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Welch v. Brown

United States Court of Appeals, Sixth Circuit - January 3, 2014 - Fed.Appx. - 198 L.R.R.M. (BNA) 2071

Retired municipal workers brought §1983 action against city emergency manager and others, alleging that alteration of their lifetime health insurance benefits violated Contract Clause, Bankruptcy Clause, and Due Process Clause. Workers moved for preliminary injunction barring defendants from modifying contracts or ordinances governing workers' health-care benefits. The District Court granted motion and denied motion to stay injunction pending appeal. Defendants appealed.

The Court of Appeals held that:

- Emergency manager's orders were exercise of legislative power;
- District court did not abuse its discretion in finding that defendants violated Contract Clause because modifications impaired provisions of their contracts and collective bargaining agreements (CBAs) had a likelihood of success on the merits;
- District court's finding that workers would suffer irreparable harm in absence of preliminary injunction was not clearly incorrect; and
- District court did not abuse its discretion by issuing preliminary injunction, even though factors of harm to others and public interest were split.

City emergency manager's orders which modified existing contracts and CBAs with respect to health care benefits of municipal retirees were exercise of legislative powers. Local Government and School District Fiscal Accountability Act, which appointed emergency manager, gave him the ability to adopt or amend ordinances and exercise any power relating to the operation of the local government and provided the emergency manager with expansive authority to act in place of local officials, specifically the mayor and city council.

District court did not abuse its discretion in finding that retired municipal workers' argument in their § 1983 action that city emergency manager and others violated Contract Clause because modifications to their lifetime health insurance benefits impaired provisions of their contracts and CBAs had a likelihood of success on the merits, as required to support preliminary injunction barring enforcement of alterations. There was a substantial impairment, as modifications would impose severe strain on workers by requiring them to pay significant amounts for Medicare and health-care premiums, and while taking action to remedy fiscal emergency was legitimate public purpose, workers provided evidence that emergency manager's proposed reduction in contractual benefits was not "reasonably necessary and appropriate" to meet stated public purposes of avoiding bankruptcy and balancing city budget.

District court's finding that retired municipal workers would suffer irreparable harm in absence of preliminary injunction barring modification of contracts and CBAs governing their health-care benefits was not clearly incorrect as record showed their access to medical care might be compromised. Workers submitted three affidavits describing how modifications would affect their

finances and ability to access specific medical treatments.

District court did not abuse its discretion by issuing preliminary injunction barring modification of contracts and CBAs governing retired municipal workers' health-care benefits, even though factors of whether granting preliminary injunctive relief would cause substantial harm to others and whether injunction was in the public interest were split in favor of workers and city. District court determined that public interest weighed in favor of ensuring continuing health care to members of the public, but city claimed that without cuts in those benefits they would have to make other budget cuts that would negatively affect city's public safety.