

Bill: HB 121-FN

Amendment: 2025-3025h

LSR: 25-0090

Title: *AN ACT relative to school district financial requirements and district probation processes.*

Sponsor(s): Rep. Cordelli, Carr. 7

Committee: Education Policy and Administration (H)

Hearing: Public Hearing on non-germane Amendment

Bill Analysis
New Hampshire Department of Revenue Administration

November 5, 2025

As an administrative agency in the executive branch of the State of New Hampshire, the mission of the Department of Revenue Administration (DRA) is to fairly and efficiently administer the tax laws of the state, collecting the proper amount of taxes due and incurring the least cost to the taxpayers, in a manner that merits the highest degree of public confidence in our integrity; further, to provide prompt and constructive assistance to the municipal units of government in matters of budget, finances, and the appraisal of real estate. Consistent with our role and mission, we take no position on the policy considerations which may underly proposed legislation, those being entirely within the purview of the legislature and the governor to determine. Rather this analysis is provided to inform those interested regarding our understanding of the language of the bill and how we might implement it, to explain any challenges we foresee in that regard and how they might be addressed for the benefit of the State and its taxpayers, and to expand upon the basis for our fiscal impact analysis and our implementation cost estimates when appropriate.

We hope you find this analysis helpful.

DRA's Understanding of the Proposed Legislation

The proposed amendment replaces the former title and all language of the bill.

Audits Conducted under RSA 21-J

The proposed legislation would shorten the time in which professionally conducted audits of municipalities are to be completed from one year to four months following the end of the fiscal year. It would also require that a copy of the completed audit be posted on the local governing body's website and its findings and recommendations be reviewed at the next public meeting.

It would also expand the types of municipal audits which could be required by the commissioner of the Department of Revenue Administration (DRA) to include both financial and forensic audits and would require DRA's commissioner to consult with the commissioner of the Department of Education (DOE) in cases involving school districts.

It would also increase the fine which may be levied by DRA's commissioner for audit non-compliance from \$250 per day to \$500 per day beginning 60 days, rather than 90 days, after written notice of an intent to levy.

It would also give authority to the commissioner of DRA to disregard a municipality's unreserved fund balance when setting rates if DRA questions the validity of the financial data due to the lack of an audit.

It would also require DRA to inform DOE regarding the completion of, or failure to complete school district audits, and of any waivers granted and would require DOE to list non-compliant school districts on their website and notify the chair of the state board of education.

It would also require DRA to adopt rules for the criteria to be used with respect to fines and waivers.

It would also amend the publication requirements for professionally conducted municipal audits so that the audit report presented to local officials includes all of (not a summary of) the findings and recommendations of the auditors, and so that the full report (not a summary) be included in the next annual report. Additionally, publication requirements are again expanded to include posting on the governing body's website, and review at the next public meeting of the governing body following the fiscal year in which the audit was completed.

Elected Auditors for School Districts

The proposed legislation repeals the requirement that school districts elect auditors if they do not utilize professional auditors.

School Funding

The proposed legislation would expand the reports which must be filed with DOE by September 1 of each year, upon penalty of withholding all state education aid, to include not only the unaudited financial reports, but also the voted appropriations report, the revised estimate of revenues report, the budget report in school districts operating under the municipal budget law, and professionally audited financial statements under RSA 21-J.

It also adds explicit authority for the commissioner of DOE to withhold state aid when school districts, cities and chartered public schools are more than six months late in complying with audit requirements.

State Board of Education Oversight

The proposed legislation expands upon the powers of the State Board of Education, providing a mechanism for placing a public school district on probation, developing a remedial plan, and assuming administrative responsibilities if the remedial plan is unsuccessful.

Technical Questions and Concerns

With respect to the insertion of specific references to “school districts” in various statutes throughout the proposed amendment, DRA would urge caution. While DRA understands that the intent is to make clear that school districts are an intended subject of the various provisions, it is possible that by listing a specific type of local governmental unit but not others, an argument could be made that the others are not covered. It is also possible that any place where “school district” is not inserted could be interpreted as not covering school districts.

For example, RSA 21-J:19, I currently starts with a list of ten local government units: “Any town, or school district, or village district or precinct, at the annual meeting or at a special meeting, or the selectmen of any town, or the governing body of any city, or the school board of any school district, or the commissioners of any village district or precinct” and then refers later to the close of the municipality’s fiscal year, referring to the list of ten collectively as “municipalities.” By changing “municipality’s” to “municipality’s or school district’s” the meaning of municipality becomes less clear.

An additional example can be found in the revisions to RSA 21-J:20-a, where, on page 2, line 17, “school district” is inserted to the list of “municipality, political subdivision, [school district,] or county” but then on line 24, it is not inserted.

DRA would respectfully suggest that unless there is confusion regarding whether school districts are the intended subject of the various provisions being amended here, that added references be avoided wherever possible. If confusion does exist, DRA respectfully suggests that references be examined for consistency and edited throughout entire statutory sections or chapters to avoid creating even greater confusion..

With respect to the shortened time for completing professionally conducted audits, when read in concert with the expanded powers of DRA to disregard unreserved fund balances, DRA suggests that there would be unintended and harmful consequences on municipal rate setting due to the timing of the various events. For municipalities whose fiscal year ends June 30, which includes all school districts, their audit report would now be due to DRA on October 30. DRA begins its rate setting work at the beginning of October, following receipt of municipalities’ budgets and revised revenue estimates, and DOE’s education grant calculations. If, during the midst of calculating rates, DRA were also required to make decisions regarding the imposition of fines and fine waiver requests, and about the validity of municipal data due to the lack of an audit, those decisions would not be well considered, would be premature, and could result in unnecessary fund balance exclusions. DRA suggests that the time for completing audits remain at twelve months, so that DRA would then be considering its strategy for non-compliant districts in July and August, and would then be considering the validity of the current data in light of the lack of the prior year’s audit, which is the more likely circumstance in which the data would become of suspect validity. Additionally, DRA suggests that its powers under RSA 21-J:20-a be changed slightly to provide that it “**may** levy a fine” but “**shall** not consider the unreserved fund balance” because there is not a circumstance in which DRA would want to do otherwise if it were to conclude that a municipality’s financial data was questionable due to the lack of an audit.

With respect to the elimination of the local elected auditor for school districts, DRA notes that there would then be no clear mandatory alternative to retained auditors for school districts. An audit conducted under RSA 21-J:19 is permissive (“Any...school district...may hire a certified public accountant”). Requirements for submitting reports and consequences for failure to do so would still exist, which may be sufficient to make the expectation clear, but mandatory language inserted in place of the repealed language would also be helpful.

And finally, by expanding the scope of material due to DOE by September 1, this proposed amendment would create conflicting deadlines that could impact the information available to DRA for rate setting. Both the voted appropriations report and the budget report in districts with budget committees are due within 20 days of the close of the annual or special meeting under RSA 198:4-d, I. and IV. And professionally audited financial statements under RSA 21-J are currently due 12 months following the end of the fiscal year and could become due 4 months following the end of the fiscal year.

Supplemental Fiscal and Cost Information

Not Applicable.

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