Iowa General Assembly

2007 Legal Updates

Legislative Services Agency – Legal Services Division
http://www.judicial.state.ia.us/Supreme_Court/Recent_Opinions/20070928/05-1255.pdf

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SCHOOL DISTRICT MANAGEMENT LEVY FUNDS USE

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Iowa Association of School Boards v. Iowa Department of Education and the Iowa Auditor of State

No. 51/05-1255

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Overview. The Department of Education (DE) and the Iowa Auditor of State issued declaratory rulings that school districts could not use district management levy funds under Code § 298.4(3) to pay management fees required as part of a "fleet services program" for purchasing fuel as part of their transportation costs. The agencies' declaratory orders were affirmed by both the district court and the Iowa Supreme Court on judicial review.

Background Facts. School districts are required to provide transportation to students living more than a specified distance from the student's designated school. The annual cost of fuel to provide this transportation is a major expense for school districts. Budgeting for this expense in a time of fluctuating fuel prices is challenging and is made even more difficult by the fact that school budgets are set April 15 for the fiscal year of July 1 through June 30. In order to assist member school districts, the Iowa Association of School Boards devised a program called the Iowa Joint Utilities Management Program, Inc. (IJUMP), which allows member school districts to purchase fuel at a set price throughout the fiscal year. Under IJUMP's "fleet services program," each participating school district enters into a 12-month renewable agreement that designates IJUMP as the district's contracting agent for the purchase and delivery of vehicle fuel. The fuel cost is then set at a guaranteed price. Additionally, the school district agrees to pay an annual "risk management fee" determined on the basis of the price per gallon and the total number of gallons that the school district "elects to insure" during the term of the contract. IJUMP uses the management fee collected from the school district to pay any difference between the guaranteed fuel price and the actual price of fuel delivered to the school district. At the end of the fiscal year, any surplus in the school district's account may be rolled over to the next fiscal year. If the management fee is insufficient, IJUMP will bill the school district for the shortfall or charge a higher management fee the following year to cover the deficit.

The dispute in this case arises from the school districts' desire to pay the management fees through a special district management levy authorized by Code § 298.4, but this tax can be expended only for purposes specified in Iowa Code § 298.4. The association, on behalf of its members, filed petitions for declaratory order with DE and the Auditor of State seeking declaratory rulings that the school districts had the authority to use district management levy funds to pay the management fees. The association contended that the expenditure was authorized by Code § 298.4(3), which allows such payments "[t]o pay the costs of insurance agreements under section 296.7." In identical declaratory orders, DE and the auditor ruled that the fleet services program was not "insurance" as that term is used in Code § 296.7. The agencies stated that "[t]he essence of an insurance agreement is that one party pays consideration to a second party in return for the second party assuming some specified risk for the first party." The agencies noted that IJUMP assumed no risk in the fleet services program. The school district assumes all risk. Based on this assessment, the agencies ruled school districts could not use the management levy funds to pay the management fee. The association appealed the ruling to both the district court and the Iowa Supreme Court, both of which upheld the ruling.

Analysis:

Appeal Claims. The association appealed, first contending that DE's interpretations of Code §§ 298.4(3) and 296.7(1)

are not entitled to deference. Secondly, the association claimed that school districts have authority to use district management levy funds to pay the management fee.

Standard of Review. The association's challenge is based on the agencies' alleged erroneous interpretation of the controlling statutes. The appropriate standard of review depends on whether the legislature has clearly vested the interpretation of the statute at issue in the discretion of the agency. If not, the court gives no deference to the agency's interpretation. If so, the court must give appropriate deference so long as it is not "irrational, illogical, or wholly unjustifiable."

Agency Statutory Interpretation Deference. The Iowa Supreme Court noted that Code § 256.1 establishes that DE has the authority "to act in a policymaking and advisory capacity and to exercise general supervision over the state system of education including … [p]ublic elementary and secondary schools." The Court noted that the director of DE has numerous specified duties, including under Code § 256.9(16) to "[i]nterpret the school laws and rules relating to the school laws." The Court disagreed with the association's argument that Code §§ 296.7(1) and 298.4(3) are taxing statutes and not school laws. The Court stated that the principal focus of these statutes is not the assessment and collection of the tax, but on the expenditure of the tax revenues. The Court also noted that because school financing is so complex there are practical reasons for the Legislature to have granted authority to DE to oversee all school finances and that it would be odd to exclude from the director's duty the interpretation of school laws concerning the management levy fund simply because the source of this fund is tax revenues. The Court concluded that deference to the agencies' interpretation was appropriate. Therefore the Court examined whether the interpretation was "irrational, illogical, or wholly unjustifiable."

Use of Management Levy Funds for Fleet Services Program Management Fees. The Court stated that under Code § 296.7, whatever mechanism a school district uses, it must be an insurance agreement that protects that school district from some type of risk specified in the statute or that is associated with the operation of the school. The Court held that the participant agreement for the fleet services agreement did not protect a school district against a risk of loss. Instead, the agreement is a budget-billing plan that allows the school district to defer payment of fuel costs in excess of the guaranteed price to the next fiscal year. The Court also stated that the inclusion of self-insurance and local government risk pools in Code § 296.7(1) does not indicate a legislative intent to broaden permissible expenditures from the district management levy fund beyond those associated with protecting the risks of loss traditionally covered by insurance policies. The Court found this interpretation was not "irrational, illogical, or wholly unjustifiable."

Conclusion. The Court concluded that DE "has clearly been vested with discretion to interpret" Code §§ 296.7 and 298.4. The Court concluded that DE's interpretation of the statutes in this case was not "irrational, illogical, or wholly unjustifiable." The Court affirmed the declaratory rulings of DE and the Auditor of State that "school districts may not use district management levy funds to pay management fees required for participation in IJUMP's fleet services program."

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