



Monica I. Mezzapelle
COMMISSIONER OF THE TREASURY

**THE STATE OF NEW HAMPSHIRE
STATE TREASURY**

25 CAPITOL STREET, ROOM 121
CONCORD, N.H. 03301
603-271-2621
FAX 603-271-3922

E-mail: mmezzapelle@treasury.state.nh.us
TDD Access: Relay NH 1-800-735-2964

September 9, 2020

His Excellency, Governor Christopher T. Sununu
and Honorable Council
State House
Concord, New Hampshire 03301

REQUESTED ACTION

The State Treasury requests to place this item on the Consent Calendar. Pursuant to RSA 6:43 and RSA 11:5-b, it is hereby requested that you accept the attached Annual Report of the New Hampshire State Treasury for the Fiscal Year 2020.

EXPLANATION

I am pleased to present the 2020 Treasury Annual Report, summarizing the activities and accomplishments of the New Hampshire State Treasury for the prior fiscal year as well as our initiatives and objectives for the current fiscal year. The mission of the New Hampshire State Treasury is to deliver professional financial management services to state government, the legislature, and New Hampshire citizens.

Sincerely,

A handwritten signature in black ink that reads "Monica I. Mezzapelle".

Monica I. Mezzapelle
Commissioner of the Treasury

Attachment: The State of New Hampshire Annual Report of the State Treasury, as of and for the Fiscal Year ended June 30, 2020



The State of New Hampshire
Annual Report
of the
State Treasury

As of and for the
FISCAL YEAR ENDED JUNE 30, 2020

Monica I. Mezzapelle
Commissioner of the Treasury

TABLE OF CONTENTS

| | |
|--|----|
| Cover Letter | i |
| New Hampshire State Officials | ii |
| Overview of the Treasury | 1 |
| Cash Management | 3 |
| Trust and Agency Accounts | 3 |
| Debt Management | 4 |
| State Guaranteed Debt | 5 |
| Abandoned Property | 8 |
| College Savings Plans | 13 |
| Governor's Scholarship Program | 14 |
| STABLE NH Savings Program | 15 |
| Seabrook Nuclear Decommissioning Trust | 16 |
| Treasury Accomplishments and Initiatives | 16 |
| Exhibit 1 – Trust and Agency Accounts | 25 |

Cover Photos: Clockwise from top-left: Lupine, Lancaster, NH, Courtesy Tabatha Young. Black Bears, Farmington, NH, Courtesy Anonymous. Lake Winnepesaukee, Gilford, NH, Courtesy Debra Fraser. Greeley Pond - Lincoln, NH, Courtesy Melissa VanSickle.

Monica I. Mezzapelle
COMMISSIONER OF THE TREASURY



**THE STATE OF NEW HAMPSHIRE
STATE TREASURY**

25 CAPITOL STREET, ROOM 121
CONCORD, NH 03301
(603) 271-2621
FAX (603) 271-3922
EMAIL: mmezzapelle@treasury.state.nh.us
TDD Access: Relay NH 1-800-735-2964

September 9, 2020

Pursuant to RSA 6:17, RSA 6:43, RSA 11:5-b and RSA 20:7, I am pleased to present the Annual Report of the State Treasury, as of and for the fiscal year ended June 30, 2020.

The New Hampshire Treasury is charged with performing a variety of financial management tasks. Among those responsibilities, the Treasury oversees: internal cash and investment management functions for the State's funds; issuance of the State's general obligation bonds, revenue bonds, and other debt, and; pursuant to RSA 471-C, is responsible for acquiring from institutional holders and returning to rightful owners all financial property that qualifies as abandoned property under the law. The Treasurer is also a member of numerous boards and commissions and serves as trustee and custodian of various State funds.

Please note that all of the information contained in this report is preliminary, unaudited, and subject to change pending completion of the State's 2020 Comprehensive Annual Financial Report.

The staff of the Treasury and I look forward to the opportunities ahead as we continually strive to enhance and securely deliver the wide range of financial management services so essential to the citizens of New Hampshire and to all branches of State government.

Respectfully submitted,

A handwritten signature in black ink that reads "Monica I. Mezzapelle".

Monica I. Mezzapelle
Commissioner of the Treasury



STATE OF NEW HAMPSHIRE SELECTED STATE OFFICIALS

GOVERNOR

Christopher T. Sununu

EXECUTIVE COUNCIL

Michael J. Cryans, District 1
Andru Volinsky, District 2
Russell E. Prescott, District 3
Theodore L. Gatsas, District 4
Debora P. Pignatelli, District 5

SECRETARY OF STATE

William M. Gardner

ATTORNEY GENERAL

Gordon MacDonald

COMMISSIONER OF ADMINISTRATIVE SERVICES

Charles M. Arlinghaus

COMMISSIONER OF THE TREASURY

Monica I. Mezzapelle

OVERVIEW OF THE TREASURY

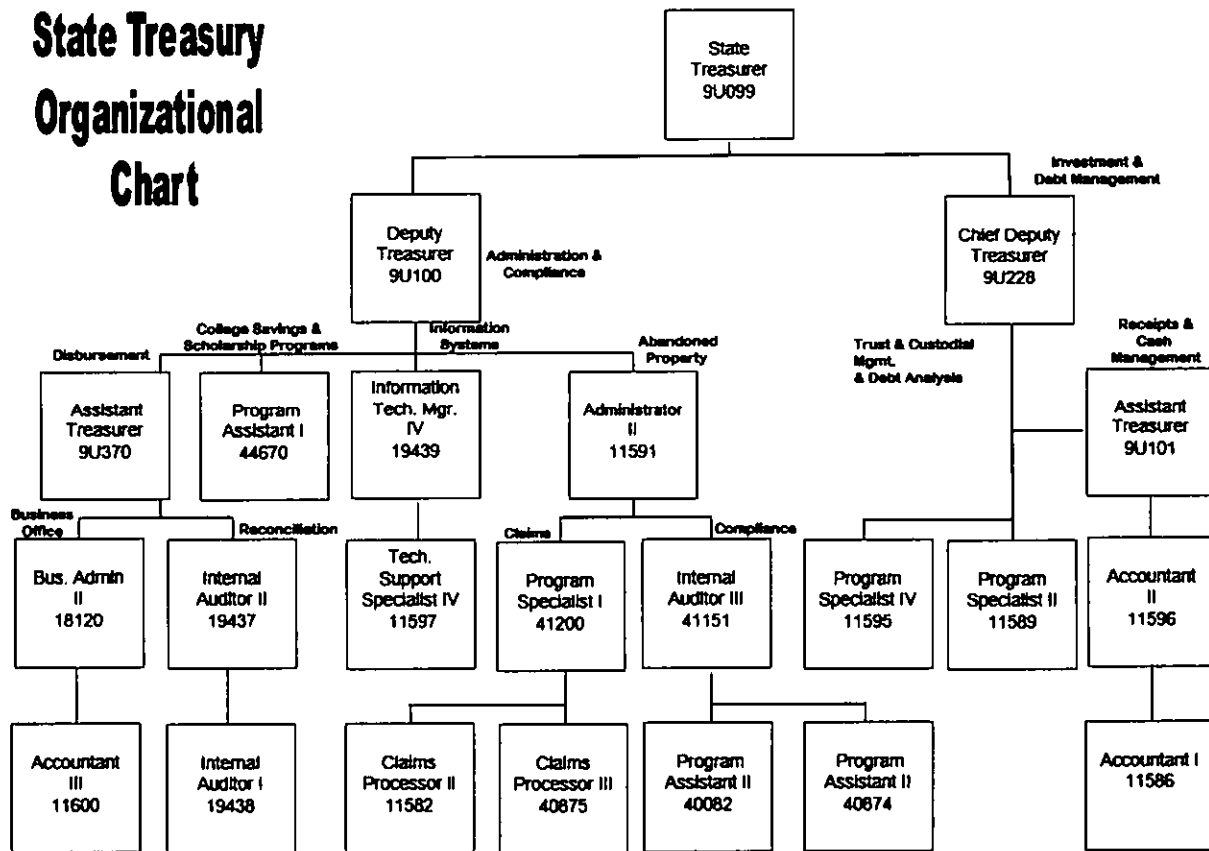
Part 2, Article 67 of the New Hampshire Constitution establishes the position of the Treasurer of the State of New Hampshire. In accordance with the Constitution, the State Treasurer is elected by a joint session of the Senate and the House of Representatives (the General Court). This election takes place on the first Wednesday of December following the biennial election when the newly elected General Court meets for organizational purposes. During a joint session of the newly-elected members of the legislature on Organization Day, Wednesday, December 5, 2018, William F. Dwyer was elected to a third term as State Treasurer effective January 2, 2019 through January 5, 2021. Subsequently, William F. Dwyer resigned prior to the completion of his term effective March 26, 2020. Pursuant to RSA 6:20, Governor Christopher T. Sununu appointed Monica I. Mezzapelle to assume the role of the Commissioner of the Treasury to perform all the duties of Treasurer until a Treasurer is elected and qualified. The Executive Council confirmed Monica I. Mezzapelle's appointment on March 25, 2020.

The State Treasury is responsible for a variety of financial management activities including cash and investment management, debt management, and the unclaimed and abandoned property program. The State Treasury will optimize the use of state financial assets and financial obligations while protecting both through the deployment of secure technology, cost-effective and efficient banking practices, a commitment to the prudent management of public funds, and a dedicated and highly-qualified staff.

The State Treasurer is an *ex-officio* member of numerous boards and commissions, including, but not limited to, the New Hampshire Retirement System, the New Hampshire Municipal Bond Bank, the New Hampshire Business Finance Authority, the Nuclear Decommissioning Financing Committee, the New Hampshire Public Deposit Investment Pool, and the New Hampshire College Tuition Savings Plan Advisory Commission (Trustee of the Plans). The State Treasurer is also the trustee of, or bears administrative responsibility for, many trust, custodial, escrow, and other funds.

The authorized staffing of the State Treasury for the 2020-2021 biennium is 23 positions, 5 unclassified and 18 classified. As of the close of fiscal year 2020, there were five vacant positions. The organizational chart on the following page delineates the authorized positions for each functional area in effect as of June 30, 2020.

State Treasury Organizational Chart



As of June 30, 2020

CASH MANAGEMENT

The Treasury is responsible for a wide array of cash management activities pursuant to its role as the custodian of public funds. It is the Treasury's responsibility to maintain the appropriate amount of cash when and where needed in order to finance the State's operating and capital budgets. This responsibility is met in several ways, including cash flow forecasting, collecting and concentrating funds, administering disbursements, and investing available daily cash balances.

In fiscal year 2020, the Treasury administered over \$8 billion in receipts and \$7.5 billion in disbursements. A summary of receipts and disbursements for the previous three fiscal years follows:

COMPARATIVE STATEMENT OF RECEIPTS AND DISBURSEMENTS

(Unaudited)

| | As of and for the Year Ended June 30 | | |
|----------------------------|--------------------------------------|------------------------|------------------------|
| | <u>2020</u> | <u>2019</u> | <u>2018</u> |
| BEGINNING BALANCE | 1,524,834,304 | 1,431,625,859 | 1,007,223,601 |
| TOTAL RECEIPTS | 8,030,800,066 | 6,864,733,325 | 7,353,165,182 |
| TOTAL DISBURSEMENTS | (7,541,563,005) | (6,771,524,880) | (6,928,762,924) |
| ENDING BALANCE | <u>\$2,014,071,365</u> | <u>\$1,524,834,304</u> | <u>\$1,431,625,859</u> |

TRUST AND AGENCY ACCOUNTS

Pursuant to RSA 11:1, the State Treasurer serves as the custodian of "All trust funds left to and accepted by the state...". As of June 30, 2020, the fair market value of the 41 trust and agency funds was approximately \$45.5 million, ranging from just under \$5,000 to over \$5.5 million. Investment objectives range from short-term liquidity to maximum capital appreciation. During fiscal year 2020, two existing funds were liquidated and no accounts were added. All accounts originated from a variety of sources and serve a wide range of beneficiaries and purposes. A list of these trust and agency funds, along with unaudited activity and balances for fiscal year 2020, is included at the end of this report as Exhibit 1. The Drinking Water and Groundwater Trust, previously reported here, is excluded from this section and is reported with General Funds in the State's Comprehensive Annual Financial Report (CAFR).

DEBT MANAGEMENT

General Obligation Bonds

General obligation debt is paid from the State's taxes and other revenues. As of June 30, 2020, total outstanding general obligation debt stood at \$741.2 million (unaudited). Approximately 70% of this debt will be repaid from unrestricted general fund revenue, while the remainder will be paid from a variety of dedicated user assessments, fines, and other revenues. During fiscal year 2020, the Treasury transacted two separate general obligation bond issues.

On July 11, 2019 the Treasury issued \$690,000 of capital improvement general obligation bonds (the "2019 Series A Bonds") through a private placement with the New Hampshire Municipal Bond Bank (NHMBB). The NHMBB purchased these bonds as investments in its required debt service reserve fund for its own bond issues. The State benefits from this type of issuance by receiving capital project bond proceeds at a reduced cost of capital compared to that of a conventional "new money" issue, which entails increased underwriting, legal, and marketing fees. This bond pays interest every six months and has only two maturities, one in 2029 with a coupon of 5% and another in 2037 with a coupon of 2.875%.

On March 5, 2020, the Treasury issued \$80,175,000 in capital improvement bonds (the "2020 Series A Bonds"), through a competitive sale with the bonds awarded to the highest bidder (lowest cost of funding). The State has used the Series A new money proceeds (plus a sale premium totaling \$20.2 million) to fund a total of \$100 million in a variety of capital projects in different stages of completion, authorized primarily in the 2018 and 2019 capital budgets. The Series A bonds generated an overall true interest cost of 1.97%, with annual maturities ranging from 2020 to 2039 and an average coupon of 5.00%.

Turnpike System Revenue and Federal Highway Grant Anticipation Revenue Bonds

In addition to administering the issuance of general obligation debt, Treasury is responsible for issuing capital improvement revenue and refunding bonds for the Turnpike System, as well as bonds backed in large part by Federal Highway funds for the Department of Transportation called Federal Highway Grant Anticipation Revenue Vehicle Bonds ("GARVEE"). Turnpike System Revenue bonds are repaid solely from revenues (tolls) collected throughout the Turnpike System.

On November 14, 2019, the Treasury issued \$40,840,000 in Turnpike System Revenue Bonds (the "2019 Refunding Series") to refinance \$50,725,000 of previously issued and outstanding Turnpike System debt. This refunding transaction resulted in an overall true interest cost of 1.58%, with a net present value savings of \$9,843,286. Total outstanding debt of the Turnpike System as of June 30, 2020 was \$295.9 million (unaudited).

No GARVEE bonds were issued in fiscal year 2020. At June 30, 2020, the total amount of GARVEE Bonds outstanding was \$90.8 million (unaudited).

Transportation Infrastructure Finance and Innovation Act (TIFIA) Financing

In collaboration with the State's Department of Transportation and pursuant to RSA 6:13-d, Treasury entered into a \$200 million Transportation Infrastructure Finance and Innovation Act (TIFIA) loan from the U.S. Department of Transportation in May 2016 to provide additional funding for the widening of Interstate 93 from Salem to Manchester. Borrowing under this federal program enabled the State to secure a significantly more favorable interest rate than conventional financing would have produced. Specifically, the financing agreement carries a rate of 1.09% for the term of the loan, with principal payments deferred until June 1, 2025 and a final maturity of June 1, 2034. Additionally, the loan is structured similar to a line of credit whereby drawdowns will be taken as construction funds are spent, thus minimizing interest expense on the entire \$200 million for the term of the loan. Drawdowns on the loan began in June 2016 and are currently expected to continue through October 2020 upon project completion and until the project has gone through the final construction audit process. As of June 30, 2020, the balance drawn on the loan stood at \$169.5 million on an unaudited cash basis.

STATE GUARANTEED DEBT

The State is contingently liable for certain municipal government debt issues for water pollution control bonds, school building aid, and landfill bonds up to statutory limits. The State also provides certain guarantees for the debt issued by the Pease Development Authority and the Business Finance Authority. There are statutory limitations on these contingent debt guarantees:

1. The limit may apply to either the total amount of the original guarantee or to the total amount guaranteed that remains outstanding at any time; the latter is a revolving limit, facilitating additional guarantees to be awarded as guaranteed debt is retired.
2. The statutory dollar limit may constitute a guarantee of either the total amount of principal and interest owed, or the total amount of principal only; in the latter case interest on the principal amount outstanding may also be guaranteed notwithstanding the principal guarantee limit.

Issuance of new debt with a State guarantee requires the approval of the Governor and Executive Council.

On March 10, 2020, the Business Finance Authority issued \$20,000,000 of State Guaranteed Bonds Series 2020 (federal taxable) (the "Bonds") to refinance \$10,000,000 Taxable Guaranteed Bonds, 2002 Series A and \$10,000,000 Taxable State Guaranteed Bonds, 2002 Series B (the "Prior Bonds"). The Prior Bonds held maturity dates of November 1, 2020 and were called on April 9, 2020 and refinanced with the proceeds of the Series 2020 Bonds. The Series 2020 Bonds pay interest semi-annually with a single maturity on February 1, 2030 with a 1.77% coupon.

As of June 30, 2020 the remaining unused guarantee authorizations under the various statutory limitations were:

| <u>Purpose</u> | <u>Guarantee Limit</u> | <u>Remaining Capacity</u> |
|--|------------------------|---------------------------|
| Water Pollution and Waste Control Bonds | \$ 50.0 million (1)(2) | \$ 50.0 million |
| School Building Authority Bonds | \$ 95.0 million (1)(2) | \$ 76.8 million |
| Superfund Site Bonds | \$ 20.0 million | \$ 20.0 million |
| Landfill and Waste Site Bonds | \$ 10.0 million (1)(2) | \$ 10.0 million |
| Business Finance Authority Bonds | \$145.0 million (1) | \$ 92.7 million |
| Pease Development Authority Bonds | \$ 70.0 million | \$ 13.9 million |
| Housing Finance Authority Child Care Loans | \$ 0.3 million (1) | \$ 0.3 million |

(1) Revolving limit.

(2) Limit applies to total principal and interest.

Chapter 144, Laws of 2009, increased the State guarantee for School Bonds to \$95 million, effective July 1, 2009. In accordance with RSA 195-C:2, and as recommended by the School Building Authority and approved by the Governor and Executive Council, the State guaranteed \$51.6 million (principal and interest) of General Obligation Qualified School Construction Bonds issued by five school districts as of June 30, 2010. These bonds are federally taxable bonds created through the American Recovery and Reinvestment Act of 2009 and issued by school districts for facility construction and/or renovation or for the purchase of land upon which a facility will be built.

Chapter 47, Laws of 2015, amended the enabling legislation of the Business Finance Authority (RSA 162) to increase the Authority's Unified Contingent Credit Limit from \$95 million to \$115 million. The legislation, which became effective May 21, 2015, established redevelopment districts in unincorporated places, provided for the assessment of parcels located within redevelopment districts, and authorized a \$30 million State guarantee for such redevelopment bonds.

Chapter 346, Laws of 2019, granted the Authority the ability to recommend that the Governor and Council award additional State guarantees of certain indebtedness of businesses located in unincorporated areas of the state, limited to the total principal amount under such program not exceeding \$30 million at any time. This is separate and in addition to the previously existing authority to issue up to \$115 million in state guaranteed bonds and/or notes.

Chapter 346, Laws of 2019 additionally amended State guarantee provisions pertaining to indebtedness of the Pease Development Authority. Specifically, the statute repealed the authority to issue \$35 million of State guaranteed development bonds, bonds that had never been issued.

The State also bears a contingent obligation for debt issued by municipalities through the Municipal Bond Bank. If any municipality that has issued through the Bond Bank fails to make scheduled debt payments and escrowed funds are not sufficient to cover missed payments, the

Bond Bank may request non-appropriated funds from the legislature in order to cover any shortfall. Although this exposure exists, the level of its risk is not easily quantifiable in considering the potential impact of such a default on the State's credit rating. Chapter 324, Laws of 2008, amended RSA 35-A:24 to include an intercept, or "offset", program such that in the event of default by a governmental unit, the Treasurer shall pay the bond bank the defaulted amount from general or education trust fund appropriations that are due to the governmental unit which defaulted.

[THIS SPACE INTENTIONALLY LEFT BLANK]

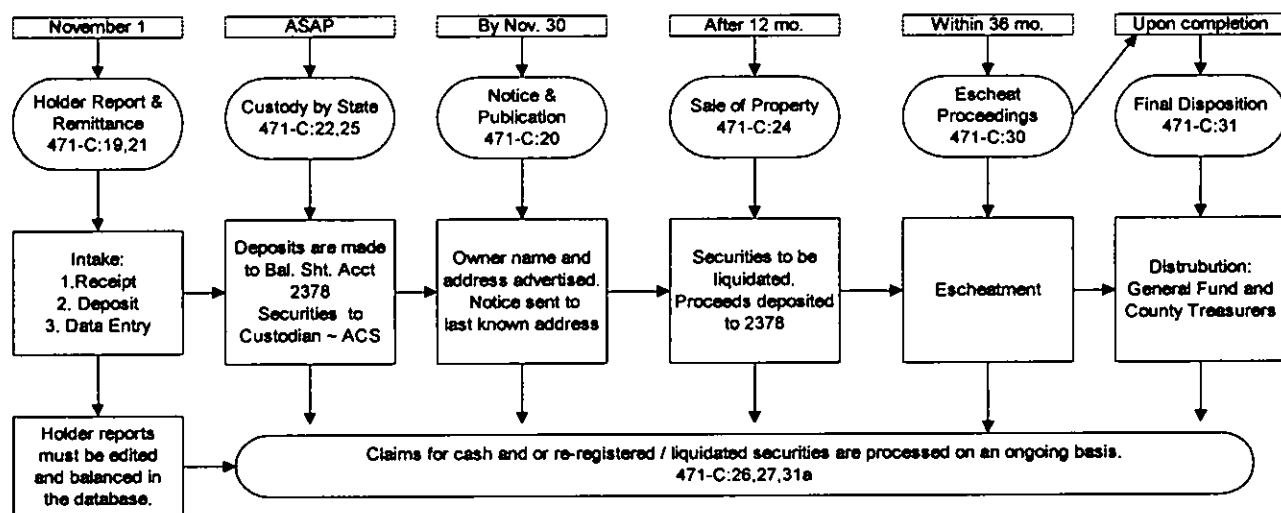
ABANDONED PROPERTY

Overview

Pursuant to the provisions of RSA Chapter 471-C, Treasury's Abandoned Property Division is charged with the task of recovering and returning intangible properties to the rightful owner or heir. Typically, such properties are in the form of cash from dormant accounts but may also include securities such as stock or mutual funds in share form. These properties are reported and remitted by the institutional "holders" of such property. By and large, holders are entities such as banks, credit unions, corporations, utilities, insurance companies, retailers, as well as government agencies and municipalities.

Diligent efforts are made to ensure that the property owners are notified that their property has been reported and remitted to the Division. Each October, an annual advertisement listing all owner names reported to the Division in the past year, and their last known addresses, is published in two consecutive weeks in a newspaper with state-wide circulation, generally the New Hampshire Union Leader. Additionally, a mailing in the form of a postcard notification is sent to the last known address of the reported owner during August and September. On-line searches of all properties the Division is presently holding can be done directly on the claims section of the Division's website: NewHampshire.findyourunclaimedproperty.com. The Division also participates in MissingMoney.com, a multi-state database of unclaimed property owner information. This multi-faceted owner reunification program affords ready access to any citizen inquiring about a lost or abandoned account.

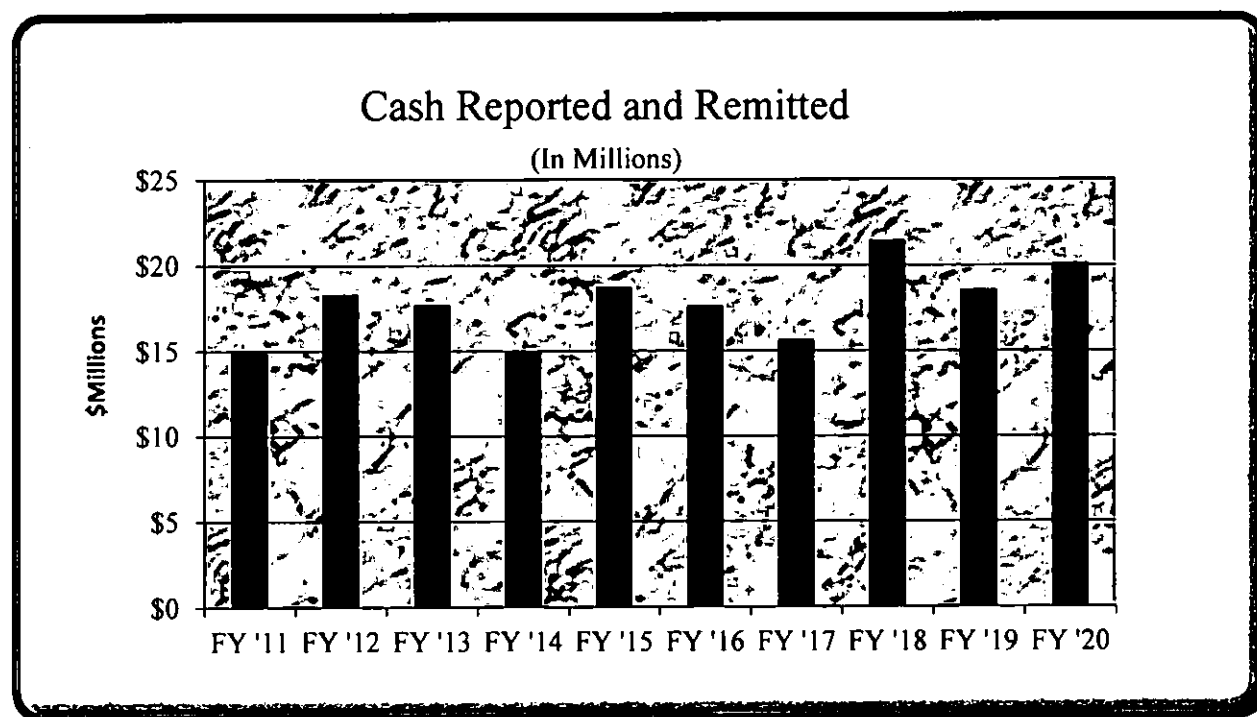
In summary, the Division's statutory obligation and annual production cycle requires receipt and deposit of unclaimed funds and shares; maintenance of a database of the properties; sending notice to, and advertisement of, the name and last known address of the reported owner; processing claims; and escheating unclaimed funds to county treasurers and the state's general fund. The general timeline that follows provides an overview of the annual workflow.

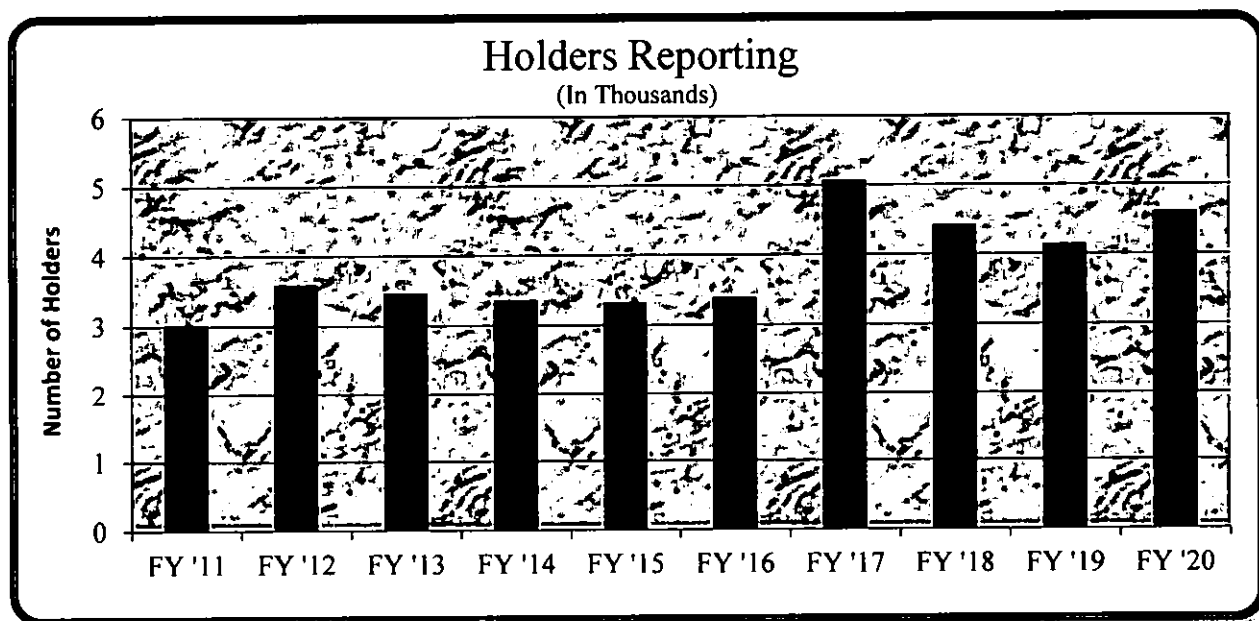


Holder Reporting and Remittances

In fiscal year 2020, approximately 4,700 institutional holders of property reported and remitted cash in excess of \$20 million and delivered over 8.9 million shares of stock and/or mutual funds to the State's custodial account. Over the past ten (10) fiscal years, the Division has taken in \$177,728,868 from holders of abandoned property, averaging approximately \$17.7 million annually.

The tables below depict since fiscal year 2011 the amount of cash reported and remitted by holders as well as the number of holders reporting and remitting unclaimed property to the Division. The relatively higher number of holders reporting in fiscal years 2017 through 2020 is due to a new report import process for property received through the cooperative state reciprocal reporting arrangement. Previously, a reciprocal remit from a participating state would be counted as a single report and holder. The new process enables the identification of the underlying holder as an entity compliant with its obligation to report property to the state of New Hampshire.



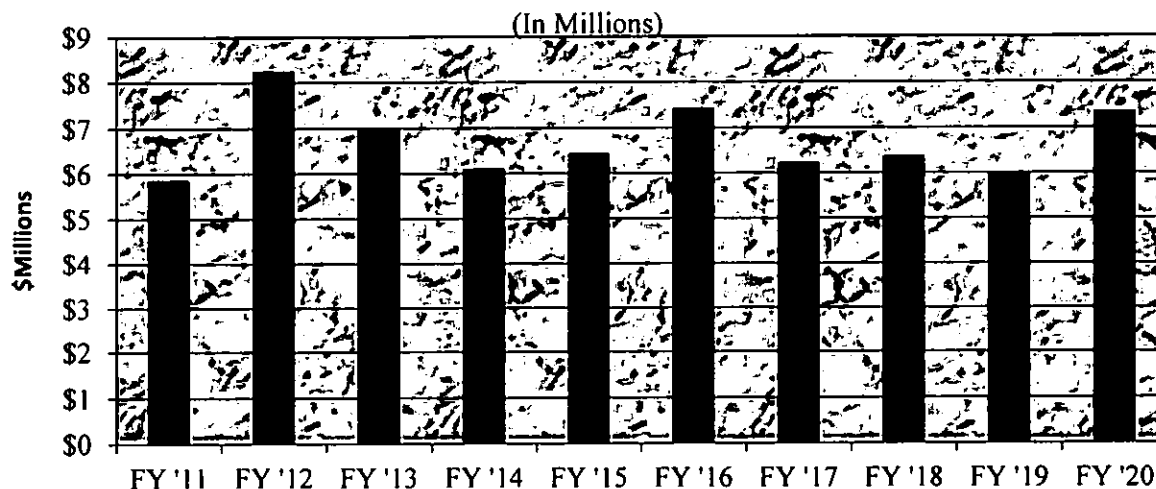


Owner Claims Processed

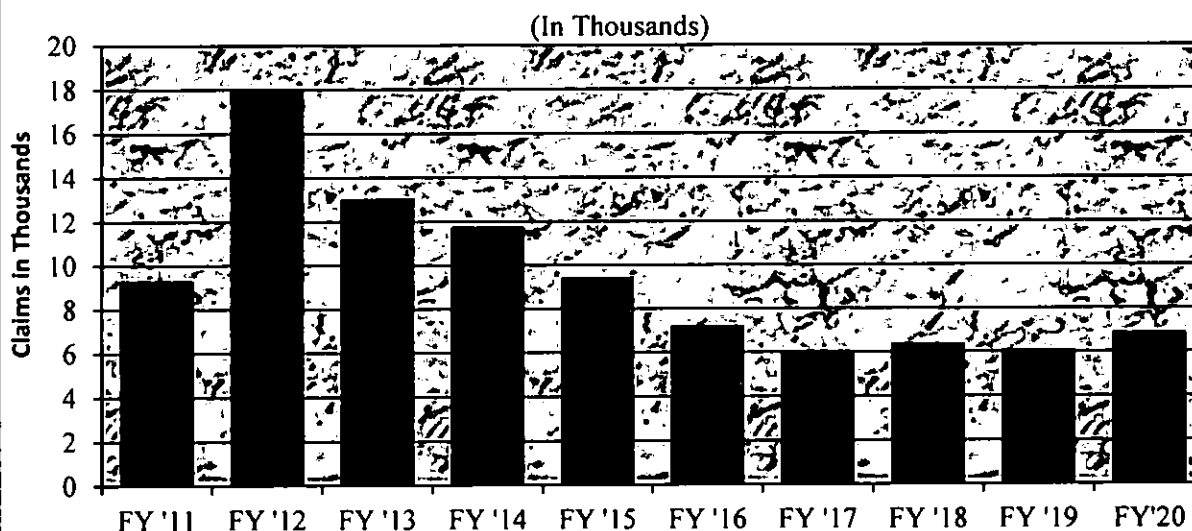
During fiscal year 2020, the Division returned nearly \$7.5 million dollars to citizens, representing 6,868 claims paid (see graphs on page 11). The reduction in the number of total claims paid beginning in fiscal year 2016 is not reflective of diminished returns of unclaimed property; rather this decline is the result of the Division's January 2015 conversion to a highly efficient unclaimed property system which enables the payment of all properties recovered by one individual via a single claim. Prior to this conversion, a separate claim had to be processed for each asset returned. This enhancement to the claims process is only one example of how the new automated system has streamlined business operations and improved the Division's customer response time.

The reduction in the number of claims paid continues to produce an increase in the size of the average claim paid. For comparison, in fiscal year 2015 the average claim size was \$683, while the average claim size in fiscal year 2020 increased to \$985. The largest individual claim in fiscal year 2020 totaled \$548,739. Over the past ten (10) fiscal years, \$66,913,940 has been returned to owners, an average of over \$6.6 million returned each year. The notable increase in the number of claims paid in fiscal year 2012 was largely due to additional processing of reciprocal claims paid to other states.

Cash Claims Paid



Number of Claims Paid

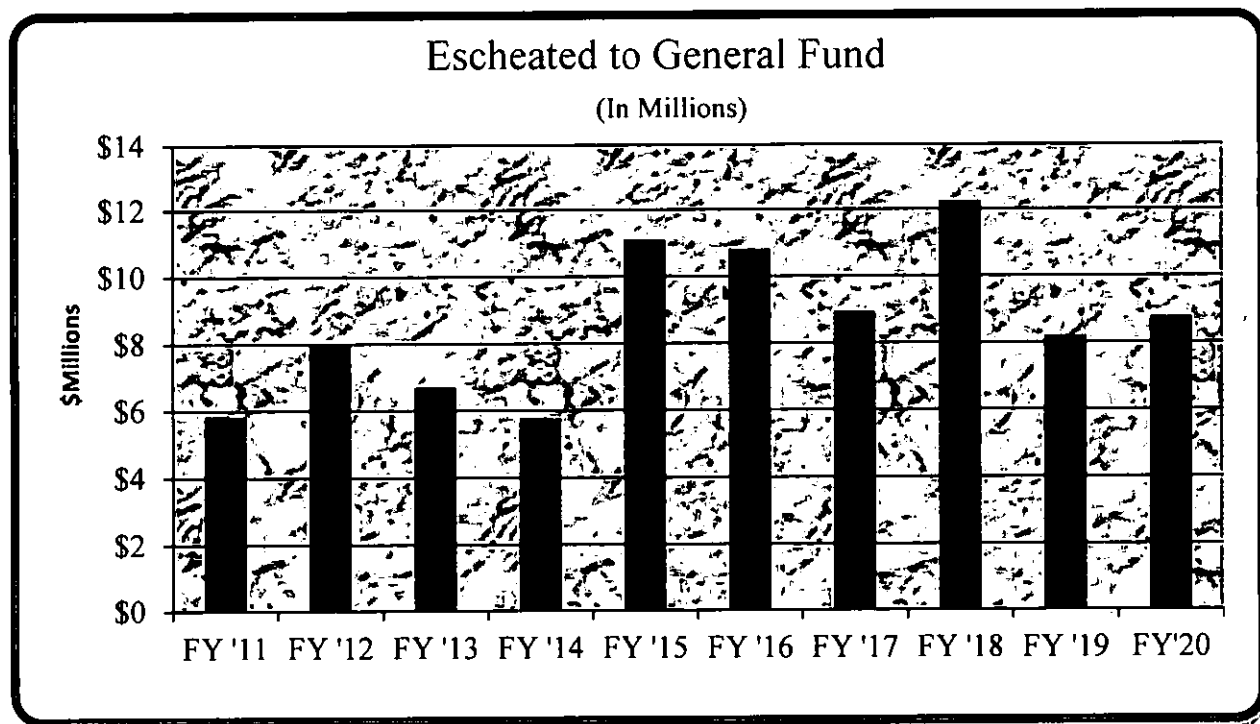


Non-Securities Escheatment (RSA Chapter 471-C:30-31)

On a net basis, the Division delivered nearly \$8.7 million to the General Fund during fiscal year 2020. RSA 471-C:30-31 provides for certain deductions from the gross amount available for transfer to the General Fund based on further escheatment to New Hampshire counties, as well as the payment of administrative expenses of the Division. Over the past ten (10) fiscal years, the

net transfer to the General Fund is approximately \$86 million, an average net transfer of funds of \$8.6 million annually.

(The following graph excludes the impact of the liquidation of securities for fiscal years 2011 through 2020, which is summarized below the graph.)



Securities Liquidation (RSA Chapter 471-C:30-31)

State Treasury practices with respect to the liquidation of unclaimed securities were modified in fiscal year 2007 in an effort to recover and deliver proceeds to owners' accounts and the General Fund on a timelier basis. Following a three-year hold period, proceeds from liquidated securities are transferred to the General Fund in the same fiscal year they are sold, as opposed to being held for an additional period, as was past practice. The result of this change is an increase in recent year escheatment dollars, with significant proceeds delivered to the General Fund in conjunction with, and in addition to, the annual net escheatment of cash receipts similarly subject to a 3-year hold period. Over the past ten fiscal years, liquidation proceeds were delivered to the General Fund as follows (dollars in millions):

| <u>2011</u> | <u>2012</u> | <u>2013</u> | <u>2014</u> | <u>2015</u> | <u>2016</u> | <u>2017</u> | <u>2018</u> | <u>2019</u> | <u>2020</u> |
|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| \$3.1 | \$3.0 | \$6.4 | \$9.1 | \$3.6 | \$5.4 | \$3.9 | \$5.8 | \$6.1 | \$2.9 |

COLLEGE SAVINGS PLANS

As the fiscal year closed, Treasury and the New Hampshire College Tuition Savings Plan Advisory Commission (Advisory Commission) had completed 22 years of administering the UNIQUE College Investing Plan (UNIQUE Plan) and 18 years of administering the Fidelity Advisor 529 Plan (FA 529 Plan) pursuant to RSA 195-H. Both plans are managed by Fidelity Investments under contract to the State through the end of calendar year 2023. The combined assets under management for the two plans totaled \$19.6 billion at the end of fiscal year 2020. The combined New Hampshire Plans ranked fourth among all state plans in the market value of assets. Plan assets were held by nearly 740,000 participants throughout the U.S. and its territories. The average participant account balance as of the end of the fiscal year was \$25,956 in the UNIQUE Plan and \$28,684 in the FA 529 Plan, highlighting that this is a college savings vehicle primarily used by middle and lower income families.

Both plans are very flexible and withdrawals can be used for a wide array of qualified higher education expenses such as computers, books, required supplies, equipment, room and board, and tuition at accredited postsecondary schools, anywhere in the United States and at several international institutions. Furthermore, as a result of the Tax Cut and Jobs Act of 2017, 529 plans became more flexible, allowing up to \$10,000 per year in 529 savings plan assets to be used for tuition expenses for grades K-12 in addition to qualified higher education expenses. There are no income limits on participation, which is open to anyone regardless of state of residence. The UNIQUE College Investing Plan is sold directly to retail investors, while the Fidelity Advisor 529 Plan is sold through financial intermediaries, such as financial planners. Participants in these plans have multiple investment portfolio options from which to choose, comprised of age-based target, static allocation investment, and individual fund portfolios representing both actively managed and index funds, as well as a series of blend portfolios which combine both active and passive strategies. The portfolios are largely funds of funds and range from aggressive 100% equity funds to highly conservative money market funds. Changes to investment portfolios are continually reviewed in order to ensure enhanced investment performance for college savers.

UNIQUE Scholarship Programs

The New Hampshire Excellence in Higher Education Endowment Trust Fund (the "Trust Fund") was established pursuant to RSA 6:38 and is funded through a monthly investment management assessment generated by the two plans. The purpose of the Trust Fund is to provide scholarships to financially disadvantaged New Hampshire students attending New Hampshire postsecondary education institutions, under the governance of the Advisory Commission. The Trust Fund also covers all costs associated with the administration of the Plans, including the financial audits. Two scholarship programs implemented in mid-2006, are:

1. UNIQUE Annual Allocation Program (Annual Program), which provides yearly scholarships to New Hampshire-resident students attending the University System of New Hampshire (USNH), the Community College System of New Hampshire (CCSNH), and ten (10) other eligible and participating New Hampshire postsecondary education institutions pursuant to Administrative Rule Csp 600. In July 2019, an initial

allocation of approximately \$1 million was distributed to participating institutions, both public and private, based on individual scholarship amounts of \$800 each for full time-students (prorated for part-time). Additional scholarship reimbursements of \$1.5 million were distributed to participating institutions at the end of fiscal 2020, resulting in a total distribution of \$2.5 million in UNIQUE Annual Awards for the year.

2. UNIQUE Endowment Allocation Program (“Endowment Program”) provides monthly distributions to restricted endowment funds maintained and managed by USNH, CCSNH, and eight (8) other eligible, non-profit New Hampshire postsecondary education institutions, pursuant to Administrative Rule Csp 700. With these institutions providing scholarships from the earnings of the growing endowment funds, it is intended that future UNIQUE scholarships will be available to New Hampshire students in perpetuity. Under the Endowment Program, 80% of the monthly revenue share from Fidelity is allocated to participating institutions. As a result, \$12.5 million in monthly allocations were distributed to participating institutions throughout fiscal year 2020.

Eligibility criteria for both scholarship programs were developed by the Advisory Commission and are established in administrative rules for the Endowment Program, while the eligibility criteria for Annual Program scholarships are revised and approved at least annually.

Since their inception, the UNIQUE scholarship programs have distributed close to \$155 million of scholarship funding through the end of fiscal year 2020 (in thousands of dollars):

| | 2020 Fiscal Year | From Inception |
|-------------------|------------------------|-------------------|
| Annual Program | \$2,543 | \$31,937 |
| Endowment Program | <u>\$12,575</u> | <u>\$122,775</u> |
| TOTAL | \$15,118 | \$154,712 |

As of the end of fiscal year 2020, the Trust Fund had a market value of approximately \$3 million.

GOVERNOR’S SCHOLARSHIP PROGRAM

Chapter 346, Laws of 2019, repealed and reenacted RSA 4-C:31-34, transferring the administration and oversight of the Governor's Scholarship Program from the New Hampshire Office of Strategic Initiatives to the New Hampshire College Tuition Savings Plan Advisory Commission effective July 1, 2019, whose administration is supported by the State Treasury.

The Governor's Scholarship Program provides financial assistance to eligible New Hampshire high school graduates or recent high school graduates who enroll full-time and continuously attend a participating postsecondary education institution of their choice within the state of New Hampshire. Any first year, full-time, Pell Grant-eligible student who earns the New Hampshire

Scholar designation and meets the residency and academic requirements may be eligible for a scholarship award of \$2,000 per year for up to four years. All other eligible students will qualify for a scholarship award of \$1,000 per year for up to four years. The scholarships are to be applied to the tuition, fees, and direct costs of an education at a participating institution.

The Governor's Scholarship Program was established pursuant to Chapter 156, Laws of 2017, appropriating \$5 million to the Governor's Scholarship Fund and, from that fund, \$850,000 and \$950,000 for fiscal year 2018 and fiscal year 2019, respectively, were appropriated to the department of education to fund student participation in the dual and concurrent enrollment program administered by the Community College System of New Hampshire. In addition, funding for fiscal year 2019 came from Chapter 155, Laws of 2017, which appropriated \$5 million to the Governor's Scholarship Fund. Chapter 345, Laws of 2019 (2020-2021 operating budget), appropriated another \$3 million for fiscal year 2020 and \$3 million for fiscal year 2021.

In fiscal year 2020, New Hampshire postsecondary education institutions awarded approximately 509 4-, 2-, and 1-year awards to New Hampshire students participating in the Governor's Scholarship Program compared to 490 scholarships awarded in fiscal year 2019. Of the 509 scholarships, 234 went to students who obtained the New Hampshire Scholar designation while attending high school. In fiscal year 2020, participating institutions received approximately \$1 million in reimbursements for eligible students enrolled and who were receiving a scholarship.

STABLE NH SAVINGS PROGRAM

Pursuant to RSA 195-K, and following the approval of the Executive Council on October 25, 2017 (item #23), the Governor's Commission on Disability and the State Treasury jointly entered into a 5-year, no-cost, partner agreement with the State of Ohio Treasury for the administration of New Hampshire's STABLE NH savings program. In December 2014, federal passage of ABLE (Achieving a Better Life Experience) legislation paved the way for each state to sponsor its own tax-advantaged savings program for the benefit of those with qualifying disabilities, with many features similar to those of a college tuition savings (529) account. Accordingly, section 529(a) of the Internal Revenue Code governs the tax treatment of ABLE accounts.

The STABLE NH savings program was operationally launched on December 15, 2017, with a formal ceremony on December 18 that featured remarks from Governor Christopher T. Sununu, Representative Lynne Ober, and former NH Health & Human Services Commissioner Jeffrey A. Meyers, as well as representatives from several area disability advocacy agencies. Following the program launch, the Governor's Commission on Disability and the Treasury began a series of presentations promoting STABLE NH throughout New Hampshire.

Under the federal guidelines, there are specific criteria for determining the eligibility of an individual to qualify for ownership of an ABLE account. A maximum of \$15,000 annually in after-tax funds can be deposited into an ABLE account, however, if the individual who owns the account is employed, they can deposit an additional \$12,060 of wages. Funds held in a STABLE NH account are allocated across five portfolio options: an FDIC-insured bank deposit portfolio

and four Vanguard portfolios that combine equity and fixed income funds based on splits of 80/20, 60/40, 40/60, and 20/80. Distributions from a STABLE NH account are not taxed as long as the distributions are used to pay for qualified disability expenses. As of June 30, 2020, Granite Staters had opened 357 accounts in the program with a total of \$2.2 million in assets held. The average balance of a STABLE NH account as of June 30, 2020 was \$6,258.

SEABROOK NUCLEAR DECOMMISSIONING TRUST

As of June 30, 2020, the Seabrook Decommissioning Trust Fund held market-value assets of \$828.5 million. The decommissioning trust represents the cumulative contributions made by the owners of the Seabrook Nuclear Power Station for the cost of future decommissioning, combined with the investment earnings on the trust balance, net of applicable taxes and qualified administrative expenses. The trust is invested on the basis of elections made by each individual owner, subject to an investment policy approved by the State Treasurer, and influenced by the tax status of each individual owner. Trust fund proceeds may be invested in a mix of equities (stocks), fixed income securities (bonds), direct lending portfolios, and cash equivalents. The allocation of fund holdings at the end of fiscal year 2020 was 63.6% equities, 29.0% fixed income, and 7.4% alternative investments (direct lending and structured credit). In addition, \$36.8 million was held as a decommissioning funding assurance in separate escrow accounts on behalf of the owners at June 30, 2020. Escrow holdings primarily consist of cash and cash equivalents, with the State Treasurer and Deputy State Treasurer having signatory authority, but not custody of the funds.

The Seabrook Decommissioning Trust is not in the custody of the State Treasurer, nor does the Treasurer serve as the trustee. It is held in trust by Bank of New York Mellon on behalf of the owners of the Seabrook Nuclear Power Plant for the sole purpose of funding decommissioning costs when the plant ceases operations. Although the Treasurer presently serves on the Nuclear Decommissioning Financing Committee (pursuant to RSA 162-F), approves the Trust's Investment Guidelines (pursuant to the Master Trust Agreement), and fulfills certain other administrative roles, the State Treasury provides no direct financial management or custodial services to the Trust.

TREASURY ACCOMPLISHMENTS AND INITIATIVES

Treasury achieved several milestones over the past year and continues with a number of initiatives which commenced during prior fiscal years and are ongoing. As a service provider to other State agencies, these important changes could not have taken place without the full and dedicated collaboration of Treasury staff, a variety of State agencies, the Legislature, and private sector financial services firms.

COVID-19 Response

The COVID-19 pandemic has impacted the lives of everyone in the world forcing us to reevaluate the way we approach certain matters and situations. At work, flexibility and innovation have been

key elements in order to continue our mission while protecting employees and the public we serve. First, Treasury prioritized its mission essential functions as described in its Continuity of Operations Plan (COOP), however, by week five after Governor Christopher T. Sununu declared the state of emergency, and with limited resources, Treasury transitioned to a remote work environment resulting in no real interruption of the services we provide and maintaining everyone safe. Since then, employees have had the option to work from home and schedules have been staggered so fewer individuals are in the office at once, while following the universal guidelines issued by federal and State health officials. Overall, multiple improvements and efficiencies have been gained and Treasury will continue to explore ways to strengthen its continuity planning along with its information technology infrastructure, and security posture.

Community Bank Program

An initiative directed by Governor Christopher T. Sununu and with collaboration from Banking Commissioner, Gerald Little, in April of 2020, State Treasury notified all the banks chartered in the state of New Hampshire of the State's interest in depositing public funds in their institutions to increase their capacity for more loans and provide additional support to local businesses in the state.

12 Community Banks were interested in participating in this program and the State Treasury deposited \$50 million in collateralized Certificates of Deposits with an average maturity of 11.5 months, and rates ranging from 0.10% to 0.75%.

Abandoned Property, Holder Compliance, and Future Initiatives

Treasury remains at the forefront of the national initiative to review the reporting history of the nation's life insurance providers. This effort is focused on determining whether the insurance companies are in full compliance with abandoned property reporting requirements with regard to benefits generated by life insurance policies. In 2011, New Hampshire was one of the first states to join with Verus Financial, LLC to undertake this review process. As this initiative evolved, most other states also joined. These efforts continued in fiscal year 2020.

Through the close of fiscal year 2020, the state of New Hampshire has accumulated from inception a total of more than \$19.5 million in life insurance benefit proceeds, with nearly \$800,000 received in fiscal year 2020. Through increased reunification efforts, Treasury strives to ensure that this property will be returned to the New Hampshire citizens who were the intended recipients of these policy benefits. In fiscal year 2020, one New Hampshire resident received a death benefit payment of \$118,163 through this initiative.

In fiscal year 2020, the Abandoned Property Division implemented a hosted website facilitated by its unclaimed property system provider. The provider has implemented standardized unclaimed property websites for more than half of the states' unclaimed property programs. The standardized structure of the websites will enhance holder reporting, as holders will become increasingly proficient with the uniform interactive efficiencies offered by the states. The standardized nature of the websites will also benefit claimants, who will see the consistency of the individual states' websites as a reinforcement of the legitimacy of the states unclaimed

property programs, and also, as consumer protection-based programs focused on returning unclaimed funds to the rightful owners in an expedient and recognizable manner.

Looking ahead to fiscal 2021, this hosted website will allow claimants to complete the entire claims process on-line. Later in fiscal year 2021, certain small claims will be paid via an automated process utilizing a data match analysis process to verify the individual's ownership of the funds. Also, the Division will incorporate an advanced data fraud index to flag potentially fraudulent claims upon origination.

Analysis of Banking Balances, Products, and Processes

Treasury analyzes its relationships with banking vendors and the impact they have on statewide cash operations. This analysis is conducted in several ways and accounts for the deployment of balances held, institutional banking products utilized, and processes followed.

On a daily basis, Treasury performs an analysis of General Fund balances held. The result of this analysis is the administration of balances held in a manner that complies with Treasury's Cash and Investment Guidelines for Operating Funds. While ensuring safety and liquidity, balances are strategically maintained to optimize the rate of return. These efforts resulted in General Fund unrestricted net interest income totaling \$9.8 million in fiscal year 2020 (cash basis, unaudited, and subject to change). This amount is net of the cost of institutional financial services provided by banking vendors. Achieving this outcome results from not only optimizing returns, but also systematically analyzing services and the associated fees incurred for the banking services utilized by Treasury.

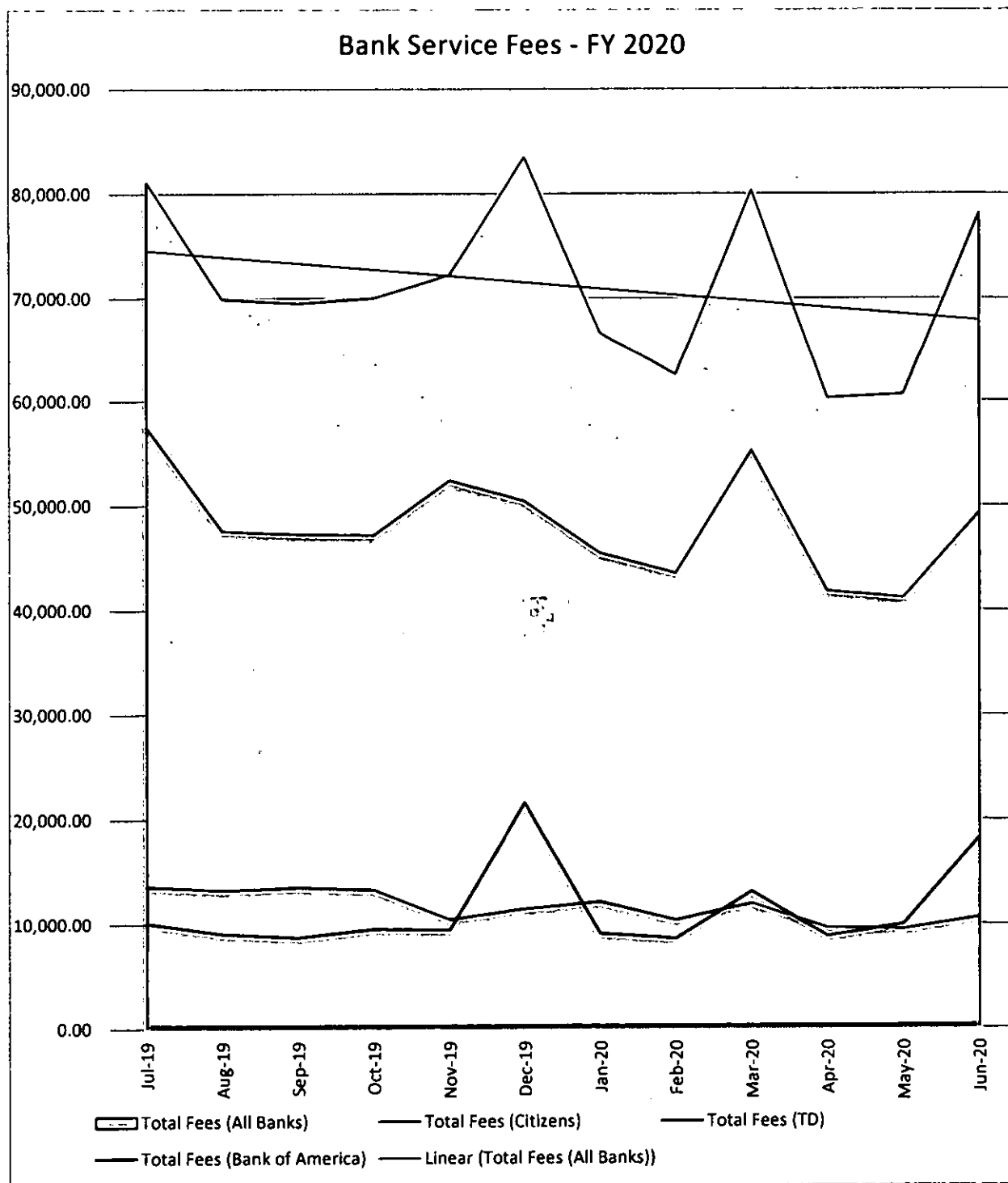
On a monthly basis, Treasury rigorously analyzes bank service statements to identify overall price and volume changes. This effort has identified opportunities to improve efficiency or the presence of any inconsistencies in pricing. Opportunities to improve efficiency are often discussed during regularly scheduled meetings between Treasury and its banking vendors. Inconsistencies in pricing or volume are brought to the attention of each bank's client relationship manager as they are identified.

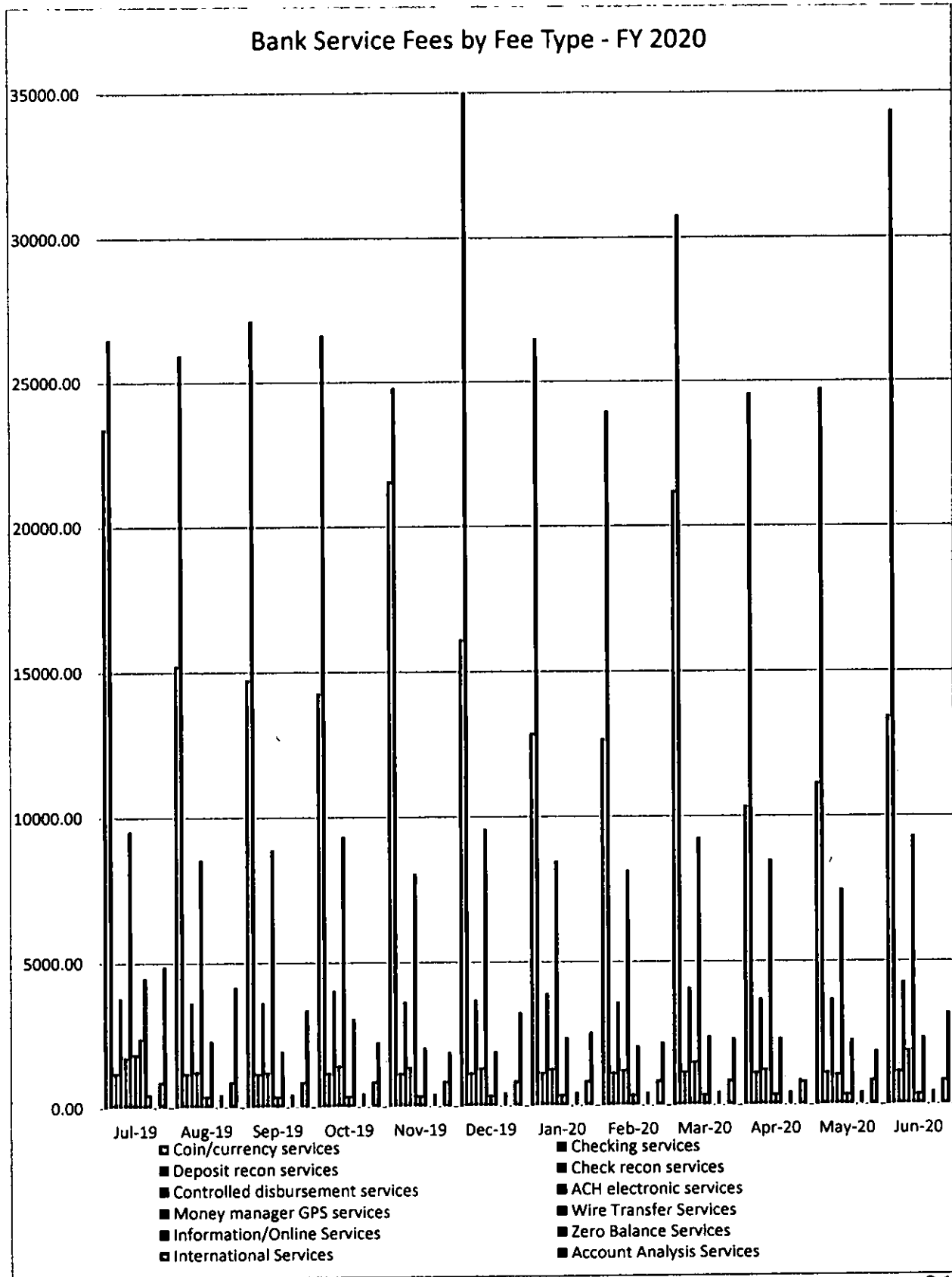
The analysis of bank products utilized by individual agencies is performed on a rolling basis and results from either Treasury's outreach to agencies or in response to an agency's request. This analysis consistently integrates the specific bank, accounts, products, and processes utilized by the agency or entity in conjunction with the overall banking relationship the Treasury maintains with that financial institution.

As evidence of Treasury's success in this area, the State received a weighted account balance score of 41.3 in the 2020 nationwide survey of institutional bank service pricing. Treasury participates annually in the survey, which utilizes an index that ranges from 0 to 100 for total costs along a Low to Reasonable to High continuum. This score places New Hampshire in the low end of the Reasonable cost range nationally.

Treasury collaborates with its banking vendors to not only enhance operational efficiencies generated by the use of banking products, but also to ensure specific business continuity processes that will enable secure and efficient banking operations in the event of a disruption in normal service delivery.

In conclusion, the consistent and thorough analysis of balances, products, and processes was not only sustained in fiscal year 2020, but is also an ongoing initiative that is designed to span fiscal years. These continued efforts will therefore be reported each fiscal year, as banking products and processes continue to evolve along with the needs of the State and its agencies.





Debt Management System

In the spring of 2018, Treasury converted to a new debt management system called Mun-Ease. Designed for the public sector, Mun-Ease is an integrated, Windows-based software package that creates, stores, and reports on a wide range of detail for a municipal bond issuer such as the State. Essentially a database of bond issues, the software not only generates debt service schedules, but can provide interest and sizing calculations, track escrowed payments relative to advanced refundings, report on Build America Bonds and associated interest subsidies, in addition to numerous other functionalities. Many of the elements of the State's debt management program, such as historical cost and sale parameters, can now be tracked and maintained in a robust database, which facilitates enhanced analysis, reporting, and forecasting.

Thirty-nine (39) outstanding direct debt issues were loaded into the software during conversion, totaling \$2.2 billion in gross issuance and \$1.3 billion in debt outstanding at June 30, 2018. Nearly half of the issues loaded (20 bonds) consist of multiple debt schedules, resulting in 159 individual schedules being created, as most of the State's general obligation debt is paid for across several governmental funds (general, highway, liquor, and various dedicated funds). Additionally, other data related to the sale and characteristics of the bonds was captured in the conversion, including true-interest-cost, bond CUSIP numbers, and call dates. These and other elements of a bond offering had previously not been reportable in debt management systems employed by the Treasury. As further training and experience are gained in the use of Mun-Ease, it is anticipated that Treasury's reporting and analytical capabilities for both internal needs and external "customers" such as state agencies, legislators, and others, will expand tremendously.

Contracting

At the June 19, 2019 meeting of the Executive Council, Treasury received approval to amend the existing contract of its Abandoned Property Division with Kelmar Associates to extend from the original August 24, 2019 expiration date to August 24, 2024 (item #138). The contract covers the hosted unclaimed property automated system ("KAPS"). In addition to the 5-year extension, the contract was amended to provide for enhanced system functionality and security, including document imaging and more efficient processing of claims less than \$50.

The website, holder reporting, and document imaging components were implemented in fiscal year 2020. The electronic claims processing, automated claims payment, and fraud detection components will be integrated in fiscal year 2021.

In fiscal year 2020, Treasury entered into five contracts for unclaimed property audit work due to the expiration of existing contracts with these experienced and proven service providers.

Remediation of Observations from 2014 LBA Financial Audit

On June 16, 2014 Governor Maggie Hassan issued Executive Order 2014-03, which requires State agencies to report on their progress in responding to audits of the Legislative Budget Assistant on a semi-annual basis. In an LBA financial audit dated March 11, 2014, thirteen

observations were identified and reported to the Legislative Fiscal Committee. On August 12, 2014 (within 60 days of the Executive Order, as required) Treasury filed its initial remediation plan and has since filed updated status reports regarding its remediation efforts semiannually, as summarized in the table below. These reports, including the original LBA audit report, can be accessed on the Transparent NH website at <https://www.nh.gov/transparentnh/audit/treasury/index.htm>, or on the Treasury website at <http://www.nh.gov/treasury/forms-publications/index.htm#audit>. A summary of Treasury's progress in resolving audit observations follows:

| Observations | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 | 13 |
|--------------|---|---|---|---|---|---|---|---|---|----|----|----|----|
| 03-21-15 | P | P | | | P | | | | | | | | |
| 09-21-15 | P | P | | | S | | P | | | P | | | P |
| 03-21-16 | S | S | | | S | | P | | | S | | | S |
| 09-21-16 | | | | | S | | P | | | S | | | |
| 03-21-17 | | | | | S | | P | | | S | | | |
| 09-21-17 | | | | | S | | P | | | S | | | |
| 03-21-18 | | | | | | | P | | | S | | | |
| 09-21-18 | | | | | | | P | | | | | | |
| 03-21-19 | | | | | | | P | | | | | | |
| 09-21-19 | | | | | | | P | | | | | | |
| 03-21-20 | | | | | | | P | | | | | | |

R – Resolved S – Substantially Resolved P – Partially Resolved U – Unresolved

Treasury remains committed to fully resolving all audit findings and includes in its updated status reports an estimated target date for the final remediation of all findings not yet fully resolved.

Legislative Activity

Treasury continued to collaborate with legislators seeking to introduce new legislation or amend existing statute. During the 2020 legislative session, although abbreviated due to restrictions brought by the COVID-19 pandemic, Treasury worked with several legislative committees and study committees by providing research and information, including testimony pertaining to new capital bonding initiatives. In addition, Treasury submitted fiscal notes in response to numerous legislative service requests on a variety of policy issues.

Treasury Policy Development & Compliance

To enhance professionalism, strengthen personal ethics, and promote teamwork, Treasury adheres to a formal Code of Conduct policy and a Fraud Policy and Procedure which are applicable to, and will be signed off by, each staff member annually. A comprehensive and ongoing Fraud Risk Assessment is routinely administered and updated, which includes monitoring Treasury's role in the overall internal control environment and processes of the State and reviewing confidential data flowing into and out of Treasury to other agencies or to banking partners, as well as analyzing

detailed processes and procedures internal to Treasury. The comprehensive Fraud Risk Assessment was enhanced in fiscal year 2017 with the implementation of an improved risk assessment matrix and such efforts will continue in fiscal year 2020 in order to strengthen safeguards over State cash and investments, as well as all other aspects of Treasury operations.

[THIS SPACE INTENTIONALLY LEFT BLANK]

| TRUST AND AGENCY ACCOUNTS HELD BY THE STATE TREASURER (EXHIBIT 1) | | | | | |
|---|--|--------------------------------------|---------------------------------------|-------------------------------------|--|
| FISCAL YEAR 2020 (unaudited) | | | | | |
| Fund Name | July 1, 2019 Beginning Market Value | Dividends & Interest Earned | Net Transactions During Year | Net Change In Market Value | June 30, 2020 Ending Market Value |
| Department of Education | | | | | |
| - Harriet Huntress | 66,613 | 997 | 2,080 | 3,164 | 72,853 |
| - Hattie Livesey | 34,407 | 486 | 1,111 | 1,745 | 37,750 |
| - John Nesmith | 542,344 | 8,757 | 11,024 | 24,185 | 586,311 |
| - Special Teachers Competence | 240,531 | 4,949 | 4,091 | 6,199 | 255,769 |
| Department of Environmental Services | | | | | |
| - Connecticut-Coos | 2,392,952 | 58,633 | 60,325 | (35,519) | 2,476,391 |
| - Mascoma | 44,671 | 591 | 0 | (0) | 45,263 |
| - Newfound | 84,000 | 1,112 | 0 | 0 | 85,112 |
| - Piscataquog | 13,027 | 172 | 0 | 0 | 13,199 |
| - Squam Lake | 93,136 | 1,233 | 0 | 0 | 94,369 |
| - Sugar River | 13,154 | 174 | 0 | (0) | 13,328 |
| - Winnepesaukee | 20,520 | 272 | 0 | (0) | 20,792 |
| Department of Fish & Game | | | | | |
| - Lifetime License Fund | 2,073,131 | 51,538 | 111,702 | (34,182) | 2,202,189 |
| Health & Human Services | | | | | |
| - Laconia State School | 137,158 | 1,733 | (12,455) | 0 | 126,436 |
| - Matthew Elliott Memorial Trust Fund | 4,883 | 65 | 0 | (0) | 4,948 |
| - New Hampshire Hospital | 7,511,230 | 177,291 | (244,504) | 185,272 | 7,629,289 |
| - NHSLRP/JUA Escrow Account | 645,183 | 6,058 | (198,136) | 0 | 453,104 |
| - Youth Development Center | 35,113 | 465 | 0 | (0) | 35,578 |
| Department of Labor | | | | | |
| - Crown Paper Workers Compensation | 15,272 | 2 | 0 | 0 | 15,274 |
| - Special Fund for Active Cases | 26,627 | 208 | (14,850) | 0 | 11,985 |
| - Special Fund For Second Injuries | 3,908,225 | 113,329 | 870,448 | 0 | 4,892,001 |
| Dept of Natural and Cultural Resources | | | | | |
| - Caroline A. Fox Fund ⁽¹⁾ | 0 | 1 | (1) | 0 | 0 |
| - Tip-Top House Fund | 21,244 | 281 | 0 | (0) | 21,526 |
| Department of Safety | | | | | |
| - Financial Responsibility | 108,844 | 1,371 | 31,072 | 0 | 141,286 |
| - Road Toll Bonds | 56,186 | 724 | (20,000) | 0 | 36,910 |
| New Hampshire Veterans' Home | | | | | |
| - Benefit Fund | 581,760 | 28,967 | 1,003,306 | (24,954) | 1,589,079 |
| - Guy Thompson Account | 15,170 | 286 | (316) | (1) | 15,139 |
| - Members' Administrative Account | 743,581 | 11,053 | (250,000) | 132 | 504,766 |

TRUST AND AGENCY ACCOUNTS HELD BY THE STATE TREASURER (EXHIBIT 1 CONT.)
FISCAL YEAR 2020 (unaudited)

| | July 1, 2019 Beginning Market Value | Dividends & Interest Earned | Net Transactions During Year | Net Change In Market Value | June 30, 2020 Ending Market Value |
|---|--|--------------------------------------|---------------------------------------|-------------------------------------|--|
| Fund Name | Value | Value | Value | Value | Value |
| NH Higher Education | | | | | |
| -NH Higher Ed- Concord Hospital Surgical Technology Program | 10,344 | 907 | 70,000 | 0 | 81,251 |
| -NH Higher Ed- Stonemakers Corporation | 113,493 | 121 | (113,615) | 0 | 0 |
| -NH Higher Ed- The Prelude Institute | 35,104 | 465 | 0 | 0 | 35,569 |
| Office of Energy and Planning | | | | | |
| - Land Conservation Monitoring Endowment | 4,071,703 | 90,692 | (4,668) | (43,800) | 4,113,928 |
| Public Utilities Commission | | | | | |
| -Electric Assistance Program | 2,482,678 | 7,987 | 50,226 | 0 | 2,540,892 |
| Racing & Gaming | | | | | |
| -NH Lottery Commission Licensee Escrow | 20,392 | 212 | (20,604) | 0 | 0 |
| Treasury Department | | | | | |
| - Japanese Charitable Fund | 141,869 | 2,718 | 2,961 | 15,381 | 162,929 |
| - College Savings Plan Trust | 2,571,654 | 83,115 | 243,738 | 142,921 | 3,041,428 |
| University of New Hampshire | | | | | |
| - Benjamin Thompson Trust | 2,387,022 | 42,066 | (102,636) | (49,681) | 2,276,770 |
| Other | | | | | |
| - Community Conservation Endowment | 4,940,971 | 111,387 | 447,230 | 14,816 | 5,514,404 |
| - Conn Lakes Headwaters Natural Areas Stewardship | 2,136,326 | 44,370 | (9,767) | (52,266) | 2,118,664 |
| - Conn Lakes Headwaters Tract Monitoring Endowment | 2,127,181 | 45,514 | 63,076 | (52,871) | 2,182,900 |
| - Conn Lakes Headwaters Tract Road Maintenance | 2,083,002 | 43,910 | 34,512 | (54,936) | 2,106,488 |
| Total Trust & Escrow Accounts | 42,550,700 | 944,210 | 2,015,350 | 45,607 | 45,555,867 |
| - Unclaimed and Abandoned Property ⁽²⁾ | 18,203,265 | 657,492 | (1,838,341) | (1,180,849) | 17,022,416 |
| Columns may not add due to rounding. | | | | | |
| (1) Account Closed. Annual Income to be sent directly from Trustee to State Agency going forward. | | | | | |
| (2) This includes only the securities held by Avenu Insights and Analytics | | | | | |