



House of Representatives

General Assembly

File No. 94

February Session, 2014

House Bill No. 5347

House of Representatives, March 25, 2014

The Committee on Planning and Development reported through REP. ROJAS of the 9th Dist., Chairperson of the Committee on the part of the House, that the bill ought to pass.

AN ACT ALLOWING CERTAIN MUNICIPALITIES TO CREATE SCHOLARSHIP FUNDS THROUGH MUNICIPAL BONDING.

Be it enacted by the Senate and House of Representatives in General Assembly convened:

1 Section 1. (NEW) (*Effective July 1, 2014*) (a) Any distressed
2 municipality, as defined in section 32-9p of the general statutes, may,
3 upon approval by its legislative body or, in any municipality in which
4 the legislative body is a town meeting, by the board of selectmen,
5 adopt an ordinance establishing a scholarship fund. Such ordinance
6 shall include provisions for (1) the establishment of scholarship
7 eligibility requirements, which shall include a requirement that the
8 person seeking the scholarship apply for every appropriate grant and
9 scholarship to offset postsecondary education expenses, enroll in a
10 degree-granting program at an institution of higher education that is
11 accredited by the Board of Governors of Higher Education or
12 regionally accredited, complete at least twelve credit hours per
13 semester and maintain a grade point average of at least 2.5; (2) the
14 establishment of scholarship retention requirements, which may

15 include performance of community service in such municipality; (3)
16 the establishment of a committee to review applications and award
17 scholarships from the fund; (4) the determination of factors to be
18 considered for revocation and reinstatement of a scholarship award;
19 (5) scholarship fund discontinuance; and (6) limitation on the amount
20 of scholarship awards so that no such award shall exceed the annual
21 rate of tuition, room and board and fees charged to in-state students to
22 attend The University of Connecticut at Storrs, as provided in
23 subsection (b) of this section. The provisions of section 7-374 of the
24 general statutes shall apply to any bonds issued pursuant to this
25 section.

26 (b) A distressed municipality may authorize the issuance of bonds,
27 notes or other obligations in accordance with the provisions of chapter
28 109 or 588c of the general statutes for the purpose of funding a
29 scholarship fund established pursuant to subsection (a) of this section
30 to provide money for tuition, room and board and fees for residents of
31 the municipality who are United States citizens or permanent residents
32 of the United States to attend a public or independent institution of
33 higher education in this state and who remain residents of such
34 municipality while attending such institution of higher education.
35 Registering to vote in a different municipality while attending an
36 institution of higher education shall not affect eligibility for a
37 scholarship award provided pursuant to this section. As a condition of
38 receiving a scholarship award pursuant to this section, the recipient
39 shall agree to work and live in this state for a certain number of years,
40 as determined by the municipality. If the recipient fails to satisfy such
41 agreement, the ordinance adopted pursuant to subsection (a) of this
42 section may require repayment of all or part of the scholarship award.
43 Any scholarship for tuition, room and board and fees provided
44 pursuant to this section shall be paid directly to the institution of
45 higher education.

46 (c) The proceeds of bonds, notes or other obligations issued
47 pursuant to this section shall be paid into the fund created pursuant to
48 subsection (a) of this section. The fund may also accept gifts,

49 donations, bequests or funds from any other public or private source.

50 (d) The budget-making authority of such municipality may, from
51 time to time, direct the town treasurer to invest such portion of such
52 fund as in its opinion is advisable, provided: (1) Not more than forty
53 per cent of the total amount of the fund shall be invested in equity
54 securities, and (2) any portion of such fund not so invested may be
55 invested in (A) bonds or obligations of, or guaranteed by, the state or
56 the United States, or agencies or instrumentalities of the United States,
57 (B) certificates of deposit, commercial paper, savings accounts and
58 bank acceptances, (C) the obligations of any state of the United States
59 or any political subdivision thereof or the obligations of any
60 instrumentality, authority or agency of any state or political
61 subdivision thereof, provided at the time of investment such
62 obligations are rated within the top rating category of any nationally
63 recognized rating service or of any rating service recognized by the
64 Banking Commissioner and applicable to such obligations, (D) the
65 obligations of any regional school district in this state, of any
66 municipality in this state or any metropolitan district in this state,
67 provided at the time of investment such obligations of such
68 government entity are rated within one of the top two rating categories
69 of any nationally recognized rating service or of any rating service
70 recognized by the Banking Commissioner and applicable to such
71 obligations, (E) any fund in which a trustee may invest pursuant to
72 section 36a-353 of the general statutes, (F) investment agreements with
73 financial institutions whose long-term obligations are rated within one
74 of the top two rating categories of any nationally recognized rating
75 service or of any rating service recognized by the Banking
76 Commissioner or whose short-term obligations are rated within the
77 top rating category of any nationally recognized rating service or of
78 any rating service recognized by the Banking Commissioner, or (G)
79 investment agreements fully secured by obligations of, or guaranteed
80 by, the United States or agencies or instrumentalities of the United
81 States.

82 (e) The town treasurer shall annually submit a complete and

83 detailed report of the condition of such fund to the chief executive
 84 officer, the budget-making authority and the legislative body of such
 85 municipality and such report shall be made a part of the annual report
 86 of the municipality. Such report shall comply with the standard
 87 auditing procedures of such municipality.

88 (f) Such fund may be discontinued after recommendation by the
 89 chief executive officer and the budget-making authority to the
 90 legislative body and upon approval of such body. To the extent there is
 91 any remaining portion of such fund, the fund shall be converted into,
 92 or added to, a sinking fund to provide for the retirement of the bonded
 93 indebtedness of the municipality. If the municipality has no bonded
 94 indebtedness, such fund shall be transferred to the general fund of the
 95 municipality.

96 Sec. 2. (NEW) (*Effective July 1, 2014*) If a resident who enrolls in a
 97 degree-granting program offered by a public institution of higher
 98 education receives a scholarship from a fund established by an
 99 ordinance pursuant to section 1 of this act, the public institution of
 100 higher education shall not reduce any financial aid offered by such
 101 institution of higher education to such resident based on such
 102 resident's receipt of the scholarship, except when a reduction in
 103 financial aid is required by federal law or regulation.

This act shall take effect as follows and shall amend the following sections:		
Section 1	<i>July 1, 2014</i>	New section
Sec. 2	<i>July 1, 2014</i>	New section

PD *Joint Favorable*

The following Fiscal Impact Statement and Bill Analysis are prepared for the benefit of the members of the General Assembly, solely for purposes of information, summarization and explanation and do not represent the intent of the General Assembly or either chamber thereof for any purpose. In general, fiscal impacts are based upon a variety of informational sources, including the analyst's professional knowledge. Whenever applicable, agency data is consulted as part of the analysis, however final products do not necessarily reflect an assessment from any specific department.

OFA Fiscal Note

State Impact: None

Municipal Impact:

Municipalities	Effect	FY 15 \$	FY 16 \$
Various Municipalities	Cost	Potential	Potential

Explanation

The bill allows distressed municipalities to use municipal bonds to establish scholarship funds for students in their towns that attend in-state public or private universities and colleges.

Distressed municipalities that choose to establish such a fund would incur a cost to issue bonds to fund scholarships. The cost would vary based on how many scholarships a municipality chose to award each year, and the dollar amount of those scholarships.

The Out Years

The annualized ongoing fiscal impact identified above would continue into the future subject to inflation.

OLR Bill Analysis**HB 5347*****AN ACT ALLOWING CERTAIN MUNICIPALITIES TO CREATE SCHOLARSHIP FUNDS THROUGH MUNICIPAL BONDING.*****SUMMARY:**

This bill authorizes each of the state's 25 distressed municipalities (see BACKGROUND) to establish a fund to provide scholarships to eligible municipal residents attending public or private colleges and universities in the state. It allows them to issue taxable or tax-exempt municipal bonds or tax-exempt private activity bonds (see COMMENT) to fund the scholarships, subject to their individual municipal bond caps.

The municipality's legislative body (or if the legislative body is a town meeting, its board of selectmen) must adopt an ordinance to establish the fund. The bill authorizes the fund to accept gifts, donations, bequests, and money from any other legal sources. It specifies how the municipality may invest the money in, and discontinue, the fund. And it requires the municipality to annually report on the fund's condition.

The bill establishes specific eligibility requirements for the scholarships and limits the award amount to UConn's annual in-state rate for tuition, room and board, and fees. It requires municipalities to pay the scholarships directly to each recipient's college or university. Lastly, the bill bars public colleges and universities from reducing the amount of financial aid offered to recipients based on the municipal scholarship awards, unless federal law or regulation requires it.

EFFECTIVE DATE: July 1, 2014

ORDINANCE ESTABLISHING THE FUND

The ordinance creating the scholarship fund must:

1. establish the scholarship's eligibility requirements, including requiring applicants to (a) apply for every appropriate grant and scholarship to offset college expenses, (b) enroll in a degree-granting program at a higher education institution accredited by the Board of Governors of Higher Education or regionally accredited, (c) complete at least 12 credit hours per semester, and (d) maintain a minimum 2.5 grade point average;
2. establish the scholarship's retention requirements, which may include community service in the municipality;
3. establish a committee to review applications and award scholarships;
4. determine the factors for revoking and reinstating a scholarship award;
5. provide for the fund's discontinuance; and
6. limit the scholarship amount to UConn's annual in-state rate for tuition, room and board, and fees.

ELIGIBILITY REQUIREMENTS

The bill restricts the scholarship funds to residents of the municipality who (1) are U.S. citizens or permanent residents, (2) attend a public or private higher education institution in Connecticut, and (3) maintain their residency while attending the institution. It specifies that a student may register to vote in a different municipality while attending a higher education institution without affecting his or her eligibility for the scholarship.

The bill also requires recipients, as a condition of receiving a scholarship, to agree to work and live in Connecticut for the number of years the municipality determines. Municipalities may require recipients to repay all or part of their scholarship award if they fail to satisfy this requirement.

INVESTMENT OPTIONS

The municipality's budget-making authority may direct the municipal treasurer to invest a portion of the fund it considers advisable within the parameters set by the bill. The treasurer may invest up to 40% of the fund in equity securities and the remaining amount in:

1. bonds or obligations (a) of the U. S. government or its agencies or instrumentalities, (b) of Connecticut, or (c) guaranteed by the state or U. S. government;
2. certificates of deposit, commercial paper, savings accounts, and bank acceptances;
3. obligations of any state or political subdivision, or its instrumentalities, authorities, or agencies, as long as, at time of the investment, it is rated in the top rating category of any nationally recognized rating service or one the banking commissioner recognizes;
4. obligations of any Connecticut municipality, regional school district, or metropolitan district, as long as, at the time of the investment, it is rated in one of the two highest rating categories by a nationally recognized rating service or one the banking commissioner recognizes;
5. any U. S.-registered investment company or investment trust (a) whose portfolio is limited to U. S. government obligations and repurchase agreements fully collateralized by such obligations and (b) is rated in one of the two highest rating categories by a nationally recognized rating service;
6. investment agreements with a financial institution whose (a) long-term obligations are rated in one of the two highest rating categories by a nationally recognized rating service or one the banking commissioner recognizes or (b) short-term obligations are rated in the top rating category by such a rating service; or

7. U. S.-secured or -guaranteed investment agreements.

REPORTING REQUIREMENT

The municipal treasurer must annually submit a complete and detailed report on the fund's condition to the municipality's chief executive officer, budget-making authority, and legislative body. The report must (1) comply with the municipality's standard auditing procedures and (2) be included in the municipality's annual report.

DISCONTINUING THE FUND

The bill allows a municipality to discontinue its fund if its chief executive officer and budget-making authority recommends, and its legislative body approves, the fund's discontinuance. Once the fund is discontinued, the remaining money must be (1) converted or added to a sinking fund to retire the municipality's debt or (2) transferred to its general fund if the municipality has no debt.

COMMENT

Federal Restrictions on Private Activity Bonds

Although the bill authorizes distressed municipalities to use private activity bonds to capitalize a scholarship fund, scholarships are not included in the list of federally qualified purposes for which these bonds may be issued.

Private activity bonds are federally tax-exempt bonds issued by the state, municipalities, and quasi-public agencies to finance private projects that serve a public purpose. Federal law requires state and local governments issuing these bonds to use the proceeds only for one of several qualified purposes, including airports, sewage facilities, redevelopment projects, public educational facilities, mortgages, student loans, and nonprofit corporation projects.

BACKGROUND

Distressed Municipalities

The Department of Economic and Community Development commissioner annually ranks municipalities based on the extent to

which they are economically distressed and designates the top 25 distressed municipalities, which in 2013 were: Ansonia, Bridgeport, Bristol, Derby, East Hartford, Enfield, Groton, Hartford, Killingly, Meriden, Montville, Naugatuck, New Britain, New Haven, New London, North Canaan, Plainfield, Plymouth, Putnam, Sprague, Torrington, Waterbury, West Haven, Winchester, and Windham.

COMMITTEE ACTION

Planning and Development Committee

Joint Favorable

Yea 15 Nay 0 (03/12/2014)