
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)