

SUPREME COURT OF OHIO

State ex rel. K&D Group, Inc. v. Buehrer

135 Ohio St. 3d 257, 2013-Ohio-734 (2013) · No. 2011-1918 · Decided March 6, 2013

SUMMARY

The Supreme Court of Ohio held that K&D Group, Inc. was not a successor in interest to Mid-America Management Corporation for workers' compensation experience-rating purposes. Because there was no evidence that Mid-America voluntarily transferred its business operations to K&D Group, the Bureau of Workers' Compensation abused its discretion by transferring part of Mid-America's experience rating. The court reversed the court of appeals and issued a writ of mandamus ordering the bureau to calculate K&D Group's experience rate without Mid-America's experience.

CASE DETAILS

COURT	Supreme Court of Ohio
WRITING FOR THE COURT	Per Curiam; O'Connor, C.J.; Pfeifer, J.; O'Donnell, J.; Lanzinger, J.; Kennedy, J.; French, J.; O'Neill, J.
JURISDICTION	Ohio
DECIDED	March 6, 2013
DOCKET	2011-1918
DISPOSITION	reversed
PROCEDURAL POSTURE	K&D Group appealed as of right from the Franklin County Court of Appeals' denial of its complaint for a writ of mandamus against the Bureau of Workers' Compensation.
STANDARD OF REVIEW	In a mandamus action, the court reviewed whether the Bureau abused its discretion in treating K&D Group as a successor in interest and transferring Mid-America's experience rating.
PRECEDENTIAL VALUE	published precedential opinion
PARTIES	K&D Group, Inc. v. Buehrer, Administrator

TOPICS

[workers compensation](#)[administrative law](#)[judicial review of agency action](#)[appellate procedure](#)[remedies](#)

PRACTICE AREAS

QUESTIONS PRESENTED

1. Whether K&D Group was a successor in interest to Mid-America for purposes of transferring workers' compensation experience ratings.
2. Whether the Bureau abused its discretion by transferring part of Mid-America's experience rating to K&D Group.

HOLDINGS

1. K&D Group was not a successor in interest because it merely contracted with the new owner to manage the existing apartment complex, and there was no evidence that Mid-America voluntarily transferred its business operation to K&D Group.
2. The Bureau abused its discretion by transferring part of Mid-America's experience rating to K&D Group.

KEY QUOTATIONS

“For the reasons that follow, we hold that K&D Group, Inc., was not a successor in interest for purposes of workers’ compensation law. Thus, the bureau abused its discretion when it transferred part of Mid-America’s experience rating to K&D Group, Inc.” (¶ 2)

“[A] successor-in-interest, for workers’ compensation purposes, is simply a transferee of a business in whole or in part.” (¶ 12)

“Thus, the bureau abused its discretion when it treated K&D Group as a successor in interest.” (¶ 16)

FACTUAL BACKGROUND

K&D Group was hired by the new owner of an apartment complex to manage the property after the complex was acquired through entities associated with Mid-America Management Corporation. K&D Group hired some former Mid-America employees, assumed day-to-day management and existing tenant leases, and operated under the same workers' compensation manual numbers. The Bureau concluded that K&D Group was Mid-America's successor in interest and transferred part of Mid-America's experience rating, which included a large workers' compensation claim.

PROCEDURAL HISTORY

The Bureau determined that K&D Group was the successor in interest to Mid-America Management Corporation and transferred part of Mid-America's workers' compensation experience rating to K&D Group. After the Bureau denied K&D Group's protest and administrative appeal, K&D Group sought mandamus in the Franklin County Court of Appeals. The magistrate concluded that the Bureau had not abused its discretion, the court of appeals adopted that decision and denied the writ, and the Supreme Court of Ohio reversed and granted mandamus.

DISPOSITION

reversed

REMAND INSTRUCTIONS

The Bureau was ordered to determine K&D Group's experience rate without taking Mid-America's experience rate into consideration.

CASES CITED

- State ex rel. Crosset Co., Inc. v. Conrad, 87 Ohio St. 3d 467, 721 N.E.2d 986 (2000)
- State ex rel. Lake Erie Constr. Co. v. Indus. Comm., 62 Ohio St. 3d 81, 578 N.E.2d 458 (1991)
- State ex rel. Lynnhaven XIV, L.L.C. v. Conrad, 10th Dist. No. 02AP-36, 2003-Ohio-825, 2003 WL 462506
- State ex rel. Valley Roofing, L.L.C. v. Ohio Bur. of Workers' Comp., 122 Ohio St. 3d 275, 2009-Ohio-2684, 910 N.E.2d 1018

OPINION

PER CURIAM.

[Cite as State ex rel. K&D Group, Inc. v. Buehrer, 135 Ohio St.3d 257, 2013-Ohio-734.] THE STATE EX REL. K&D GROUP, INC., APPELLANT, v. BUEHRER, ADMR., APPELLEE. [Cite as State ex rel. K&D Group, Inc. v. Buehrer, 135 Ohio St.3d 257, 2013-Ohio-734.] Workers' compensation—Successor in interest—Experience rating. (No. 2011-1918—Submitted January 8, 2013—Decided March 6, 2013.)

APPEAL from the Court of Appeals for Franklin County, No. 10AP-608, 2011-Ohio-5051. _____ Per Curiam. {¶ 1} Appellant, K&D Group, Inc., filed a complaint in mandamus in the Franklin County Court of Appeals alleging that the Bureau of Workers' Compensation abused its discretion when it transferred part of the experience rating of Mid-America Management Corporation ("Mid-America") to K&D Group, Inc., as successor in interest. {¶ 2} For the reasons that follow, we hold that K&D Group, Inc., was not a successor in interest for purposes of workers' compensation law.

Thus, the bureau abused its discretion when it transferred part of Mid-America's experience rating to K&D Group, Inc. We reverse the judgment of the court of appeals and issue a writ of mandamus. Facts {¶ 3} In 2004, K&D Enterprises, Inc., contracted with Fame-Midamco Company, L.L.C., through K&D Enterprises's manager, Mid-America, to purchase an apartment complex known as the Euclid-Richmond Gardens.

Prior to the closing, K&D Enterprises created a new company, Euclid-Richmond Gardens, Ltd., and assigned its rights under the purchase agreement to that new company. {¶ 4} Euclid-Richmond Gardens, Ltd., hired appellant, K&D Group, Inc. ("K&D Group"), a property-

management company, to manage the apartments, SUPREME COURT OF OHIO which were renamed Parkside Garden Apartments.

K&D Group hired some former employees of Mid-America and assumed the day-to-day operations of the complex. {¶ 5} The bureau conducted an audit of K&D Group in 2009 and determined that it was the successor in interest to the business operations of Mid-America. This determination authorized the bureau to base K&D Group's experience rating in part on Mid-America's past experience, which included a large workers' compensation claim. {¶ 6} K&D Group filed a protest, arguing that it was not a successor in interest to Mid-America, because it had not been involved in the purchase of the apartment complex and it did not acquire anything in the transaction.

Following a hearing, the bureau's adjudicating committee denied the protest. The committee concluded that the bureau had correctly transferred the predecessor's experience to K&D Group as the successor in interest: "The day to day operations of the apartment complex remained the same after the purchase.

The K&D Group assumed the prior leases, retained some of the former employees and operated under the same manual numbers."¹ K&D Group's administrative appeal was denied. {¶ 7} K&D Group filed a mandamus action in the court of appeals. A magistrate concluded that the bureau had not abused its discretion.

The court of appeals adopted the magistrate's decision and denied the writ. {¶ 8} This cause is now before this court on an appeal as of right. Legal Analysis {¶ 9} When determining what an employer's premium should be, the bureau follows the fundamental concept that rates are determined by "projecting the experience of the past into the future." Fulton, Ohio Workers' Compensation 1.

The term "manual number" refers to the bureau's classification of an employer's business according to its degree of hazardousness. Ohio Adm.Code 4123-17-08. 2 January Term, 2013 Law, Section 14.4, at 567 (3d Ed.2008).

The bureau groups employers with similar operations into classifications based on the risk exposures common to those employers. Each classification is assigned a number known as the "manual number." Generally, it is the employer's business that is classified, not the separate occupations within the business. See Ohio Adm.Code 4123-17-08.

The bureau also relies on experience rating. [E]xperience rating [is] a concept used to determine whether a particular employer should be assigned premium rates higher than or less than the "basic rate" that is assigned to employers within the same classification.

In experience rating, the employer's past claims history, or experience, is consulted to compute a rate that produces premiums sufficient to pay future claims. *State ex rel. Crosset Co., Inc. v. Conrad*, 87 Ohio St.3d 467, 473, 721 N.E.2d 986 (2000). {¶ 10} The bureau transferred part of Mid-America's experience rating to K&D Group pursuant to its authority under R.C.

4123.32(C) and Ohio Adm.Code 4123-17-02. R.C. 4123.32(C) authorizes the bureau to adopt rules concerning premiums in order to safeguard the State Insurance Fund. The bureau administrator may make rules to cover the rates to be applied where one employer takes over the occupation or industry of another * * *, and the administrator may require that if any employer transfers a business in whole or in part * * *, the successor in interest shall assume, in proportion to the extent of the transfer, * * * the employer's account.

3 SUPREME COURT OF OHIO (Emphases added.) {¶ 11} The rule to determine rates for succeeding employers is Ohio Adm.Code 4123-17-02(B)(3), which provides: Where a legal entity succeeds in the operation of a portion of a business of one or more legal entities having an established coverage or having had experience in the most recent experience period, the successor's rate shall be based on the predecessor's experience within the most recent experience period, pertaining to the portion of the business acquired by the successor.

(Emphasis added.) {¶ 12} Thus, for the bureau to transfer the experience rating from a predecessor employer to a successor employer, there must be a transfer of business either in whole or in part and the successor employer must be the successor in interest. "[A] successor-in-interest, for workers' compensation purposes, is simply a transferee of a business in whole or in part." *State ex rel.*

Lake Erie Constr. Co. v. Indus. Comm., 62 Ohio St.3d 81, 83-84, 578 N.E.2d 458 (1991). {¶ 13} K&D Group contends that it is not a successor in interest of Mid- America. First, K&D Group argues that it was not a party to the sale of the apartments and it did not acquire any assets as a result of the transaction. But neither R.C. 4123.32(C) nor Ohio Adm.Code 4123-17-02(B)(3) requires the transfer of assets.

The focus of the statute and the rule is the transfer of business operations or labor, not the legal concept of corporate succession. R.C. 4123.32(C) ("where one employer takes over the occupation or industry of another" [emphasis added]); Ohio Adm.Code 4123-17-02(B)(3) ("Where a legal entity succeeds in the operation of a portion of a business * * *" [emphasis 4 January Term, 2013 added]).

A business operation may be transferred through methods other than a purchase. For instance, an employer was considered a successor in interest for experience-rating purposes when it leased a nursing-home facility and continued the ongoing business of the predecessor employer. *State ex rel. Lynnhaven XIV, L.L.C. v. Conrad*, 10th Dist. No. 02AP-36, 2003-Ohio-825, 2003 WL 462506.

{¶ 14} Next, K&D Group contends that it cannot be a successor in interest to Mid-America, because there was no direct transfer of the business from Mid-America to K&D Group.

K&D Group relies on *State ex rel. Valley Roofing, L.L.C. v. Ohio Bur. of Workers' Comp.*, 122 Ohio St.3d 275, 2009-Ohio-2684, 910 N.E.2d 1018, in which this court held that an employer is not a successor in interest if the business assets of the predecessor entity are purchased from a bank, not directly from the predecessor entity. *Id.* at ¶ 5. {¶ 15} In that case, Valley Roofing Company, L.L.C., had purchased the assets of Tech Valley Contracting, Inc., from PNC Bank after foreclosure and continued the business operation.

The bureau transferred Tech Valley's experience rating to Valley Roofing as a successor in interest. But this court held that Valley Roofing was not a successor in interest, because Valley Roofing had acquired the assets from an intermediary bank. *Id.* at ¶ 6. "Successor in interest," as defined in *Lake Erie*, 62 Ohio St.3d 81, 578 N.E.2d 458, "does not apply if the business assets of the predecessor entity have been purchased from a bank and not directly from that employer. * * *

'The language of [R.C.

4123.32(C)] clearly refers to a voluntary act of the employer and not the involuntary transfer of the employer's business through an intermediary bank.' " Valley Roofing at ¶ 5, quoting *State ex rel. Crosset Co.*, 87 Ohio St.3d at 471, 721 N.E.2d 986. {¶ 16} Here, there is no evidence that Mid-America voluntarily transferred the business of managing the apartment complex to K&D Group.

The bureau emphasized that K&D Group hired some former employees of Mid-America, assumed management of the leases that the prior apartment-complex owner had with its tenants, and operates under the same workers' compensation manual numbers as Mid-America. But these facts are not sufficient to show that Mid-America voluntarily transferred its business operation to K&D Group for purposes of workers' compensation.

K&D Group merely contracted with the new owner to assume management of the existing apartment complex. Thus, the bureau abused its discretion when it treated K&D Group as a successor in interest. Conclusion {¶ 17} K&D Group has demonstrated that it has a clear legal right to the relief requested because it was not a successor in interest to the business operations of Mid-America for purposes of workers' compensation.

The bureau abused its discretion when it transferred part of Mid-America's experience rating to K&D Group based on R.C. 4123.32(C) and Ohio Adm.Code 4123-17-02. Thus, we reverse the judgment of the court of appeals and issue a writ of mandamus ordering the bureau to determine K&D Group's experience rate without taking into consideration Mid-America's experience rate.

Judgment reversed and writ granted. O'CONNOR, C.J., and PFEIFER, O'DONNELL, LANZINGER, KENNEDY, FRENCH, and O'NEILL, JJ., concur. _____ Calfee, Halter & Griswold, L.L.P., Thomas I. Michals, and Jeffrey J. Lauderdale, for appellant. Michael

DeWine, Attorney General, and Stephen D. Plymale, Assistant Attorney General, for appellee
Bureau of Workers' Compensation. _____ 6

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