Illinois Appellate Court Finds a Successor Union Liable for Breach of Contract

Most Illinois unions are unincorporated associations, and that status had an important role in a recent decision of the Illinois Appellate Court First District finding Teamsters Local 700 liable for a breach of contract involving its predecessor, Local 726. In May 2008, Local 726 entered into a Lease and Purchase Agreement (LPA) for new offices. While the LPA was being negotiated, the IBT initiated an investigation of Local 726. Two weeks after the LPA was signed, the IBT appointed John Coli, an IBT Vice President, to investigate the financial condition of the local union. In June 2009, the IBT issued a report recommending that Local 726 be placed in trusteeship. A trustee was appointed with full control over the business activities of the local. The trustee noted the financial drain the LPA had on Local 726 and unsuccessfully attempted to modify the LPA. In December 2009, the International Union dissolved Locals 726 and 714 and consolidated their assets, books, membership records, documents and property to Local 700. Within four months of the consolidation, Local 700 moved its business operations from the building that had been occupied by Local 726 to another facility.

The landlord under the LPA filed a suit for breach of contract and sought damages. Local 700 argued there was no liability under the Illinois Property of Unincorporated Associations Act and that John Coli did not have individual liability for alleged interference with the LPA. The circuit court found Local 700 liable for breach of the LPA and granted the landlord nearly $2 million dollars in damages and over $320 thousand dollars in attorneys' fees and costs. The important issues raised in this case involve the liability of the consolidated local union for the breach of contract of its predecessor and individual liability for the union officers.

Illinois labor organizations should be aware that the provisions of the Illinois Property of Unincorporated Associations Act require certain membership notices to be made involving the negotiation of contracts. The Act provides that an unincorporated organization may execute a lease, when authorized by a vote of the members present at a regular meeting held by said organization after at least ten days' notice has been given to all members by mailing a written notice.

It was undisputed that Local 726 as an unincorporated association did not comply with the provisions of this Act. It failed to give written notice of the LPA to its members and failed to hold a vote authorizing the LPA. Local 700 defended this lawsuit on the ground that Local 726, not Local 700, had violated the Act. The court held that the failure to follow the statute did not render the contract unenforceable and that the Act is silent as to the consequences for noncompliance. The court therefore held the contract was enforceable. The most important issue raised in this case is the court's finding that the consolidated organization, Local 700, was liable for a breach of the LPA.

The court noted that Local 700 was the result of a consolidation of Locals 726 and 714 and that the factors to be considered for determining successor liability include: 1) the relationship between the dissolved and successor association, 2) whether there was substantial continuity of the dissolved association after a merger or consolidation, 3) whether the successor association had notice of the dissolved associations liabilities, and 4) whether there are important state policies that would be affected by declining to impose successor liability. The court held that the consolidated organization had substantial continuity of Local 726 operations, identity and functions and that important state interests favor finding the Local to be a successor, as the state has a strong policy for enforcement of private contracts.

The appellate court reversed the trial court's finding that John Coli should be liable on a personal basis for the breach of contract. The court held that Mr. Coli's conduct was privileged because he was acting to protect an interest which the law deems to be of equal or greater value than the plaintiffs' contractual rights. Mr. Coli was entitled to the same privilege that the circuit court had afforded other members of the International Union in this case. Accordingly, there was no individual liability assessed to Mr. Coli by the appellate court decision.

The importance of this case lies in the issue of consolidation and merger and the transfer of liability from one organization to another. It is therefore important in such consolidations to identify the assets of the transferring organization and all of its likely liabilities.

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