

Senate Education Committee

Trevor Currier 271-4151

AMENDMENT # 2025-2978s, establishing a revolving loan fund for the Claremont school district. to HB 292, establishing a commission to study school administrative unit consolidation.

Hearing Date: October 14, 2025

Time Opened: 1:00 p.m.

Time Closed: 3:30 p.m.

Members of the Committee Present: Senators Ward, Sullivan, Abbas, Prentiss and Altschiller

Members of the Committee Absent : None

Bill Analysis: This bill creates a commission to study the issue of school administrative unit consolidation.

Sponsors:

Rep. Ladd

Who supports the amendment: Representative John Cloutier, Representative Stephen Woodcock, Megan Tuttle (NEA-NH), Attorney Jim O'Shaughnessy, Kerry Kennedy, Autumn Kish, David Trumble

Who opposes the amendment: Representative Ralph Boehm, Representative Raymond Peeples, Representative Alvin See

Who is neutral on the amendment: Laura Vincent

Summary of testimony presented:

Senator Ruth Ward

- Senator Ward explained that the purpose of the public hearing was to receive an update on the financial situation at the Claremont School District and to consider an amendment to HB 292 that aims to keep the Claremont school doors open throughout the remainder of the year.
- Sen. Ward established that the Claremont School District is confronted with a five-million-dollar deficit stemming from gross financial mismanagement.

- Sen. Ward highlighted the several steps Claremont has taken to address the situation, including closing an elementary school and relying on volunteers to operate extracurricular activities.
- Sen. Ward stated that the amendment was drafted in collaboration with the Claremont School District, the State Department of Education, and the State Treasurer. Amendment 2025-2978s seeks to provide the district with greater flexibility by allowing it to access its allotted state adequacy funds early and as needed.

James O’Shaughnessy (Attorney on behalf of the Claremont School District)

- Attorney James O’Shaughnessy delivered a presentation to the committees, detailing the current financial status of the district, audits, budget reductions, other information that has been covered in media reports, and included a long-term plan for corrective action.
- Mr. O’Shaughnessy defined the role of School Administrative Units (SAUs) in New Hampshire and outlined the staffing changes that SAU 6 has experienced over the last two months. He mentioned that the Business Administrator, Director of Student Services, Superintendent, Human Resources Director, and Assistant Superintendent are no longer employed by the district.
- He stated that the experienced newcomers filling the vacant roles are effectively addressing the district's five-million-dollar financial crisis.
- Mr. O’Shaughnessy explained that after a preliminary audit report, the Board announced it was facing a deficit of between \$1 million and \$5 million. He stated that the School Board did not know the full extent of the deficit until mid-August. At that time, payments to vendors had not been reconciled in the accounting system, and the district had outstanding obligations to health insurance providers, special education service providers, school lunch providers, and the New Hampshire Retirement System.
- Mr. O’Shaughnessy stated that the district aims to reduce the current five-million-dollar deficit to 1.9 million by June 30th. The 1.9 million deficit is caused by costs related to special education, teacher substitutes, and school care.
- The decrease in the deficit results from aggressive cuts in operating expenditures this year.
- Mr. O’Shaughnessy summarized the events that led to the deficit. First, the district was not reimbursed through grants due to filing noncompliance. There have been consistent fund balance miscalculations that resulted in the tax rate being set too low. There were several accounting errors related to the district's health insurance, including continuing to provide health insurance to former employees, under-capturing employee contributions, and over contributing to retiree health insurance.

- The previous administration also failed to attend finance committee meetings with the auditor. The independent auditor reported that district officials repeatedly failed to provide information.
- Mr. O'Shaughnessy established that the district overspent roughly 2 million dollars in FY25.
- Mr. O'Shaughnessy stated that the general ledger is where all the district's transactions, records, liabilities, assets, revenues, and expenses are documented. He explained that the general ledger effectively did not exist in the district under the previous administration. The current business administrator is working to manually reconcile financial records with external supporting documents.
- Mr. O'Shaughnessy updated the Committee on the audit reports. He stated the FY22 audit report showed the deficit in FY21 was resolved in FY22 and the district ended the year with a surplus. The report's findings also included board management oversight gaps, weaknesses in cash handling, failure to perform regular reconciliations and maintain adequate records, unsubstantiated balances, repeated requests from auditors for information, and gaps in grant reporting. He mentioned that the district's FY23 through FY25 audits are currently being completed simultaneously. He attributed the district's financial challenges primarily to the actions of the previous administration.
- Mr. O'Shaughnessy explained how the deficit has been addressed so far. He pointed out that nineteen new teachers who had been offered contracts had the contracts rescinded. Twenty open staff positions were left unfilled, and secretary and custodian roles were eliminated. Overall, these staff reductions saved approximately \$4 million. Additionally, SAU 6 staff reductions and resignations contributed another \$768,000 in savings. Non-required extracurricular activities are no longer funded through the district's operating budget. Instead, Stevens High School Alumni Association acts as the district's fiscal sponsor, funding these activities via donations the association receives. The Buff Elementary School was closed, and intact classrooms were relocated to Maple and Disnard Elementary Schools. This consolidation of resources resulted in cost savings. Currently, transportation is not provided for extracurricular activities.
- Mr. O'Shaughnessy stated that Commissioner Davis's support has been instrumental in helping the district understand the current financial crisis.
- Mr. O'Shaughnessy provided the committees with insight into the Reimbursement Anticipation Note (RAN) received from Claremont Savings Bank. He established the RAN as a one-time \$4 million authorization that must be repaid by April. The RAN alleviated the district's urgent cash flow issues for paying vendors and meeting payroll, but it is not used to reduce the deficit.

- Mr. O'Shaughnessy stated that the future availability of the RAN is not guaranteed. He expressed the district is relying on a private bank to remain open, which could pose future financial stability issues for the district.
- Mr. O'Shaughnessy stated there are still concerns about Claremont School District's stability, both financially and operationally, due to the unprecedented budget cuts that were made.
- Mr. O'Shaughnessy pointed out that there are no safety nets for the district. He said that large vendor obligations have been paid with the loan, extensive staff cuts have strained current operations, and there is significant turnover and staff uncertainty.
- Mr. O'Shaughnessy explained that Senator Ward's amendment creates a fund that allows the district to access its adequacy grant funds as needed and repay the funds with interest. He stated that the amendment is not a bailout for the district; it simply gives the district early access to the monies it is already entitled to receive.
- Mr. O'Shaughnessy explained the time line facing the district. In March 2026, the Annual Meeting approves new appropriations. On April 1, 2026, the district receives the final state adequacy grant payment. Also, in April 2026, the RAN is due, and the district will start to experience cash flow challenges. From April through August, educator contracts and vendor payments will be due. On July 1, the new fiscal year begins, and in late August, school resumes. Adequacy payments will be received on September 1 and November 1. Cash flow is expected to be a significant challenge for the district from April to September.
- Mr. O'Shaughnessy anticipates the district will use the adequacy revolving fund monies for cash flow purposes from April 2026 to September 2026.
- Mr. O'Shaughnessy stated that the 2030 sunset date in the Amendment can be flexible. The district's ongoing access to the revolving fund will serve as a safety net.
- Mr. O'Shaughnessy stated that this amendment is necessary to ensure school remains open all year and starts on time next year. He mentioned that families and vendors need confidence in the district and believes the amendment will help ensure the district remains a viable school district.
- Mr. O'Shaughnessy expressed that this is the only viable solution to the current challenges. He mentioned it is too late to hold a special meeting and that state law prevents districts from taking on debt to cover operating expenses.
- Mr. O'Shaughnessy stated the district remains committed to continuing to identify areas for consolidation and efficiency, as well as improving internal budget systems and controls.
- Mr. O'Shaughnessy confirmed that the district has already completed health insurance reconciliations. The district is implementing a two-factor

authentication system for disbursements, cost projections for purchase orders, oversight of stipend positions, and improved financial reporting to the School Board and the public. The district plans to undergo an independent operations review, a special education program audit, and a human resources audit.

- Senator Sullivan asked if employees who underpaid for their contracted health insurance rates are required to reimburse the district for their share of their health insurance costs.
- Matt Angel, Business Administrator of SAU 6, stated that employees who were miscalculated are being asked to repay the district for the first two months of the fiscal year. However, since the rates weren't charged correctly, it will be a decision for the local School Board.
- Representative Dan McGuire asked for clarification regarding the remaining deficit projected to exist at the end of the year.
- Mr. Angel explained his calculation method, which starts with the total approved by taxpayers for the year minus the district's obligations for that year. This results in \$5.8 million available in the operating budget. The amount decreases when \$75,000 is allocated for health insurance for the first two months and \$868,000 for the school care assessment. To fulfill special education needs, the district has contracted six paraprofessionals, four teachers, and one Board Certified Behavior Analyst. Additional costs include \$80,000 in supplies for each building and half a million dollars for unexpected expenses due to ongoing and unaccounted large invoices. The educators are also experiencing burnout, so extra funds were needed to hire substitute teachers.
- Rep. Dan McGuire inquired whether any of the accounting errors were in the district's favor. He thought that if errors only disadvantage the district, it could be seen as deliberate malfeasance.
- Mr. Angel responded that he cannot speak to the intent behind the accounting errors made by the previous administration. Mr. Angel reported that the \$1.6 million overspend did not include the \$300,000 expenditure for retiree health insurance. He also revealed that the district did not budget sufficient funds for school lunches.
- Sen. Sullivan inquired about the amount of adequacy funding the Claremont School District receives from the state annually.
- Mr. Angel stated that the district receives approximately 16 million dollars through the adequacy grant and between 1.5 million and 1.8 million in SWEPT Tax.
- Representative David Luneau asked if the Claremont School Board is undergoing a forensic audit.
- Mr. O'Shaughnessy explained that a forensic audit cannot be conducted at this time because it would require the firm to take over all the books and accounting,

which would effectively halt the current administration's progress. However, the School Board has indicated a willingness to invest in a forensic audit in the future.

- Rep. Luneau asked if the district believes the terms and conditions outlined in the amendments will be sufficient to meet the needs of Claremont students.
- Mr. O'Shaughnessy stated that the district believes the 75% borrowing cap gives the district enough funds to operate.
- Representative Ladd asked how long the district's cash on hand will last during the current year.
- Mr. Angel replied that come June, when teachers need to be paid at the end of the year, there will be serious cash flow problems heading into the next year.
- Representative Popovici-Muller asked about the current interest rate on the RAN Loan and why the district is concerned that the RAN will no longer be an option in the future.
- Mr. Angel reported that the district will have no collateral to borrow money once it makes the final payment and no longer receives incoming adequacy funding. He also mentioned that the interest rate on the RAN is two percent. Mr. O'Shaughnessy added that banks might be uncertain about continuing this type of lending as more New Hampshire districts face similar challenges.
- Representative Kofalt asked if he is correct in his assessment that even the most basic accounting functions were not performed under the previous administration.
- Mr. Angel replied that Representative Kofalt's analysis is correct. Mr. O'Shaughnessy added that the MS 24 document used to set the tax rate was submitted with a fund balance of \$390,000, when in reality the district's bank account reflected a negative \$2.5-million-dollar balance.
- Representative Erf inquired about the liability of the individuals involved and how this situation could have gone unnoticed longer.
- Mr. O'Shaughnessy stated that the previous administration was not submitting manifests or reports to the proper authorities, even when asked. This issue persisted until the Board reached out to Mr. O'Shaughnessy for assistance.
- Rep. Erf asked whether there has been consistency in the School Board's composition over the years.
- Mr. O'Shaughnessy replied that, to the best of his knowledge, the composition of the Board has remained largely consistent. He said that the Board could not know what they did not know.
- Representative Colcombe inquired about any expendable trust funds previously established by the school district and whether there is a 2.5% contingency allowance.

- Mr. Angel stated that when facing a \$5 million deficit, there is no contingency trust fund. He also mentioned that he believes the prior administration depleted all district reserves.
- Rep. Colcombe asked if the Business Administrator is still on payroll.
- Mr. O'Shaughnessy replied that the individual is on unpaid leave. The Board is scheduled to hold a hearing to determine if there is cause for termination.
- Rep. Kofalt asked hypothetically if relevant state agencies had the authority to inspect financial records, could or would this situation have been avoided or mitigated?
- Mr. O'Shaughnessy replied, "Yes," and said that the people at the relevant state agencies, including Commissioner Davis, were concerned that something was not right in Claremont. He explained that there are possible avenues for oversight connected to state adequacy aid dollars.
- Rep. Ladd expressed concern that the previous administrators depleted the reserve accounts. He asked if there are checks and balances in place for when individuals access the reserve accounts.
- Mr. O'Shaughnessy stated that school districts are subject to the voters at the Annual Meeting to create the fund and appropriate dollars to the funds. The Board, however, is often appointed as the agents to expend.
- Representative Colcombe inquired about the district's treasurer's role during these situations.
- Mr. Angel said it's a difficult question to answer because he is new. Mr. O'Shaughnessy stated he does not believe that the treasurer is fulfilling a traditional treasurer's role in Claremont.
- Senator Abbas asked for clarification regarding the district's grant accounting practices and why the district budgeted for grants that they knew they were ineligible for due to noncompliance.
- Mr. Angel stated that the expenditure must align with the scope of the grant obligation. When a district budgets for IDEA, there must be revenue to offset the expenditure so that real estate tax dollars are not affected. Many grants that school districts receive require the district to have already spent the money and then submit for reimbursement. In Claremont, the district undertook projects with the expectation of being reimbursed; however, they were rejected for numerous reasons.
- Representative Brown referred to the School Board's finance committee meeting minutes, highlighting several known red flags that were known to the Board. She asked if there were additional financial subcommittee meetings.
- Mr. O'Shaughnessy stated the Board was unaware of the extent of the problem. He stated that the district got itself into this situation and that it is incumbent upon the district to fix it.

- Rep. Popovici-Muller asked how far along the administration is in terms of fully understanding the extent of the problem.
- Mr. Angel said unexpected bills will keep coming up over the next two years.
- Representative Fellows inquired whether Claremont has policies and procedures regarding budgeting and accounting.
- Mr. Angel stated that the purchase policy, among others, needs to be updated to effectively prevent some of the expenditures.

Representative John Cloutier

- Representative Cloutier testified in support of amendment 2025-2978s.
- Rep. Cloutier explained that the amendment is not a giveaway. He added that it is a loan that Claremont must repay.
- Rep. Cloutier emphasized that the primary goal is to keep the schools open. He stated that the second priority should be identifying the causes and those responsible for this situation.
- Rep. Cloutier urged the committees to pass either Sen. Ward's or Rep. Ladd's amendment.

Megan Tuttle (*President NEA-NH*)

- Ms. Tuttle testified in support of amendment 2025-2978s.
- She stated that this amendment offers essential certainty and stability for the Claremont community.
- She expressed that her association's members feel grateful for the support from the greater Claremont community and appreciate the community's effort to ensure children are as minimally impacted as possible by the current situation.

Kerry Kennedy (*Interim Superintendent SAU6*)

- Ms. Kennedy testified in support of amendment 2025-2978s and expressed appreciation to students, staff, and families for their ongoing dedication to the district.

David Trumble (*Weare Resident*)

- Mr. Trumble testified in support of Amendment 2025-2978s.
- He referred to the recent decision by the New Hampshire Supreme Court on the ConVal case involving school funding. He interpreted the ruling to mean that the State of New Hampshire owes Claremont an extra 4.6 million dollars annually in state funding.
- He believed that this legislation reinforces the view that underfunded schools are the municipality's problem and that the state will only step in when a school is close to closing.

- He attributed Claremont's lack of a strong property tax base to the inadequate funding of the schools.
- He said that the State must accept some responsibility for the financial situation in Claremont because of the current funding mechanism.

Representative Ralph Boehm

- Representative Boehm testified in opposition to Amendment 2025-2978s.
- Rep. Boehm is concerned that this sets a precedent of the State making loans to school districts in financial trouble.
- Rep. Boehm recalled his experience in Litchfield where their schools faced similar challenges and sound financial management resolved the issue.
- Rep. Boehm also said there is still time to submit a warrant article for the March election.

State Treasurer Monica Mezzapelle and Mark Manganiello (*Bureau of School Finance*)

- Representative Fellows inquired about how the money enters and exits the revolving fund.
- Ms. Mezzapelle responded that the district will be able to access their adequacy aid money as needed. She also stated that the interest will be calculated using the municipal market data yields. When aid is disbursed, the funds will be subtracted from what is owed, including both principal and interest.
- Mr. Manganiello stated that the amendment requires all parties involved to agree to the terms. The total adequacy warrant they can contribute to the fund is 75% of the adequacy they receive.
- Representative Peoples asked what the current interest rate is that the district would be charged if it were to access the money today.
- Ms. Mezzapelle emphasized that it would depend on the market rates at the time, but if it were today, it would be 2.3%.

Representative Rick Ladd

- Representative Ladd stated that Amendment 3004h includes everything in Amendment 2978s. However, it also adds new accountability measures for the Claremont School District.
- Rep. Ladd highlighted the additional accountability measures.
- On page 1, line 8, the word “may” was removed to acknowledge the current impact of the financial situation on the district’s ability to provide an adequate education to Claremont students.
- The House Amendment designates the State Treasury to be the administrator of the revolving loan.

- The House amendment further defines the terms of the loan in the paragraph starting on line 17, requiring reporting to the Commissioner of Education and the State Treasurer.
- On Line 30, the House Amendment adds roman numeral three, which withholds the loan for noncompliance until the district reestablishes compliance.
- The House Amendment shifts the loan repayment date to 2029, from 2030.
- Representative Ladd proposed that the committee change the date on page 3, line 3, to also read “2029”.
- Rep. Popovici-Muller voiced several concerns. He has reservations about adopting legislation that applies to only one town, believing it should encompass all municipalities. He also expressed worry about the time line, feeling the process could be completed in January to allow more time for debate.
- Sen. Sullivan addressed Representative Popovici-Muller’s concerns regarding the need for legislation bringing accountability measures to school boards and districts across the State.
- Sen. Altschiller asked Representative Ladd if the purpose of page 2, line 30, is to clarify the roles of the Commissioner of the Department of Education and the State Treasurer in determining whether the Claremont School District fails to comply with the loan terms regarding accountability.
- Rep. Ladd confirmed that the decision is made jointly by the Commissioner of the Department of Education and the Treasurer. He recalled an experience with the Commission for Public School Improvement, where districts quickly complied with the request of the Director of Homeland Security. The Director asked districts to have emergency management plans in place before receiving eligible funding.
- Sen. Altschiller asked Representative Ladd if the revisions in the House Amendment to the date on page 3, line 3, anticipate that Claremont will be financially stable at that time.
- Mr. O’Shaughnessy responded to Senator Altschiller and stated the district is comfortable with the date revision in the House amendment.
- Rep. Kofalt also voiced concerns about the precedent this legislation could set. He emphasized the need for a more deliberate process to ensure proper safeguards and accountability measures are established.
- Rep. Luneau appreciated both the House and Senate amendments. He believed that the legislature needs to act quickly, and the two proposed amendments are the least the State can do to address the needs of Claremont. He thought a more comprehensive approach could be taken in the future.