



PA 19-65—sSB 138

Judiciary Committee

AN ACT MODERNIZING THE STATE'S COOPERATIVE ASSOCIATION STATUTES

SUMMARY: This act makes various changes in the laws governing cooperative associations (“co-ops”). Principally, it does the following:

1. reduces the minimum number of individuals needed to organize a co-op from seven to three (§ 1);
2. increases the maximum amount of capital stock a co-op may fix by its articles of association from \$5 million to \$50 million par value (§ 4);
3. reduces the minimum number of co-op board members and increases their maximum term limits, starting October 1, 2019 (§§ 3, 5 & 6);
4. eliminates a provision in prior law that made co-op members jointly and severally liable for all existing debts if the board failed to file an annual report with the secretary of the state (SOTS) or filed 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 board membership provisions take effect upon passage.

§ 1 — CO-OP ORGANIZATION

The act reduces 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 from seven to three. 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. In doing so, they enjoy all the powers and privileges; and are subject to all the duties, restrictions, and liabilities, of a corporation.

§§ 3, 5 & 6 — CO-OP BOARDS

Starting October 1, 2019, the act reduces the minimum number of members on a co-op’s board from seven managers who are members to three directors who are members. It also refers to them as boards of “directors” rather than “managers.”

Under the act, the terms of all board members who are serving on June 26, 2019, must expire on September 30, 2019. As is the case for managers under existing 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 so prescribe, one of which is elected annually. The act extends the maximum term for each class from three to six years.

OLR PUBLIC ACT SUMMARY

As of October 1, 2019, the act 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) about the appointment of other officers and (2) to implement these provisions.

§ 7 — REPORTING REQUIREMENT

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

§ 8 — SHAREHOLDER PROFITS

The act allows more discretion about the timing of profit distribution to shareholders. Under prior law, profits or earnings could not be distributed to shareholders until 10% of the net profits were appropriated for a contingent or sinking fund and a sum equal to 20% of the capital stock had accumulated in the fund. The act removes these limitations and instead allows the by-laws to:

1. prescribe when the co-op's profits or surplus may be distributed to its shareholders and
2. allow the co-op's board to declare that 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.