
LEGAL UPDATE

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IOWA SUPREME COURT DECISION — INTERPRETATION OF COMMUNITY RELATING TO CERTAIN FRANCHISE AGREEMENTS UNDER PURVIEW OF THE IOWA DEPARTMENT OF TRANSPORTATION

Purpose. *Legal updates are prepared by the nonpartisan Legal Services Division of the Legislative Services Agency. A legal update is intended to provide legislators, legislative staff, and other persons interested in legislative matters with summaries of recent meetings, court decisions, Attorney General Opinions, regulatory actions, federal actions, and other occurrences of a legal nature that may be pertinent to the General Assembly's consideration of a topic. Although an update may identify issues for consideration by the General Assembly, it should not be interpreted as advocating any particular course of action.*

Sioux City Truck Sales, Inc. v. Iowa Department of Transportation and Peterbilt Motors Company and Allstate Peterbilt of Clear Lake

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No. 20-0837

www.iowacourts.gov/courtcases/12965/embed/SupremeCourtOpinion

Facts and Procedural Background. Sioux City Truck Sales, Inc. (SCTS) is part of the Peterbilt Motor Company (Peterbilt) dealership group, and as a franchisee, SCTS operates retail and service locations in Iowa and Nebraska. Pursuant to a franchise agreement with Peterbilt, SCTS sells and provides services for Peterbilt's products in an assigned, nonexclusive area of responsibility. SCTS's area of responsibility covers counties in Nebraska and 71 counties in Iowa, including 23 counties in the Clear Lake area.

Peterbilt wanted SCTS to add a new dealership in Clear Lake. After numerous attempts to convince SCTS to open a dealership and service center in the area, in accordance with Iowa Code chapter 322A (motor vehicle franchisers), Peterbilt sought approval from the Iowa Department of Transportation (DOT) to appoint another franchisee as a dealer in the Clear Lake area. The DOT approved Peterbilt's appointment request and Allstate Peterbilt of Clear Lake (Allstate) was added as a Peterbilt franchisee to provide services in the Clear Lake area. Twenty-three counties covered by Allstate are included as part of SCTS's area of responsibility in SCTS's franchise agreement with Peterbilt.

SCTS challenged the appointment of Allstate as a franchisee administratively in a hearing with an administrative law judge (ALJ) and appealed the ALJ's findings to the DOT. SCTS then asked for judicial review of the DOT's finding. The district court affirmed the DOT's decision granting Peterbilt's request to add Allstate as a franchisee in Clear Lake. The ALJ, DOT, and district court all found in favor of Peterbilt adding Allstate as a franchisee. Each agreed that good cause existed for Peterbilt to add an additional franchise location in the Clear Lake area and that, for the purpose of determining good cause, the community includes only the 23 counties of dual assignment, rather than the 71 counties identified in the SCTS franchise agreement.

SCTS appealed the district court's ruling to the Iowa Court of Appeals (Court of Appeals). The Court of Appeals focused solely on the statutory interpretation of the term "community" under Iowa Code chapter 322A. The Court of Appeals ruled that the DOT erred by not applying the statutory definition of "community" in determining good cause. As a result, the Court of Appeals held that the DOT erred by focusing solely on the 23 counties of dual assignment and by not considering the implications of adding Allstate as a franchisee over the entire 71 counties within SCTS's area of responsibility.

SCTS filed an application for further review to the Iowa Supreme Court (Court) which was granted.

Issue. When considering whether good cause exists to add another franchise in accordance with Iowa Code section 322A.4 (additional franchise), whether the term “community” includes all 71 Iowa counties within SCTS’s area of responsibility or only the 23 counties in the Clear Lake area that are also part of SCTS’s area of responsibility.

Holding. In a 4-3 decision, the Court vacated the decision of the Court of Appeals and held that, consistent with the public policies and interests of Iowa Code chapter 322A to establish and maintain for consumers adequate access to dealer services, when a franchiser seeks to add a new dealership to an area with an existing franchisee, the term “community” for purposes of determining good cause for the new franchisee is the area in which the existing franchisee and the proposed new franchisee would be in direct competition.

Analysis. Iowa Code section 322A.1(2) defines the term “community” to mean “the franchisee’s area of responsibility as stipulated in the franchise.” The Court ruled that the definition section of Iowa Code chapter 322A contains a context clause which permits the Court to consider additional factors and the context in which the defined term is used within the statute’s substantive provisions.

The Court found the purpose of Iowa Code chapter 322A is to promote fair trade practices and protect consumers. The Court took note of the Legislature’s definition and determined it works comfortably in certain contexts, such as if Peterbilt sought to terminate SCTS as a franchisee. However, considering that context of adding a new franchisee to a particular market area, the Court determined the impact on the consumer is limited to the area of dual competition. The Court found the district court’s use of a modified definition of “community” necessary and determined that only the 23 counties within both SCTS’s area of responsibility and Allstate’s area of responsibility should be considered to determine whether good cause exists to add a new franchisee.

Dissent. The dissent relied on the definition of “community” as the term is defined in Iowa Code section 322A.1(2). The dissent found the Court of Appeals correctly applied the plain text of the statute and gave deference to the legislative definition of statutory terms. The dissent cautioned that ignoring the Legislature’s definition of “community” undermines the purpose of the statute, which the dissent believes is to protect a franchisee against franchiser infringement. The dissent would have preferred to adhere to precedents that require deference to legislative definitions of statutory terms. The dissent favored applying the unambiguous definition provided by the Legislature based on the plain text of the statute.

Iowa Code. The Court noted that while the Legislature provided a statutory definition of “community,” it also included a context clause in Iowa Code section 322A.1. Including Iowa Code section 322A.1, there are 1,016 different types of context clauses provided when certain terms are defined and used throughout the Iowa Code.

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