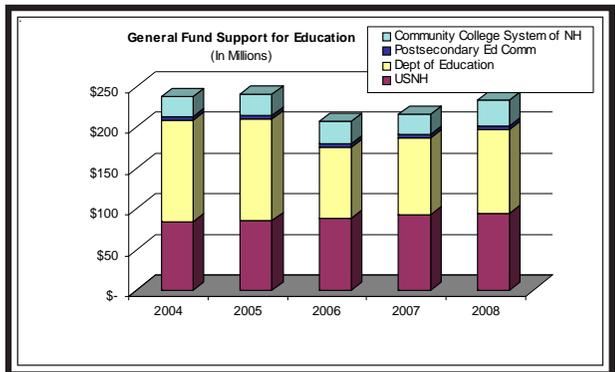
Grants totaling \$2.1 million through June 2009, that have been awarded to several school districts which will assist in implementing programs that are specifically designed to personalize the education of those students who are at risk of leaving school without attaining a high school diploma. The Longitudinal Data Grant was awarded to the DOE for \$3.2 million. The purpose of this award is to create and implement systems for more efficient data collection and management in order to make sound educational decisions. In addition, The New Hampshire State System of Support has been established for the purpose of providing support to local school districts that do not meet the defined proficiency standards within the *Follow the Child Initiative*.

The year 2008 marked several outstanding achievements for **NHTI**, Concord’s Community College. The school graduated over 550 students, one of the largest commencements ever.

Groundbreaking for the new Health Education and Academic Center took place in May 2008. This three-story, 34,000 square foot building will house a state-of-the-art nursing simulation laboratory with replicated hospital rooms and nursing stations, nursing classrooms, science labs, a computer lab and a 175-seat auditorium.

NHTI launched five new academic programs: the *Information Technology Applications Development Certificate Program*; the *Information Technology Networking Certificate Program*; the *Landscape and Environmental Design Associates Degree*; the *Professional Certificate in Orthopaedic Technology*; and the *Public Safety Communications Certificate* program. These programs will respond to community needs, and help prepare students for highly-demanded and rewarding careers.

NHTI now offers 65 academic programs to more than 4,000 students, including some 300 full-time residents. With three residence halls, a 240-acre campus, over 30 student clubs and organizations, and a full student activities program, NHTI remains the only community college in New Hampshire to offer the full campus experience.



## *Program Summary*

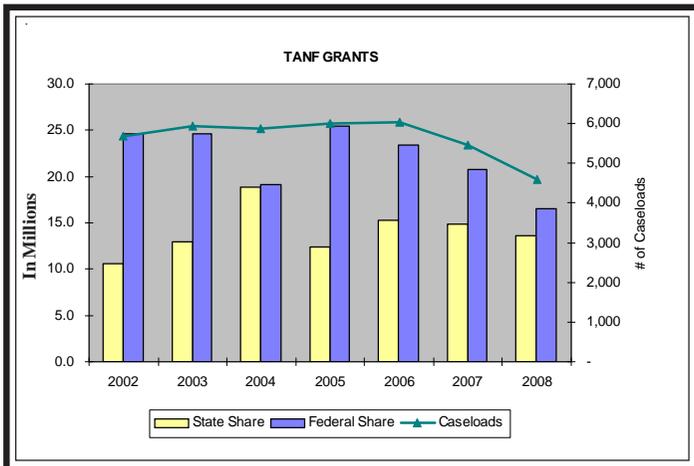
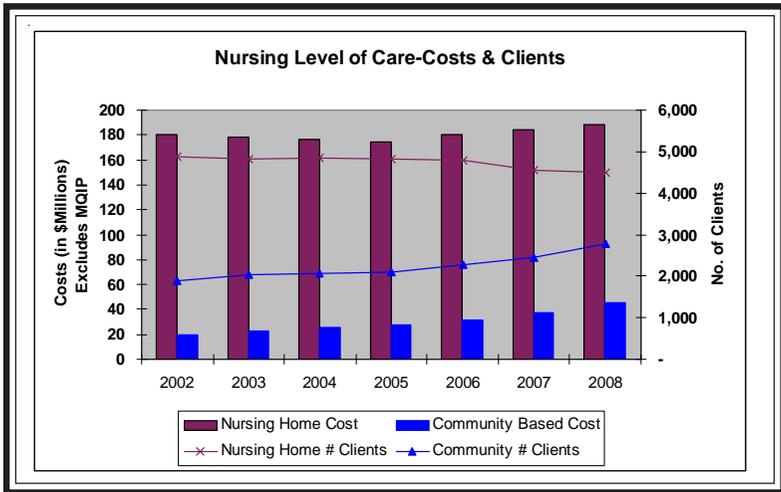
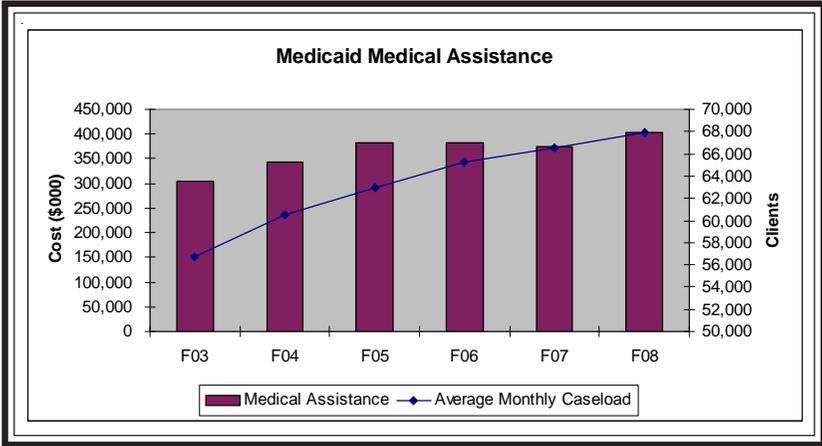
The NH Legislature and the Governor created a central umbrella agency, the Department of Health and Human Services (DHHS) in 1995 to make it easier for citizens to access programs and services and to reduce administration costs. DHHS' mission is to join communities and families in providing opportunities for citizens to achieve health and independence. DHHS is responsible for many of the regulatory, programmatic, and financial aspects 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 \$1.3 billion is DHHS' largest program, consuming approximately 72% of the DHHS budget. Federal financial participation is 50% for most services. 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 and adults with children, low-income pregnant women, and disabled adults. Medicaid also finances long term nursing care for eligible seniors. 4,000 community providers receive payments from DHHS for providing services to the Medicaid program. In June, 2008, the Medicaid program served 67,650 families and 103,291 individuals. The cost of the Medicaid program has been increasing although eligibility criteria have remained consistent. Approximately half of the increase is attributable to growth in enrollment, with the balance of the cost increase caused by higher health care costs.

*Approximately 40% of total state spending is for Health & Human Service Programs. Expenditures for Health & Human Services totaled \$1.9 billion in FY08, an increase of \$163.5 million (9.5%) from last year.*

DHHS has undertaken cost containment efforts to increase administrative and program efficiencies and to provide funding to meet increasing demands for services. 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 diagnosed clients, and internal reorganization to streamline processes and maximize resources. The number of Medicaid supported nursing home beds has declined from 5,114 in 2000 to 4,228 in June, 2008, while the number of elderly supported in the community has increased from 1,318 to 2,861 during the same period as a result of efforts to provide supports to help seniors remain in their communities. During SFY07, the new Work Participation Plan was implemented to help parents of the Temporary Assistance to Needy Families (TANF) program move to financial independence through work. Work participation rates have increased from 27% to 50% since the inception of the program. In the past two years, DHHS has implemented a pilot project for enhanced care coordination to support the efficient and effective delivery of primary and specialty care services focused on prevention with each client having a medical home.

The significant focus for SFY09 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.



## Transportation

During fiscal year 2008, 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.

### NH's Newest "Single Point Urban Interchange" Opens at I-293's Exit 5 in Manchester:

Access to and from the center of New Hampshire's largest city has been greatly improved with the opening of a "Single Point Urban Interchange" at Exit 5 on I-293. The Granite Street interchange is now complete with the addition of a southbound off ramp and a northbound on ramp. The improved interchange, combined with a city project replacing the bridge over the Merrimack River, will also relieve traffic pressures at Exits 4 and 6. The \$28.7 million project replaces a "Red List" bridge over Granite Street and is "a new gateway to downtown, the Milliard and the West Side."

**Upgrading New Hampshire's Transportation System:** During FY 2008, the NHDOT awarded 58 construction contracts to 38 different contractors totaling approximately \$153 million. A total of 56 contracts were completed or accepted for maintenance by NHDOT Operations forces in FY 2008 totaling \$102 million. These projects included roadway and bridge projects at the state and municipal levels, pavement resurfacing, park and ride facilities, congestion mitigation, wetland creation, traffic signal replacement, guardrail upgrades, landscaping, and rest area reconstruction and building demolitions.

Major roadway work completed included reconstruction of:

- I-293, Exit 5 interchange and the widening of Granite Street in Manchester (\$30.1 million)
- The reconstruction and widening of Candia Road in Manchester (\$9.5 million)
- US 3 in Belmont (\$8.5 million)
- NH 26 in Colebrook (\$8.5 million)

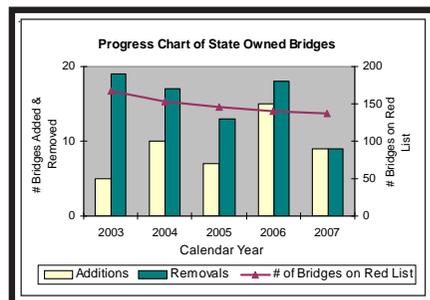
Major bridge construction completed in FY 2008 included replacement of:

- The US 3 bridge over the Suncook River in Pembroke and Allenstown (\$11.6 million)
- I-93 Salem to Manchester (\$6.2 million)
- The St. Lawrence and Atlantic Railroad bridge over Green Street in Berlin (\$4.3 million)
- Newbury Road - Haverhill, NH to Newbury, VT (\$3.4 million)
- US 3 - Ashland to Bridgewater (\$2.6 million)

### Highway Maintenance:

Highway Maintenance crews plowed through a record-breaking 2007-2008 winter snowfall of 119 inches during one of the most severe winters in modern New Hampshire history. Winter maintenance activities on over 8,700 lane miles of the State roadway system accounted for over one-third of the Bureau's total yearly expenditures. The NHDOT's ability to store most of its yearly salt needs for anti-icing treatments was further improved by the construction of salt sheds/cold storage in Haverhill, and two high-arch gambrel salt sheds in Thornton and Ashland. Construction was also completed on a new patrol facility and salt/sand shed in New London to improve environmental compliance in the Little Lake Sunapee Watershed. The Highway Maintenance Bureau also continued deployment of the automated Road Weather Information System (RWIS) statewide to better predict road and weather conditions. The use of salt brine for anti-icing efforts continued along the I-93 corridor from Salem to Manchester.

*The Department's Red List reports bridges with known deficiencies. The calendar year Red List reported 137 state-owned bridges on the list, with 9 added while 9 were removed during the year.*



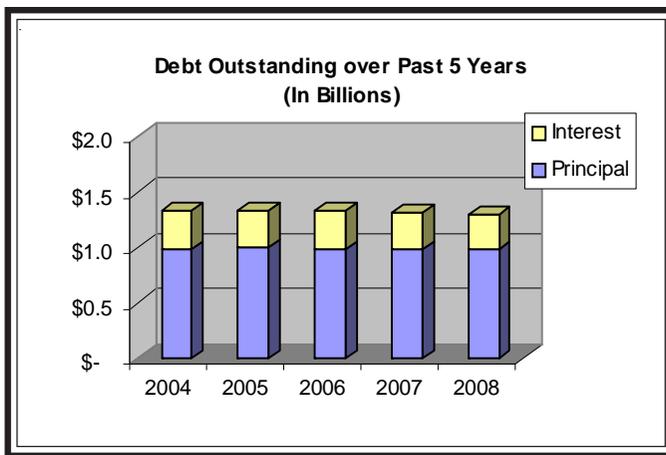
The state may issue general obligation bonds, revenue bonds, and notes in anticipation of such bonds authorized by the Legislature and Governor and Council. The state may also directly guarantee certain authority or political subdivision obligations. At the end of the current fiscal year, the state had total bonded debt outstanding of \$995.0 million. Of this amount, \$738.0 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 January 10, 2008, the state issued \$75 million of general obligation capital improvement bonds. The interest rates on these serial bonds range from 3.375% to 5.0%, and the maturity dates range from 2009 through 2027.

On March 12, 2008, the state issued \$30 million of general obligation capital improvement bonds. The interest rates on these serial bonds range from 4.0% to 4.75%, and the maturity dates range from 2009 through 2028.

On March 12, 2008 the state issued \$56.3 million of general obligation refunding bonds. The maturity dates on these serial bonds range from 2016 through 2025. These bonds were used to refund \$60.0 million of outstanding variable auction rate bonds. By early 2008, the auction rate security market began to experience unprecedented instability accompanied by a rapid rise in rates. This refunding transaction replaced the variable debt with highly stable fixed rate bonds at an interest rate of 5.0%.

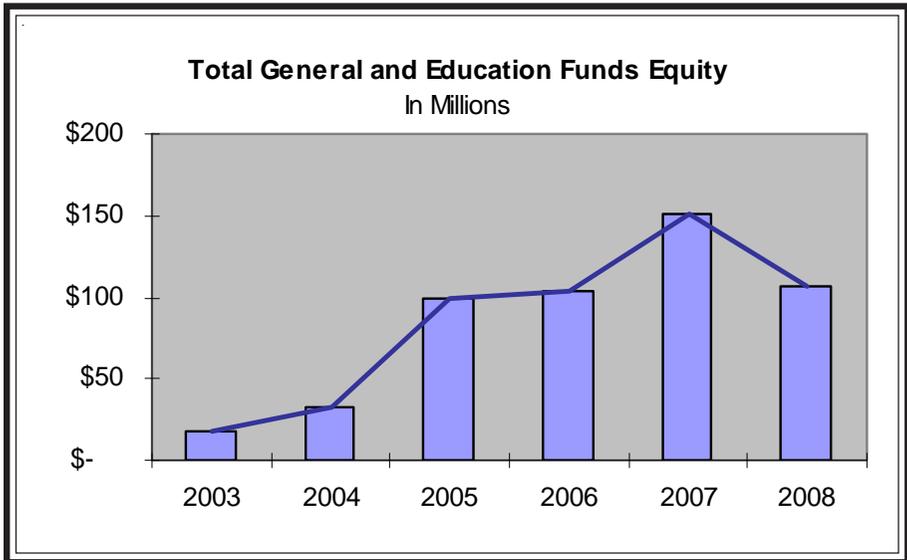
The state does not have any debt limitations, except for contingent debt guarantees, which are detailed in the state's Comprehensive Annual Financial Report (CAFR). Additional information on the state's long-term debt obligations can be found in Footnote 5 of the CAFR.



# Surplus: General & Education Funds

(In Millions)

	FY 2006	FY 2007			FY 2008		
	Total	General	Education	Total	General	Education	Total
<b>Undesignated Fund Balance, July 1</b>	\$ 82.2	\$ 26.0	\$ 8.4	\$ 34.4	\$ 61.7	\$ -	\$ 61.7
<b>Additions:</b>							
Unrestricted Revenue	2,182.3	1,421.6	869.6	2,291.2	1,483.9	882.8	2,366.7
Transfers of Appropriation from General Fund	-						
Total Additions	2,182.3	1,421.6	869.6	2,291.2	1,483.9	882.8	2,366.7
<b>Deductions:</b>							
Appropriations Net of Estimated Revenues	(2,222.1)	(1,432.6)	(843.1)	(2,275.7)	(1,575.8)	(897.1)	(2,472.9)
Less Lapses	29.4	41.6	4.5	46.1	61.6	(0.3)	61.3
Total Net Appropriations	(2,192.7)	(1,391.0)	(838.6)	(2,229.6)	(1,514.2)	(897.4)	(2,411.6)
<b>GAAP and Other Adjustments</b>	14.3	(15.5)	1.2	(14.3)	7.9	(0.7)	7.2
<b>Current Year Balance</b>	3.9	15.1	32.2	47.3	(22.4)	(15.3)	(37.7)
<b>Fund Balance Transfers (To)/From:</b>							
Rainy Day Fund	(51.7)	(20.0)		(20.0)			
Health Care Fund							
Highway Fund					(6.8)		(6.8)
Education Trust Fund		40.6	(40.6)		(15.3)	15.3	
<b>Undesignated Fund Balance, June 30,</b>	\$ 34.4	\$ 61.7	\$ -	\$ 61.7	\$ 17.2	\$ (0.0)	\$ 17.2
<b>Reserved for Rainy Day Account</b>	69.0	89.0		89.0	89.0		89.0
<b>Total Equity</b>	\$ 103.4	\$ 150.7	\$ -	\$ 150.7	\$ 106.2	\$ (0.0)	\$ 106.2



The combined General and Education Fund balance, including the Revenue Stabilization Account (Rainy Day Fund) at June 30, 2008 was \$106.2 million. The Rainy Day Balance remained at \$89.0 million at June 30, 2008. The combined General and Education Fund activity for fiscal year 2008 resulted in an aggregate operating deficit of \$37.7 million (including a \$15.3 million deficit in the Education Fund). With a \$61.7 million surplus carry forward from 2007, and a \$6.8 million budgeted transfer from the General Fund to the Highway Fund, the fiscal year 2008 operating deficit of \$37.7 million brought the combined General and Education Funds surplus down to \$17.2 million.

In response to weakening revenue collections, the Governor issued three executive orders during fiscal year 2008 to reduce spending:

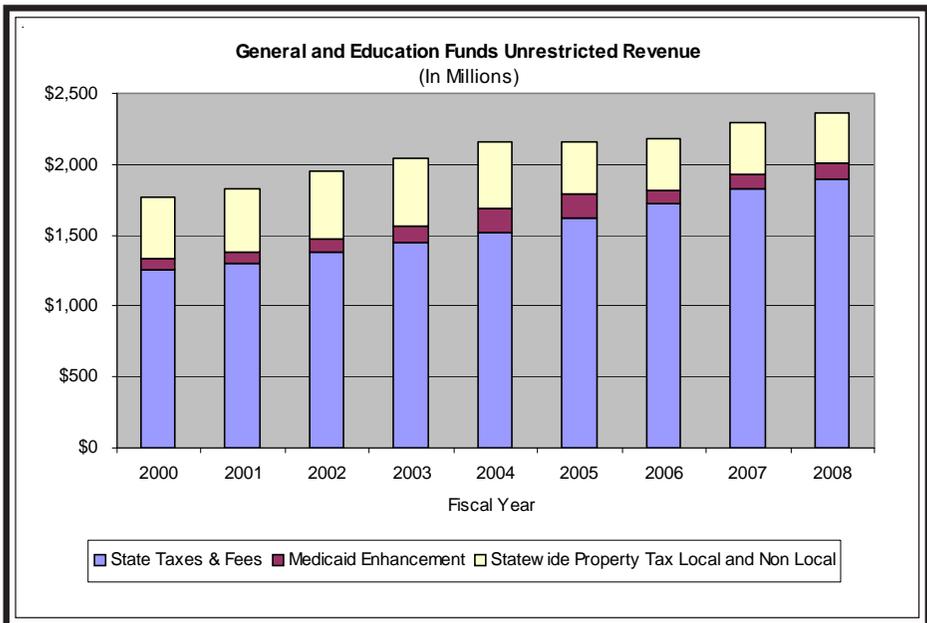
- Executive Order 2008-1, issued on February 22, 2008, reduced expenditures by approximately \$3.4 million by freezing vacant positions, equipment, and out of state travel.
- Executive Order 2008-2, issued on February 22, 2008, targeted savings of approximately \$46.4 million, which included \$44.4 million of appropriation reductions plus a \$2.0 million payment from the University System in lieu of reduction in appropriation. This order targeted cuts across all State agencies, with approximately \$22.5 million coming from the Department of Health and Human Services. The actual fiscal year 2008 savings realized by this order totaled approximately \$40.9 million as \$5.5 million of DHHS reductions were not approved by the Legislative Fiscal Committee.
- Executive Order 2008-5, issued on April 29, 2008, froze state purchases except those considered an emergency.

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

# Unrestricted Revenue

Revenue Category	FY 2006	FY 2007			FY 2008			FY 2008
		General	Education	Total	General	Education	Total	Combined Plan (1)
Business Profits Tax.....	\$ 320.6	\$ 287.4	\$ 57.8	\$ 345.2	\$ 317.4	\$ 68.0	\$ 385.4	\$ 365.6
Business Enterprise Tax.....	225.6	79.3	174.2	253.5	77.7	155.0	232.7	272.4
<b>Subtotal.....</b>	<b>546.2</b>	<b>366.7</b>	<b>232.0</b>	<b>598.7</b>	<b>395.1</b>	<b>223.0</b>	<b>618.1</b>	<b>638.0</b>
Meals & Rooms Tax.....	200.9	202.6	7.2	209.8	206.7	7.6	214.3	220.0
Tobacco Tax.....	150.8	65.3	78.3	143.6	57.1	109.3	166.4	183.4
Liquor Sales and Distribution.....	120.6	124.7	124.7	124.7	133.1		133.1	137.0
Interest & Dividends Tax.....	80.5	108.1		108.1	118.7		118.7	117.0
Insurance Tax.....	90.5	97.9		97.9	95.9		95.9	99.5
Communications Tax.....	70.5	73.0		73.0	80.9		80.9	79.9
Real Estate Transfer Tax.....	158.7	91.7	45.7	137.4	77.7	38.6	116.3	140.0
Estate and Legacy Tax.....	3.2	0.6		0.6	0.2		0.2	-
Transfers from Lottery Commission.....	80.4		79.0	79.0		75.5	75.5	85.8
Transfers from Pari-Mutuel Commission.....	1.6		1.5	1.5		1.5	1.5	1.5
Tobacco Settlement.....	39.0		40.8	40.8	8.4	40.0	48.4	47.7
Utility Property Tax.....	20.9		21.8	21.8		24.2	24.2	22.9
Property Tax Retained Locally.....	363.4		363.3	363.3		363.1	363.1	363.0
Other.....	157.0	191.8		191.8	196.9		196.9	174.0
<b>Subtotal.....</b>	<b>2,084.2</b>	<b>1,322.4</b>	<b>869.6</b>	<b>2,192.0</b>	<b>1,370.7</b>	<b>882.8</b>	<b>2,253.5</b>	<b>2,309.7</b>
Net Medicaid Enhancement	-							
Revenues.....	73.6	83.3		83.3	93.1		93.1	91.0
Recoveries.....	24.5	15.9		15.9	20.1		20.1	14.1
<b>Subtotal.....</b>	<b>2,182.3</b>	<b>1,421.6</b>	<b>869.6</b>	<b>2,291.2</b>	<b>1,483.9</b>	<b>882.8</b>	<b>2,366.7</b>	<b>2,414.8</b>
Other Medicaid Enhancement	-							
Revenues to Fund Net Appropriations.....	-	-		-	-		-	-
<b>Total.....</b>	<b>\$ 2,182.3</b>	<b>\$ 1,421.6</b>	<b>\$ 869.6</b>	<b>\$ 2,291.2</b>	<b>\$ 1,483.9</b>	<b>\$ 882.8</b>	<b>\$ 2,366.7</b>	<b>\$ 2,414.8</b>

(1) Plan represents the original legislative estimates contained in the operating budget that was adopted in 2007 for the fiscal 2008-2009 biennium.



With the ongoing housing market downturn and credit crisis weakening the overall economy, revenue collections came in much weaker than estimates. General and Education Fund unrestricted revenue for fiscal year 2008 totaled \$2,366.7 million, which was \$48.1 million (2%) below plan and \$75.5 million (3%) above the prior year. The shortfall from plan was driven primarily from Business Taxes, the Tobacco Tax, and the Real Estate Transfer Tax.

- Real Estate Transfer Tax collections totaled \$116.3 million, which were \$23.7 million (17%) below plan and \$21.1 million (15%) below the prior year.
- Business Taxes totaled \$618.1 million, which were \$19.9 million (3%) below plan and \$19.4 million (3%) above the prior year.
- The Tobacco Tax collected \$166.4 million, which was \$17.0 million (9%) below plan and \$22.8 million (16%) above the prior year due to the tax increase of 28 cents implemented at the beginning of the year. The total tax was \$1.08 per pack of cigarettes during fiscal 2008.

Reflecting the impact that higher energy costs and economic weakness had on discretionary spending, the Meals and Rooms Tax (M&R), Liquor Sales and Lottery Transfers were all below plan for the year.

M&R totaled \$214.3 million or \$5.7 million short of plan but were \$4.5 million above prior year. Liquor sales totaled \$133.1 million or \$3.9 million below plan but were \$8.4 million above prior year. Lottery transfers were \$75.5 million or \$10.3 million short of plan and \$3.5 million below the prior year.

The Other category saw receipts of \$196.9 million, which were \$22.9 million above plan, reflecting a \$2.0 million contribution from the University System per Executive Order 2008-2, a \$10.0 million repayment from Pease Development Authority and better than anticipated revenues from both escheats and post retirement health reimbursements.

## 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.

	Governmental Business-Type		
	Activities	Activities	Total
Current assets	\$ 1,064.4	\$ 377.2	\$ 1,441.6
Capital assets	2,368.5	573.5	2,942.0
Other assets	285.1	6.9	292.0
<b>Total assets</b>	<b>3,718.0</b>	<b>957.6</b>	<b>4,675.6</b>
Long-term liabilities	837.6	251.1	1,088.7
Other liabilities	592.9	86.5	679.4
<b>Total liabilities</b>	<b>1,430.5</b>	<b>337.6</b>	<b>1,768.1</b>
Net assets:			
Invested in capital assets,			
net of related debt	1,674.0	316.3	1,990.3
Restricted	366.7	264.8	631.5
Unrestricted	246.8	38.8	285.6
<b>Total net assets</b>	<b>\$ 2,287.5</b>	<b>\$ 619.9</b>	<b>\$ 2,907.4</b>

*The state's combined net assets (government and business-type activities) totaled \$2.9 billion at the end of 2008, compared to \$3.0 billion at the end of the previous year.*

**Investment in Capital Assets:** The largest portion of the state's net assets (68%) 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 \$144.3 million from prior year. This increase was the result of a net increase in capital assets of \$151.2 million during the year combined with an increase in capital related debt of \$6.9 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 (22%) represents resources that are subject to external restrictions on how they may be used. Restricted net assets decreased \$31.5 million from prior year due largely to a decrease in unemployment compensation benefit reserves during the year.

**Unrestricted Net Assets:** The state's unrestricted net assets, totaling \$285.6 million, decreased \$213.9 million from the previous year, due largely to increases in retiree health costs 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.

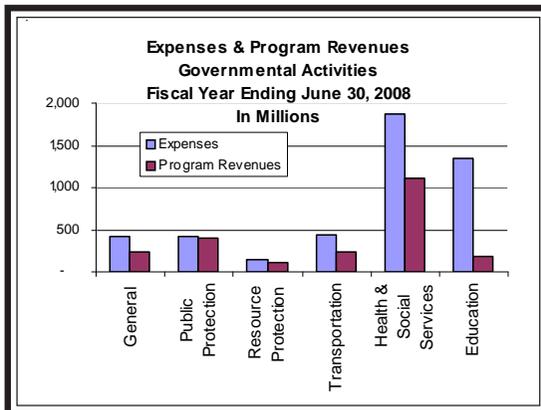
# Governmental Type Activities

## Governmental Activities

Direct expenses from Governmental activities of \$4.7 billion exceeded program revenues of \$2.3 billion resulting in a shortfall of \$2.4 billion. Program revenues, include charges for goods or services and Federal and Local Grants, which directly support program expenses. The shortfall of \$2.4 billion was funded through General Revenues primarily taxes. The growth in total government activity revenues of 1.0% was not sufficient to offset the increase in expenses of 8.5%.

Condensed Schedule of Expenses & Program Revenues			
Primary Government-Governmental Activities			
For Fiscal Years Ending June 30, 2008			
(In Millions)			
Functions/Programs	Expense	Program Revenues	Net Revenue/(Expense)
<b>Governmental Activities:</b>			
General government	\$ 420.4	\$ 238.0	\$ (182.4)
Administration of justice and public protection	420.1	408.2	(11.9)
Resource protection and development	138.2	106.9	(31.3)
Transportation	443.3	239.2	(204.1)
Health and social services	1,877.9	1,117.3	(760.6)
Education	1,343.3	175.9	(1,167.4)
Interest Expense	26.1		(26.1)
<b>Total Governmental Activities</b>	<b>\$ 4,669.3</b>	<b>\$ 2,285.5</b>	<b>\$ (2,383.8)</b>

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 9.5% from the previous year, while Education expenses grew approximately 2.5%.



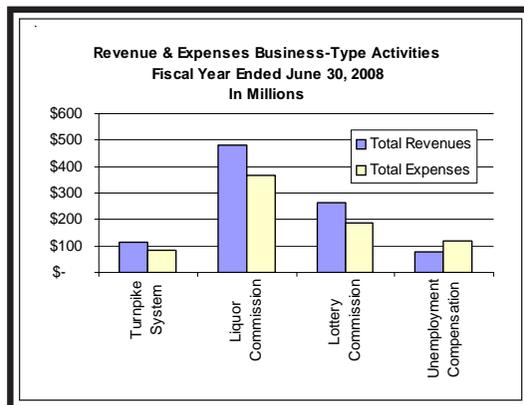
# Business-Type Activities

## 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 \$181.6 million.

Condensed Schedule of Expenses & Program Revenues			
Primary Government-Business-Type Activities			
For Fiscal Year Ending June 30, 2008			
(In Millions)			
Functions/Programs	Expense	Program Revenues	Net Revenue/(Expense)
<b>Business-type Activities:</b>			
Turnpike System	\$ 80.4	\$ 115.9	\$ 35.5
Liquor Commission	367.8	479.4	111.6
Lottery Commission	186.9	264.0	77.1
Unemployment Compensation	119.6	77.0	(42.6)
<b>Total Business-type Activities</b>	<b>\$ 754.7</b>	<b>\$ 936.3</b>	<b>\$ 181.6</b>

- Sales growth from the operations of the Liquor Commission resulted in net income of \$111.6 million, a 5.5% 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 for the Lottery Commission resulted in net income of \$77.1 million, a 4.4% decrease from the prior year, all of which was transferred to the Education Fund.
- Turnpike System net income increased by \$35.5 million or 10.2% 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 \$42.6 million as a result of higher unemployment benefit payments this fiscal year.





State of New Hampshire  
Department of Administrative Services  
Division of Accounting Services

**Cover Photos** taken by and provided courtesy of Steve Moltenbrey - Chester, NH.

- The bald eagle was taken on the Androscoggin River in Errol, NH
- The wildflowers were taken in Crawford Notch, NH
- The waterfall is Crystal Cascade in Pinkham Notch, NH
- The pond is Cherry Pond in Jefferson, NH