
OLR Bill Analysis

sSB 138

AN ACT MODERNIZING THE STATE'S COOPERATIVE ASSOCIATION STATUTES.

SUMMARY

This bill makes various changes to the laws governing cooperative associations (“co-ops”). Principally, it:

1. reduces, from seven to three, the minimum number of individuals needed to organize a co-op (§ 1);
2. increases, from \$5 million to \$50 million par value, the maximum amount of capital stock a co-op may fix by its articles of association (§ 4);
3. starting October 1, 2019, the bill reduces the minimum number of co-op board members and increases their maximum term limits (§§ 3, 5 & 6);
4. eliminates a provision in current law that makes co-op members jointly and severally liable for all debts existing if the board fails to file an annual report with the secretary of the state (SOTS) or files a false report (§ 7);
5. allows more discretion for distributing profits to shareholders (§ 8); and
6. makes minor, technical, and conforming changes (§ 2 and throughout).

EFFECTIVE DATE: October 1, 2019, except the provision regarding board membership is effective upon passage.

§ 1 — CO-OP ORGANIZATION

The bill reduces from seven to three, the minimum number of adult

Connecticut residents needed to organize a co-op for trade or carrying on a lawful mercantile, mechanical, manufacturing, or agricultural business in Connecticut. As under existing law, they must also pay a franchise tax and get approval of their articles of association from SOTS in order to become a co-op and, in doing so, enjoy all the powers and privileges, and be subject to all the duties, restrictions, and liabilities, of a corporation.

§§ 3, 5 & 6 — CO-OP BOARDS

Starting October 1, 2019, the bill reduces the minimum number of members on a co-op's board from at least seven managers who are members to at least three directors who are members.

Under the bill, the terms of any board members who are serving on the bill's effective date expire on September 30, 2019. As is the case for managers under current law, the directors must be elected annually by the member shareholders and hold office until a successor is elected. The board may be divided into up to three classes when the bylaws prescribe, one of which is elected annually. The bill extends the maximum term for each class from three to six years.

The bill also eliminates a requirement that the co-op have the other officers appointed as its bylaws prescribe, and instead allows the co-op to adopt bylaws (1) concerning the appointment of other officers and (2) to implement these provisions.

§ 7 — REPORTING REQUIREMENT

By law, co-op boards must annually report to SOTS various information, including the amount of capital stock and the number of shares issued for the prior year (CGS § 33-188). The bill repeals a law that makes members jointly and severally liable for all debts existing if the board fails to make the report or files a false report. As under current law, in such circumstances, the co-op must pay SOTS \$50 for each such failure.

§ 8 — SHAREHOLDER PROFITS

The bill allows more discretion regarding when profits may be

distributed to shareholders. Currently, profits or earnings may not be distributed to shareholders until 10% of the net profits are appropriated for a contingent or sinking fund and a sum equal to 20% of the capital stock has accumulated in the fund. Under the bill, the by-laws may:

1. prescribe when co-op's profits or surplus may distributed to its shareholders and
2. allow the co-op's board to declare up to 40% of the net profits or surplus be appropriated for a contingent or sinking fund, an unallocated reserve fund, or a collective account.

COMMITTEE ACTION

Judiciary Committee

Joint Favorable Substitute

Yea 36 Nay 0 (04/12/2019)