

Senate File 2310 - Introduced

SENATE FILE 2310
BY COMMITTEE ON COMMERCE

(SUCCESSOR TO SSB 3124)

A BILL FOR

1 An Act relating to multiple housing cooperatives, including
2 by providing for the conversion to a cooperative under the
3 Iowa cooperative associations Act and merger with a limited
4 liability company.

5 BE IT ENACTED BY THE GENERAL ASSEMBLY OF THE STATE OF IOWA:

1 Section 1. Section 489.102, subsection 6, Code 2022, is
2 amended to read as follows:

3 6. "*Domestic cooperative*" means an entity organized on a
4 cooperative basis under chapter 497, 498, or 499, a cooperative
5 organized under chapter 499A, or a cooperative organized under
6 chapter 501 or 501A.

7 Sec. 2. Section 501A.102, subsections 10 and 26, Code 2022,
8 are amended to read as follows:

9 10. "*Domestic cooperative*" means a cooperative association
10 or other cooperative organized under this chapter or chapter
11 497, 498, 499, 499A, or 501.

12 26. "*Traditional cooperative*" means a cooperative or
13 cooperative association organized under chapter 497, 498, 499,
14 499A, or 501.

15 EXPLANATION

16 The inclusion of this explanation does not constitute agreement with
17 the explanation's substance by the members of the general assembly.

18 BACKGROUND. This bill amends provisions in the Iowa
19 cooperative associations Act (ICAA) (Code chapter 501A) that
20 allows a cooperative association organized under that Code
21 chapter (501A cooperative) to operate as a hybrid between an
22 entity organized on a cooperative basis and a limited liability
23 company (LLC) that operates on principles of investment and the
24 return of profits (distributions) to investor-owners (members)
25 under the revised uniform limited partnership Act (RULPA) (Code
26 section 489.102(24)). A 501A cooperative is organized to
27 produce, store, process, and market agricultural commodities
28 (Code section 501A.501).

29 Under general principles of agricultural cooperative law,
30 shares of common stock (memberships) must be held by patrons,
31 and specifically persons who meet certain requirements:

32 (1) producing a product marketed by the association, (2)
33 customarily consuming or using the supplies or commodities
34 that the association handles, or (3) using the services that
35 the association renders. Savings (margins) generated from

1 these arrangements (patronage) are refunded to members or used
 2 to provide capital for the cooperative's operations. Thus,
 3 an important restriction is based on a principle of member
 4 participation, control, and benefits which also restricts
 5 outside investment. Under the ICAA, an investor (nonpatron
 6 member) is allowed to hold a nonpatron membership interest in
 7 the domestic cooperative (Code section 501A.102) which may
 8 involve limited member voting rights (Code section 501A.810).

9 The ICAA provides for traditional cooperatives which
 10 are agricultural cooperatives organized under Code chapters
 11 497, 498, 499, and 501. A domestic cooperative includes a
 12 501A cooperative as well as a traditional cooperative. The
 13 ICAA allows a traditional cooperative to convert into a
 14 501A cooperative and for a 501A cooperative or traditional
 15 cooperative to consolidate or merge with an LLC (Code section
 16 501A.1101). Code chapter 489 also provides that a domestic
 17 cooperative (defined in the same manner as in Code chapter
 18 501A) may merge with an LLC (Code section 489.1015). In the
 19 case of a merger of a domestic cooperative with an LLC, the
 20 converting domestic cooperative must comply with requirements
 21 in the ICAA (Code section 501A.1101) and the RULPA (Code
 22 sections 489.1002 through 489.1005) which includes the adoption
 23 of a plan of merger.

24 BILL'S PROVISIONS. The bill provides for a nonagricultural
 25 cooperative organized for purposes of owning multiple
 26 housing residential properties under Code chapter 499A (499A
 27 cooperative). The bill provides that a 499A cooperative
 28 is defined as both a traditional and domestic cooperative
 29 under the ICAA and as a domestic cooperative under the RULPA.
 30 However, the bill does not amend a number of corresponding
 31 provisions in the ICAA relating to domestic business entities,
 32 foreign cooperatives, securities and liens held in connection
 33 with a conversion, and a 501A's organizational purposes.