
OLR Bill Analysis

HB 5431

AN ACT CONCERNING COOPERATIVE CORPORATIONS.

SUMMARY

This bill generally allows cooperative associations to organize as cooperative corporations instead, lays out how they must be organized and governed, and makes conforming changes throughout.

For cooperative corporations, among other things, the bill:

1. generally limits board members to a one-year term or until a successor is elected, but lays out how a cooperative corporation's bylaws may allow for staggered terms of up to five years;
2. requires a majority of the incorporators to call an organizational meeting to elect directors or a board for directors for completing the corporation's organization;
3. requires the bylaws to set out members' rights and qualifications, but members must have at least one share of capital stock;
4. adjusts quorum requirements for voting and sets parameters for how actions may be taken without a meeting by written unanimous consent or by ballots;
5. otherwise aligns cooperative corporations' governance standards and balloting provisions with the Connecticut Nonstock Corporation Act; and
6. conforms to provisions applicable to associations under current law, on the issuance of certificate of shares and distribution of profits (§§ 6 & 7).

The bill also repeals obsolete provisions, including on cooperative associations' capital stock and franchise tax, annual reports, and

penalties for failure to file (§ 8).

EFFECTIVE DATE: October 1, 2026

COOPERATIVE CORPORATIONS

Organization

Under current law, three or more Connecticut residents can form an association for trade purposes or for any lawful mercantile, mechanical, manufacturing, or agricultural business in the state. The bill instead allows three or more people to organize as a cooperative corporation, instead of an association, and no longer requires them to be Connecticut residents or limits them to doing business in the state.

Under current law, to become an association, the founding persons must execute a written articles of association, file it with the Secretary of the State (SOTS) for approval, and pay the franchise tax. To form a cooperative corporation under the bill, they must instead file a certificate of incorporation with SOTS.

Cooperative corporations formed under the bill have the same powers and privileges and are subject to the same duties, restrictions, and liabilities as other corporations, as is the case for associations under current law.

Purpose and Place of Business

The bill requires cooperative corporations to distinctly state in their bylaws and certificate of incorporation the purpose for which they were established and where they will do business. Under current law, associations must do this in their articles of association.

Board of Directors

Under current law, an association's board of directors must be elected annually by the shareholders and must generally hold office until a successor has been elected or as the bylaws require. For cooperative corporations under the bill, the board of directors must be elected annually by the members and must serve for at least one year or until a successor is named. They may also adopt bylaws allowing staggered

terms (see below).

The bill uses the staggered method to replace current law's classification of the board of directors, which allowed each class to hold office for up to six years.

Staggered Terms. Under the bill, a cooperative corporation's bylaws may allow directors to serve staggered terms. The bill specifies that they may do so by dividing the total number of directors into up to five groups, with an equal number of members in each group (or as near equal as possible), and one group's term expiring at each annual members' meeting (one group's term expires at the end of the first year, one at the end of the second year, one at the end of the third year, and so on). At each annual meeting, directors must be chosen for a term, of two to five years, depending on the length of the term of the person they are succeeding.

First Meeting

For cooperative corporations, the bill requires a majority of incorporators to call an organizational meeting to elect (1) directors and complete the corporation's organization or (2) a board of directors to do so. The bill allows any action to be taken by incorporators at an organizational meeting to be done without a meeting if it is evidenced by one or more written consents describing the action taken and signed by each incorporator.

This replaces current law's provisions that require association members to call the associations organization meeting by publishing notice in certain newspapers at least 15 days before the meeting, with certain exceptions.

Voting Power and Bylaws

Each member of a cooperative corporation is entitled to only one vote on each subject at any meeting, as is the case for associations under current law. The bill establishes cooperative corporations' governance standards and balloting provisions, as described below.

Members' Rights and Qualifications. The rights and qualifications

of the cooperative corporation's members must be set in the bylaws, and must include holdings or subscribing for at least one share of capital stock. If the bylaws do not provide for members, the shareholders are the members. All rights of shareholders must be exercised by the members unless the certificate of incorporation says otherwise for classes or series of stock.

Quorum for Voting at Meetings. Voting members may act on a matter at a meeting only if there is a quorum of members present who are eligible to vote on it. Unless the certificate of incorporation or bylaws say otherwise, the following apply when establishing quorum for voting at a meeting:

1. if there are no members entitled to vote as a separate voting group, the members entitled to vote on the matter who are present at the meeting (in person or by proxy), constitute a quorum for action on the matter;
2. if there are members entitled to vote on a matter as a separate voting group, these members may act on the matter only if a quorum of that voting group exists for that matter (and the members of a voting group entitled to vote on the matter who are present at the meeting, either in person or by proxy, constitute a quorum of that voting group for action on that matter); and
3. directors are elected by a plurality of the votes cast by the members in the election at a meeting at which a quorum is present.

Action Without Meeting

The bill allows any action that, under the state's business corporations or cooperative association laws, can be taken at a meeting to be taken without a meeting under the circumstances described below.

Written Consent. An action can be taken without a meeting by "unanimous written consent," which has the same force and effect as a vote of the members at a meeting and that may be stated in any certificate or document filed under the business corporation laws.

A unanimous written consent happens when one or more consents in writing are put forward with the action taken or to be taken and is signed by all members who would be entitled to vote on the action at a meeting, or their authorized attorneys. The secretary must file the minutes of the meetings of the members along with (1) the consent (or consents) or (2) a certification of the tabulation of the consent.

Notice and Ballot. The certificate of incorporation or bylaws may additionally allow any action that may be taken at any meeting of members to be taken without a meeting (even without unanimous written consent) if the corporation delivers notice with a ballot to every member entitled to vote on the matter.

A ballot must be in writing, specify each proposed action, and offer an opportunity to (1) vote, or withhold a vote for, each candidate for election as a director, if any, and (2) vote for or against other proposed actions. Additionally, a ballot may not be revoked unless the certificate of incorporation or the bylaws provides otherwise.

Approval by Ballot. Other than for the election of directors, approval by ballot under the bill is valid only when the number of (1) votes cast by ballot equals or exceeds the quorum required to be present at a meeting authorizing the action and (2) approvals equals or exceeds the number that would be required at a meeting where the same total number of votes were cast.

A ballot signed under the bill has the same force and effect as a vote of the member who signed it at a meeting duly held and that may be stated in any certificate or document filed under the state's business corporation laws.

Solicitation by Ballot. The bill specifies that any solicitation for votes by ballot must state the:

1. number of responses needed to meet the quorum requirements,
2. percentage of approvals necessary for the matter (other than for an election of directors) to pass, and

3. time by which the corporation must receive a ballot for it to be counted.

Record date. Unless otherwise set by the laws that govern business corporations' shares and shareholders, the record date for determining the members entitled to act without a meeting is the date the (1) first member signs the unanimous written consent (see above) or (2) corporation delivers the written notice with the proposed actions and the ballot.

COMMITTEE ACTION

Judiciary Committee

Joint Favorable

Yea 41 Nay 0 (03/23/2026)