

Taylor v. City of Gadsden (2013)

958 F. Supp.2d 1287 (2013)

Joe Taylor and other firefighters employed by the City of Gadsden, Alabama, filed a putative class action lawsuit in United States District Court for the Guyton, in his official capacity. Their complaint alleged that mandatory increases to their required pension contributions, imposed by a 2011 act of the Alabama Legislature, and subsequent resolutions of the City based on that act, violated the Contract Clause of Article I, Section 10 of the U.S. Constitution. The excerpt below is from U.S. District Court Judge Virginia Emerson Hopkins.

Judge Hopkins delivered the following Memorandum Opinion and Order of the Court:

. . . In this case, the plaintiffs contend that “the recent action of the City of Gadsden to increase the required pension contributions of firefighter employees from 6% to 8.25% of earnable compensation, as authorized by a recent act [Act 676] of the Alabama Legislature, constitutes an unlawful impairment of contractual obligations violative of Article I, Section 10 of the Constitution of the United States”

Contract Clause Law

The Contract Clause of the United States Constitution provides: “No State shall . . . pass any . . . Law impairing the Obligation of Contracts.” Judicial analysis of a Contract Clause claim has developed over time into several steps. In *General Motors Corp. v. Romein* (1992), the Supreme Court unanimously outlined the following framework for the initial evaluation of a claim brought under the Contract Clause:

Generally, we first ask whether the change in state law has “operated as a substantial impairment of a contractual relationship.” This inquiry has three components: whether there is a contractual relationship, whether a change in law impairs that contractual relationship, and whether the impairment is substantial. . . .

The inquiry does not end when the court finds a contractual relationship and a change in law that substantially impairs that contractual relationship. To survive Contract Clause review, a legislative enactment that constitutes a substantial impairment of a contractual relationship must have a “significant and legitimate public purpose.” The significant and legitimate public purpose may include “the remedying of a broad and general social or economic problem.” However, “the public purpose need not be addressed to an emergency or temporary situation.”

. . . In sum, therefore, a law or regulation that substantially impairs a contractual relationship does not violate the Contract Clause so long as it serves a significant and legitimate public purpose, is based on reasonable conditions, and is appropriate to the public purpose justifying its enactment. . . .

The defendants first argue that neither the Alabama legislature nor the City of Gadsden created a contractual relationship with the plaintiffs. They then argue that, if either did create such a relationship, requiring the plaintiffs to increase their contributions did not substantially impair the contractual relationship. Finally, the defendants argue that even if a substantial impairment of a contractual relationship exists, the acts of the legislature and the City are justified as reasonable and necessary to serve an important public purpose.

Do the Plaintiffs Have a Contract With the City of Gadsden?

The plaintiffs seem at times to argue that *both* the State, through its enactments, *and* the City of Gadsden entered into a contract with them. Importantly, the State of Alabama is not a defendant in this case. Still, the complaint could be fairly read to say that the City created contractual rights in the plaintiffs when it adopted a pension program created by the State. . . .

Actions By the Legislature

The plaintiffs do not set out one specific act of the legislature which they contend establishes contractual rights. Instead, they refer to numerous statutes and the RSA [Retirement System of Alabama] handbook.

Since they allege that Act 676, which increases the plaintiffs' contributions to the retirement plan, unconstitutionally interferes with their contract rights, the logical place to begin the analysis as to whether a contract was created is the statute which established the contribution rates in the first place. That statute states: "Effective January 1, 2001, and each pay period thereafter, each active employee who is a firefighter, law enforcement officer, or correctional officer, as defined in subsection (a), shall contribute to the Teachers' or Employees' Retirement System of Alabama *six percent* of his or her earnable compensation." . . .

Do the ERS [Employees' Retirement System] Provisions Create, In Favor of the Plaintiffs, a Contractual Right to Never Be Required to Pay More Than 6% of Their Pay Towards The System?

A statutory enactment is generally presumed not to create "contractual or vested rights but merely declares a policy to be pursued until the legislature shall ordain otherwise." "[A]bsent some clear indication that the legislature intends to bind itself contractually, the presumption is that 'a law is not intended to create private contractual or vested rights.'"

Where a public contract allegedly arises out of statutory language, the hurdle under the first component of the first part of the test – proving that a contractual relationship exists -- is necessarily higher, since "normally state statutory enactments do not of their own force create a contract with those whom the statute benefits."

This threshold requirement for the recognition of public contracts has been referred to as the "unmistakability doctrine." In *United States v. Winstar* (1996), the Supreme Court traced the history of the unmistakability doctrine from Justice Marshall's opinion in *Fletcher v. Peck* (1810), and explained its purpose. Because legislatures should not bind future legislatures from employing their sovereign powers in the absence of the clearest of intent to create vested rights protected under the Contract Clause, courts developed canons of construction disfavoring implied governmental contractual obligations. Thus, " 'neither the right of taxation, nor any other power of sovereignty, will be held ... to have been surrendered, unless such surrender has been expressed in terms too plain to be mistaken.'" The requirement that "the government's obligation unmistakably appear thus served the dual purposes of limiting contractual incursions on a State's sovereign powers and of avoiding difficult constitutional questions about the extent of State authority to limit the subsequent exercise of legislative power."

. . . Here, the court has no trouble finding no contractual rights were created. The plaintiffs have cited no statutory language, handbook provisions, or other materials which reflect "a clear intent by the legislature to create contractual rights." In other words, there is no indication that the legislature, and therefore the City, unmistakably has bound itself to *never* changing the

contribution rate. . . . There is no evidence of any writing whereby the City of Gadsden agreed to never increase the percentage paid by firefighters. Even if the plaintiffs had contended, which they do not, that the ordinances of the City Council memorialize the contract, none of those ordinances state that the amount of the contribution will *never* be increased.

If There Was a Contract, and the Change in the Law Impairs That Contractual Relationship, Was the Impairment Substantial?

The defendants next argue that, if a contract exists, any impairment that the rights created in that contract was not substantial. In their response brief, the plaintiffs write: “First, defendants say nothing to support the notion that a 40% increase in the employees' contribution to their pension is not substantial. . . . The facts of that process are fully documented in the depositions of the employee negotiators, former Mayor Means and the other City officials involved. Nobody that testified suggested the amount of the increase was insubstantial.” . . . The plaintiffs write, without citation to authority, “[b]y raising the contribution rates of employees who already hold vested pension rights with more than ten years of service, Gadsden substantially altered enforceable contractual interests. Those employees now have to pay 8.5% of their salary to maintain their already vested pension rights, rather than 6%.”

The court does not agree. A “substantial impairment” can be the “total destruction of a contract.” *Home Building & Loan Ass’n v. Blaisdell* (1934). However, the Supreme Court has recognized that “the actual line between permissible and impermissible impairments could well be drawn more narrowly.” *U.S. Trust Co. of New York v. New Jersey* (1977). The extent of the impairment is only one “relevant factor in determining its reasonableness.” “[T]he Supreme Court [also] looks at whether the impaired term was central to the contract, whether settled expectations have been disrupted, and whether the impaired right was reasonably relied on.”

The plaintiffs have not shown or argued that keeping the employee compensation rate at 6% for firefighters *forever* was a central part of . . . their agreement to enter into the ERS Further, the RSA Handbook in existence in 2002, which the plaintiffs cite as forming part of the contract, states that “[t]he member's contribution rate is determined by statute and *subject to change by the Alabama legislature.*” (emphasis added). “Under these circumstances, an employee's reasonable expectation from the Plan contract cannot include a guarantee that an employee contribution would never be required.”

Were the Legislature and the City of Gadsden Justified in Enacting the Changes?

As shown above, a law or regulation that substantially impairs a contractual relationship does not violate the Contract Clause so long as it serves a significant and legitimate public purpose, is based on reasonable conditions, and is appropriate to the public purpose justifying its enactment. However, the court does not need to reach this issue, as it has already found no contract, and, even if there were a contract, the court has found that the plaintiffs' rights in the contract were not substantially impaired.

Summary Judgment for the Defendants

Based on the foregoing, the defendants' motion for summary judgment will be GRANTED, [and] . . . it is hereby ORDERED, ADJUDGED, and DECREED that this case is DISMISSED, with prejudice, costs taxed as paid.