

6th Circuit Determines That District Court Abused Its Discretion in Exercising Jurisdiction over Declaratory Judgment Action Regarding Coverage

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The United States Court of Appeals for the Sixth Circuit has held that a district court abused its discretion in exercising jurisdiction over a declaratory judgment action seeking to establish coverage obligations because: (1) the action would not resolve the underlying litigation; (2) the state court was in a better position to decide the dispute; and (3) the insurers had a better remedy in filing a declaratory judgment action in state court or by waiting to file an action regarding indemnity obligations after the underlying litigation was resolved. *Travelers Indemnity Co. v. Bowling Green Prof. Assoc.*, 2007 WL 2066861 (6th Cir. July 20, 2007).

The policyholder operated an out-patient medical treatment center insured under general liability and professional liability policies. The underlying action arose after a patient left the treatment center subsequent to receiving a methadone treatment and was involved in a fatal car crash, killing himself and the driver of a second vehicle. The general liability insurer sought a declaration that there was no coverage on the grounds that its policy specifically excluded injuries arising out of the rendering or failure to render medical services. The professional liability insurer denied coverage for the claim brought by the estate of the second driver on the grounds that she was not a patient of the clinic.

Having raised the jurisdictional issue *sua sponte* at oral argument, the court of appeals held that the district court abused its discretion in exercising declaratory judgment jurisdiction. The court applied five factors previously set forth in *Grand Trunk W. R.R. v. Consolidated Rail Co.*, 746 F.2d 323 (6th Cir. 1984): (1) whether the declaratory judgment will "settle the controversy"; (2) whether the declaratory judgment action would "serve a useful purpose in clarifying the legal relations in issue"; (3) whether the action was being used for "procedural fencing"; (4) whether the action would "increase friction between our federal and state courts and improperly encroach on state jurisdiction"; and (5) whether there is an "alternate remedy which is better or more effective." In reviewing these factors, the court held that every factor except the third favored declining jurisdiction.

The court held that the first two factors weighed against exercising jurisdiction because the declaratory judgment action would not settle the underlying litigation. The district court had held that, while the action would not resolve the controversy in the underlying litigation, the action would clarify and establish the scope of coverage for the underlying matters. The Sixth Circuit, however, disagreed, finding that the action would do "nothing to settle the controversy between the other parties . . . who may be affected by the judgment" and who were not joined.

The court concluded that the third factor was neutral, because there was no evidence that the declaratory judgment action was being used for "procedural fencing" or to "race" to judgment.

As to the fourth factor, the court held that exercising jurisdiction would increase friction between the state and federal courts and improperly encroach on state jurisdiction. In reaching that conclusion, the court pointed to three additional considerations:

1. "whether the underlying factual issues are important to an informed resolution of the case;
2. whether the state trial court is in a better position to evaluate those factual and legal issues . . . ; and
3. whether there is a close nexus between the underlying factual and legal issues and state law and/or public policy, or whether federal common law or statutory law dictates a resolution of the declaratory judgment action."

The district court had determined that the fourth factor was neutral because both forums would apply Kentucky law, and the state court was not in a significantly better position to do so. The Sixth Circuit disagreed, finding that the state court was in a better position to decide the coverage dispute. The court noted that questions of "insurance contract interpretation are questions of state law with which the Kentucky state courts are more familiar and, therefore, better able to resolve."

The court also determined that state court was a better forum because there were issues in the case that had not been "squarely resolved" under state law. The district court relied on a Kentucky case that held that a nurse had a professional obligation to determine whether an inpatient was capable of safely returning to his bed from the nurse's station. The district court found the case dispositive given that the medical staff in this case allegedly failed properly to determine whether the patient was capable of safely leaving the facility after his methadone treatment. The court of appeals, however, concluded there were "[s]ignificant differences" "between a fall by a[n] [in]patient . . . and one who causes injury to another in a distant location after receiving treatment and leaving the medical facility."

Further, the court determined that the state court was better situated to "identify and enforce the [state] public policies" affecting insurance contracts. Noting that the case did not involve federal law, the court concluded that "a state court forum is preferable."

Regarding the fifth and final factor, the court agreed with the district court that the insurers had a better remedy available to them. According to the court, the insurers could file a declaratory judgment action in state court or file an indemnity action at the conclusion of the underlying litigation.