

Section-by-Section of H.R. ____, the “Protecting Employees and Retirees in Municipal Bankruptcies Act of 2014”

July 16, 2014

Sec. 1. Short Title. Section 1 of the bill sets forth the short title of the bill as the “Protecting Employees and Retirees in Municipal Bankruptcies Act of 2014.”

Sec. 2. Determination of Municipality Eligibility To Be a Debtor Under Chapter 9 of Title 11 of the United States Code. A municipality¹ can petition to be a debtor under chapter 9, a specialized form of bankruptcy relief, only if a bankruptcy court finds by a preponderance of the evidence that the municipality satisfies certain criteria specified in Bankruptcy Code section 109. In the absence of obtaining the consent of a majority of its creditors, section 109 requires the municipality, in pertinent part, to have negotiated in good faith with its creditors or prove that it is unable to negotiate with its creditors because such negotiation is impracticable.

Section 2(a) of the bill amends Bankruptcy Code section 109 in three respects. First, it provides clear guidance to the bankruptcy court that the term “good faith” is intended to have the same meaning as it has under the National Labor Relations Act at least with respect to creditors who are employees or retirees of the debtor. Second, section 2(a) revises the standard for futility of negotiation from “impracticable” to “impossible.” This change ensures that before a municipality may avail itself of chapter 9 bankruptcy relief it must prove that there was no possible way it could have engaged in negotiation in lieu of seeking such relief. Third, the amendment clarifies that the standard of proof that the municipality must meet is “clear and convincing” rather than a preponderance of the evidence. These revisions to section 109 will provide greater guidance to the bankruptcy court in assessing whether a municipality has satisfied the Bankruptcy Code’s eligibility requirements for being granted relief under chapter 9.

Bankruptcy Code section 921(e), in relevant part, prohibits a bankruptcy court from ordering a stay of any proceeding arising in a chapter 9 case on account of an appeal from an order granting a municipality’s petition to be a debtor under chapter 9. Section 2(b) strikes this prohibition thereby allowing a court to issue a stay of any proceeding during the pendency of such an appeal. This ensures that the status quo can be maintained until there is a final appellate determination of whether a municipality is legally eligible to be a chapter 9 debtor.

Typically, an appeal of a bankruptcy court decision is heard by a district or bankruptcy appellate panel court.² Under limited circumstances, however, a direct appeal from a bankruptcy court decision may be heard by a court of appeals.³ Until a final determination is made as to

¹The Bankruptcy Code defines “municipality” as a political subdivision or public agency or instrumentality of a State.” 11 U.S.C. § 101(40) (2014).

²See generally 28 U.S.C. § 158 (2014).

³28 U.S.C. § 158(d) (2014).

whether a municipality is eligible to be a debtor under chapter 9 of the Bankruptcy Code, the rights and responsibilities of numerous stakeholders are unclear. To expedite the appellate process and promote greater certainty to all stakeholders in the case, section 2(c) of the bill allows an appeal of a bankruptcy court order granting a municipality's petition to be a chapter 9 debtor to be filed directly with the court of appeals. In addition, section 2(c) requires the court of appeals to hear such appeal *de novo* on the merits as well as to determine it on an expedited basis. Finally, section 2(c) specifies that the doctrine of equitable mootness does not apply to such an appeal.

Sec. 3. Protecting Employees and Retirees. The chapter 9 debtor must file a plan for the adjustment of the municipality's debts⁴ that then must be confirmed by the bankruptcy court if it satisfies certain criteria specified in Bankruptcy Code section 943. Section 3 of the bill makes several amendments to current law intended to ensure that interests of municipal employees and retirees are better protected. With respect to plan confirmation requirements, section 3 amends Bankruptcy Code section 943 to require consent from such employees and retirees to any plan that impairs – in a manner prohibited by nonbankruptcy law – a collective bargaining agreement, a retiree benefit, including an accrued pension, retiree health, or other retirement benefit protected by state or municipal law or as defined in Bankruptcy Code section 1114(a).⁵

Such consent would be conveyed to the court by the authorized representative of such individuals. Subject to certain exceptions, section 3 specifies that the authorized representative of individuals receiving any retirement benefits pursuant to a collective bargaining agreement is the labor organization that signed such agreement unless such organization no longer represents active employees. Where the organization no longer represents active employees of the municipality, the labor organization that currently represents active employees in that bargaining unit is the authorized representative of such individuals.

Section 3 provides that the exceptions apply if: (1) the labor organization chooses not to serve as the authorized representative; or (2) the court determines, after a motion by a party in interest and after notice and a hearing, that different representation is appropriate. Under either circumstance, the court, upon motion by any party in interest and after notice and a hearing, must order the United States Trustee to appoint a committee of retired employees if the debtor seeks to modify or not pay the retiree benefits or if the court otherwise determines that it is appropriate for that committee be comprised of such individuals to serve as the authorized representative.

⁴11 U.S.C. § 941 (2014).

⁵Bankruptcy Code section 1114(a) defines “retiree benefits” as:

payments to any entity or person for the purpose of providing or reimbursing payments for retired employees and their spouses and dependents, for medical, surgical, or hospital care benefits, or benefits in the event of sickness, accident, disability, or death under any plan, fund, or program (through the purchase of insurance or otherwise) maintained or established in whole or in part by the debtor prior to filing a petition commencing a case under [chapter 11 of] this title.

11 U.S.C. § 1114(a) (2014).

With respect to retired employees not covered by a collective bargaining agreement, the court, on motion by a party in interest after notice and a hearing, must order the United States Trustee to appoint a committee of retired employees if the debtor seeks to modify or not pay retiree benefits, or if the court otherwise determines that it is appropriate to serve as the authorized representative of such employees. Section 3 provides that the party requesting the appointment of a committee has the burden of proof.

Where the court grants a motion for the appointment of a retiree committee, section 3 requires the United States Trustee to choose individuals to serve on the committee on a proportional basis per capita based on organization membership from among members of the organizations that represent the individuals with respect to whom such order is entered. This requirement ensures that in a case where there are multiple labor organizations, the committee fairly represents the interests of the members of those various organizations on a proportional basis.

Finally, section 3 of the bill imposes a significant threshold that must be met before retiree benefits can be reduced or eliminated. Current law has no such requirement. In a case where the municipality proposes in its plan to impair any right to a retiree benefit, section 3 permits the committee to support such impairment only if at least two-thirds of its members vote in favor of doing so.