

**Senate Study Bill 3124 - Introduced**

SENATE FILE \_\_\_\_\_  
BY (PROPOSED COMMITTEE  
ON COMMERCE BILL BY  
CHAIRPERSON SCHULTZ)

**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.