STATE OF MINNESOTA
IN COURT OF APPEALS
A22-0542

Belle Plaine MHP, LLC,
Respondent,

vs.

Brian Haugen,
Appellant.

Filed January 17, 2023
Reversed and remanded
Gaïtas, Judge

Scott County District Court
File No. 70-CV-22-444

Thomas H. Boyd, Kyle R. Kroll, Winthrop & Weinstine, P.A., Minneapolis, Minnesota; and

Paul Zeig, Paul Zieg, PLC, Red Wing, Minnesota (for respondent)

Lisa Hollingsworth, Southern Minnesota Regional Legal Services, Inc., St. Paul, Minnesota (for appellant)

Considered and decided by Gaïtas, Presiding Judge; Bjorkman, Judge; and Larson, Judge.

NONPRECEDENTIAL OPINION

GAÏTAS, Judge

In this eviction action based on nonpayment of rent for his lot in a manufactured-home park, appellant-resident Brian Haugen challenges the district court's judgment of recovery, arguing that (1) respondent-park owner Belle Plaine MHP, LLC, substantially

modified his lease when it began charging him for utilities and (2) a default judgment against Belle Plaine in a separate rent-escrow case resolved the merits of the issue in this case. Because the district court erred by concluding that the new utility charge was not a substantial modification of Haugen's lease, we reverse and remand for the district court to consider whether the modification is enforceable.

FACTS

Belle Plaine owns a manufactured-home park by the same name. Haugen has leased a lot in the park since 1983. His lease, dated May 7, 1983, states, "The PARK will provide the RESIDENT with sewer, water and normal garbage service at no extra charge." The dispute in this case arose when Belle Plaine, which later assumed Haugen's lease upon purchase of the manufactured-home park, began charging Haugen for those services. Ultimately, Belle Plaine filed an eviction action in the district court. After an evidentiary hearing, the district court granted the eviction action, concluding that Belle Plaine could charge Haugen for sewer, water, and trash services. Haugen now challenges that decision. Our summary of the facts is based on the district court's factual findings, which are undisputed on appeal.

In 2020, Belle Plaine began "passing through" utility services to residents of the manufactured-home park. Haugen received a letter from Belle Plaine on July 1, 2020, advising that he would be billed for water, sewer, and trash services based on his personal consumption as measured by installed meters. Belle Plaine also notified Haugen that his lot rent would not increase in 2020 and would revert to 2019 rates.

In June 2021, Belle Plaine rejected Haugen's rent check for the month as "incomplete." Haugen then filed a rent-escrow action in the district court to challenge the legality of Belle Plaine's new charge for utilities. In his Affidavit of Rent Escrow, Haugen stated that Belle Plaine was violating his lease by charging him for utilities. The district court scheduled a hearing on Haugen's rent-escrow action. Belle Plaine failed to appear, and the district court entered a default judgment for Haugen. In granting the default judgment, the district court stated that "it appears the merits of [Haugen's] request[s] are valid as well." The district court ordered the entire rent-escrow amount to be released to Haugen. Belle Plaine did not challenge the judgment.

In January 2022, Belle Plaine filed an eviction action for nonpayment of rent and utilities between June 2021 and January 2022. Haugen responded that the new charge for utilities was unenforceable because it was a substantial modification of his lease. He also argued that eviction based on nonpayment of rent was improper because he had tried to pay rent, but Belle Plaine had rejected those payments because they did not include the utility charge.

Following the evidentiary hearing, the district court granted the eviction based on Haugen's nonpayment of the utilities charges. It determined that Belle Plaine "was in compliance with the statutory requirements" and "the utility charges constitute[d] a permissible rent increase."

DECISION

I. The district court erred by determining that the utility charges were a permissible rent increase rather than an unenforceable substantial modification of the rental agreement.

Haugen challenges the district court's eviction decision, arguing that Minnesota statutes governing manufactured-home parks and corresponding caselaw make clear that Belle Plaine's addition of a new monthly charge for utilities was an unenforceable substantial modification of his lease. He contends that the district court erred in granting eviction based on his nonpayment of unlawful charges. Relying on the same statutes and caselaw cited by Haugen, Belle Plaine responds that a manufactured-home park can charge for utilities not included in a resident's lease. Belle Plaine also argues that its utilities charge is enforceable because it reduced Haugen's rent as an offset.

The parties do not dispute the district court's factual findings but instead focus solely on the district court's legal conclusion that the new utility charges were enforceable under Minnesota law. "We review a district court's application of the law de novo." *Harlow v. State, Dep't of Hum. Servs.*, 883 N.W.2d 561, 568 (Minn. 2016).

In Minnesota, the relationship between manufactured-home-park owners and residents is governed by statutes. Under Minnesota Statutes chapter 327C, every agreement to rent a manufactured-home-park lot must be in writing. Minn. Stat. § 327C.02, subd. 1(2), (3) (2022)[1]. Such agreements must specify the terms and conditions

[1] Minnesota Statutes chapter 327C was reorganized by the legislature in 2022. 2022 Minn. Laws ch. 55, art. 2, § 3 at 177-78. This was "intended to be a reorganization of statutes relating to definitions for manufactured home park lot rentals," but it did not change the meaning or interpretation of the law. *Id.*, at § 3(b). As such, we cite the most recent version

of lot rentals, including "the amount of rent per month and a statement of all personal property, services and facilities which the park owner agrees to provide to the resident," and "the rights, duties and obligations of the parties, and all rules applicable to the resident." *Id.*

Minnesota law restricts changes that park owners can make to existing leases: "[a] rule adopted or amended after the resident initially enters into a rental agreement may be enforced against that resident only if the new or amended rule is reasonable and is not a substantial modification of the original agreement." Minn. Stat. § 327C.02, subd. 2 (2022). A "rule" is "any rental agreement provision, regulation, rule or policy through which a park owner controls, affects or seeks to control or affect the behavior of residents." Minn. Stat. § 327C.015, subd. 16 (2022). And a substantial modification is "any change in a rule which: (a) significantly diminishes or eliminates any material obligation of the park owner; (b) significantly diminishes or eliminates any material right, privilege or freedom of action of a resident; or (c) involves a significant new expense for a resident."[2] Minn. Stat. § 327C.015, subd. 17 (2022).

A substantial modification to a lease agreement is not necessarily unenforceable. When a district court determines that a rule change is a substantial modification, it "may

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of chapter 327C. *See Interstate Power Co. v. Nobles Cnty. Bd. of Comm'rs*, 617 N.W.2d 566, 575 (Minn. 2000) (stating that, generally, "appellate courts apply the law as it exists at the time they rule on a case").

[2] Haugen's lease incorporates these provisions: a park owner must give residents at least 60 days' notice in writing of any rule change, and any rule changes must be reasonable and cannot substantially modify the lease.

consider" two "factors in limitation": "(1) any significant changes in circumstances which have occurred since the original rule was adopted and which necessitate the rule change; and (2) any compensating benefits which the rule change will produce for the residents." Minn. Stat. § 327C.02, subd. 2.

Minnesota law permits manufactured-home-park owners to charge for utilities in addition to rent. Minn. Stat. § 327C.04, subd. 1 (2022). But utilities charges, which are distinct from rent, must be uniform for all residents "unless the park owner has installed measuring devices which accurately meter each household's use of the utility." Minn. Stat. § 327C.04, subds. 1, 2 (2022).

A park owner does not substantially modify a lease by imposing reasonable rent increases. *Id.*; Minn. Stat. § 327C.015, subd. 12 (2022). However, a park owner may increase rent only twice within a 12-month period and must provide a resident 60 days' written notice of any increase. Minn. Stat. § 327C.06, subds. 1, 3 (2022).

With this basic statutory framework in mind, we next consider the legal question before us—whether Belle Plaine's addition of a charge for sewer, water, and trash is enforceable, such that nonpayment of the charges could support an eviction action.

Haugen argues that the addition of a monthly utility charge was an unenforceable rule change because it substantially modified his lease, which provided that the park would cover utilities. To support his argument, he cites our decision in *Sargent v. Bethel Props., Inc.*, 653 N.W.2d 800 (Minn. App. 2002), *rev. denied* (Minn. Feb. 26, 2003). In *Sargent*, residents of a manufactured-home park brought a class-action suit against the park owner alleging that new utilities fees violated their lease agreements and Minnesota law. 653

N.W.2d at 801-02. Although the residents' leases stated that the park would pay for utility services, the park owner began charging the residents for utility services in addition to their rent. *Id.* at 802. We affirmed the district court's determination that the addition of a utility charge was a rule change that substantially modified the residents' rental agreements and was "unenforceable as a matter of law." *Id.* at 803. And we stated that a park owner's "general statutory authority to charge for utilities does not also authorize [the owner] to alter existing rental agreements by adding utility charges." *Id.* According to Haugen, the *Sargent* decision is dispositive here.

Belle Plaine argues that a utility charge is not a "rule," and accordingly, adding a new charge for utilities to an existing lease is not a "rule change." However, Belle Plaine acknowledges that our decision in *Sargent* says otherwise. Because we must follow our own precedent, we reject Belle Plaine's invitation to ignore our holding in *Sargent*. *See Doe v. Lutheran High Sch. of Greater Minneapolis*, 702 N.W.2d 322, 330 (Minn. App. 2005) ("[A]ppellate courts are bound by the doctrine of stare decisis, which directs that we adhere to former decisions in order that there might be stability in the law." (quotation omitted)), *rev. denied* (Minn. Oct. 26, 2005).

Belle Plaine also contends that *Sargent* is factually distinguishable. It points out that the new utility charge in *Sargent* was not accompanied by a corresponding reduction in the residents' rent. 653 N.W.2d at 802. Here, by contrast, the district court found that "the evidence shows the addition of the utility charges were coupled with a decrease in rent." Belle Plaine suggests that, because its new utilities charge was offset by a rent reduction, the charge did not substantially modify Haugen's lease.

But the fact that there was no rent decrease in *Sargent* was not material to our determination that adding a utilities charge was a rule change that substantially modified the residents' leases. It was just one among several facts that we noted in rejecting the park owner's argument that charging for utilities was a rent increase and not a rule change. *See Sargent*, 653 N.W.2d at 802 ("We note that [the park owner] did not reduce the amount of rent due when it began charging separately for water and sewer services."). The material fact in *Sargent* was that the residents' leases required the park owner to pay for utilities. *Id.* at 803. By shifting the burden for utilities from the park owner to the residents, the park owner substantially modified the residents' leases.[3] *See id*.

Here, as in *Sargent*, Belle Plaine's addition of a charge for utilities was a rule change that substantially modified Haugen's lease. The new charge substantially modified Haugen's lease in two ways. First, it significantly diminished or eliminated a material obligation of Belle Plaine. *See* Minn. Stat. § 327C.015, subd. 17(a) (defining a substantial modification as "any change in a rule which . . . significantly diminishes or eliminates any material obligation of the park owner"). Belle Plaine recognized this in its July 2020 letter to Haugen, where it explained why it was "passing through" utility services to residents:

> We have tried to include Water, Sewer and Trash in many of our communities throughout the years and this becomes a difficult task with increased cost along with the amount of occupants living in each home all being charged the same amount. With each year we review our operating costs which can include utilities, insurance, property taxes, operation expenses, market trends, economic growth, rent comparisons,

[3] In granting Belle Plaine's eviction action, the district court also distinguished *Sargent* on the ground that it was a class action. Belle Plaine does not pursue this analysis on appeal, and we are not persuaded that the distinction is significant.

> etc. As a result of the above, we will be passing through Water, Sewer and Trash charges effective 9/1/2020.

Second, the new charge "involves a significant new expense" for Haugen. *See* Minn. Stat. § 327C.015, subd. 17(c) (defining a substantial modification as "any change in a rule which . . . involves a significant new expense for a resident"). The record shows that Haugen generally is charged an additional $50-60 in utilities each month.

Given the district court's erroneous determination that the utilities charge did not substantially modify Haugen's lease, the district court did not address whether it was appropriate to consider the "factors in limitation" identified by Minnesota Statutes section 327C.02, subdivision 2: "(1) any significant changes in circumstances which have occurred since the original rule was adopted and which necessitate the rule change; and (2) any compensating benefits which the rule change will produce for the residents." Because consideration of these factors could impact whether the new utilities charge is enforceable, we reverse and remand to the district court to make these additional determinations. Specifically, the district court should determine whether it is appropriate to consider the "factors in limitation," and if so, whether one or both factors warrant enforcing the new charge for utilities.

Haugen argues that the district court's order could be read to suggest that Haugen would not be entitled to redeem the property by paying rent owed.[4] A resident of a manufactured-home park has a right to redeem "as expressed in [Minn. Stat. § 504B.291

[4] In addressing the amount of rent that Haugen owed for the period between June 2021 and January 2022, the district court stated, "[T]hat issue is not before the Court in this eviction proceeding, but rather, is an issue for a conciliation action."

(2022)] and the common law." Minn. Stat. § 327C.11, subd. 1 (2022). The parties agree that, if Belle Plaine were to prevail in its eviction action, Haugen must be allowed to redeem. *See* Minn. Stat. § 504B.291, subd. 1(a) (providing that in eviction action based on nonpayment of rent, "the tenant may, at any time before possession has been delivered, redeem the tenancy and be restored to possession by paying to the landlord or bringing to court the amount of the rent that is in arrears, with interest, costs of the action, and an attorney's fee not to exceed $5, and by performing any other covenants of the lease."). Thus, on remand, if the district court determines that Belle Plaine's charge for utilities is enforceable, the district court should also determine the amount that Haugen must pay in order to redeem, excluding the June 2021 rent that was the subject of the default judgment in the separate rent escrow matter.

II. The district court did not err in denying Haugen's motion for partial summary judgment based on the doctrines of res judicata or collateral estoppel.

Haugen argues that the district court's June 2021 default judgment resolved the merits of the issue in this case—whether the utilities charge is enforceable—in his favor. Thus, according to Haugen, the district court erred when it did not grant his motion for partial summary judgment based on the doctrines of res judicata or collateral estoppel. We disagree.

Summary judgment is appropriate when "the movant shows that there is no genuine issue as to any material fact and the movant is entitled to judgment as a matter of law." Minn. R. Civ. P. 56.01. When reviewing the denial of a motion for summary judgment, "[a]ppellate courts generally review de novo whether the district court erred in its

application of law." *Schmitz v. Rinke, Noonan, Smoley, Deter, Colombo, Wiant, Von Korff & Hobbs, Ltd.*, 783 N.W.2d 733, 745 (Minn. App. 2010), *rev. denied* (Minn. Sept. 21, 2010).

During the proceedings before the district court, Haugen argued that the doctrine of res judicata entitled him to judgment as a matter of law in the eviction action. Res judicata bars "a subsequent claim when: (1) the earlier claim involved the same set of factual circumstances; (2) the earlier claim involved the same parties or their privies; (3) there was a final judgment on the merits; and (4) the estopped party had a full and fair opportunity to litigate the matter." *Rucker v. Schmidt*, 794 N.W.2d 114, 117 (Minn. 2011) (footnote omitted). The district court determined that Haugen was not entitled to judgment as a matter of law because the June 2021 default judgment did not resolve the merits of the issue presented.

Now, on appeal, Haugen makes the same argument, but relies on the separate doctrine of collateral estoppel. "Collateral estoppel bars the relitigation of an issue when: (1) the issue is identical to one in a prior adjudication; (2) there was a final judgment on the merits in the prior proceeding; (3) the estopped party was a party or in privity with a party to the prior adjudication; and (4) the estopped party was given a full and fair opportunity to be heard on the adjudicated issue." *Barth v. Stenwick*, 761 N.W.2d 502, 508 (Minn. App. 2009). Belle Plaine argues that Haugen forfeited the collateral estoppel argument that he now makes because it was not raised in the district court. *See Thiele v. Stich*, 425 N.W.2d 580, 582 (Minn. 1988) (stating that arguments not raised in the proceedings below will not be considered on appeal).

But even assuming without deciding that the issue is properly before us, we conclude that the district court's June 2021 order was not a decision on the merits—which is required to invoke both res judicata and collateral estoppel. Haugen's affidavit of rent escrow asked the district court to order Belle Plaine to cancel the charge for utilities. Belle Plaine failed to appear at the rent escrow hearing, and the district court entered a default judgment in favor of Haugen. Before the district court entered default judgment, it did not receive any evidence beyond Haugen's affidavit of rent escrow. And the district court made no findings of fact or conclusions of law. *See* Minn. R. Civ. P. 55.01 ("When a party against whom a judgment for affirmative relief is sought has failed to plead or otherwise defend . . . , judgment by default shall be entered against that party."); *cf. Black v. Rimmer*, 700 N.W.2d 521, 529 (Minn. App. 2005) (stating that courts should support "the policy of resolving cases on their merits" when a party seeks relief from a default judgment), *rev. dismissed* (Minn. Sept. 28, 2005). Given these circumstances, we do not construe the district court's single statement—"it appears the merits of [Haugen's] request[s] are valid as well"—to be a final judgment on the merits of the issues presented here. Because the district court's default judgment did not resolve the merits of Haugen's rent escrow action, neither res judicata nor collateral estoppel apply. Thus, the district court did not err when it denied Haugen's request for partial summary judgment based on the June 2021 default judgment in this subsequent eviction action.

However, the district court's default judgment in the June 2021 rent escrow matter, which awarded Haugen rent and utilities for that month, cannot be relitigated. Belle Plaine did not appeal or otherwise challenge that judgment. Thus, to the extent that the district

court's order in this eviction action suggests that Haugen might owe rent for June 2021, that is error. *See Cole v. Metro. Council HRA*, 686 N.W.2d 334, 337 (Minn. App. 2004) ("A judgment by default is just as conclusive an adjudication between parties as any other."). That issue was previously litigated, and the district court's order was final before Belle Plaine filed the eviction action that is the subject of this appeal.

Reversed and remanded.