

STATE OF CALIFORNIA

CALIFORNIA LAW REVISION COMMISSION

REVISED RECOMMENDATION

Stay of Mechanic's Lien Enforcement Pending Arbitration

March 2002

(as revised to reflect 2002 legislation)

California Law Revision Commission
4000 Middlefield Road, Room D-1
Palo Alto, CA 94303-4739

NOTE

This report includes an explanatory Comment to each section of the recommended legislation. The Comments are written as if the legislation were already operative, since their primary purpose is to explain the law as it will exist to those who will have occasion to use it after it is operative.

Cite this report as *Stay of Mechanic's Lien Enforcement Pending Arbitration*, 31 Cal. L. Revision Comm'n Reports 333 (2001). This is part of publication #212 [*2001-2002 Recommendations*]. This is a revised version, prepared January 8, 2003, to reflect legislation enacted in 2002. See 2002 Cal. Stat. ch. 784, § 82.

STATE OF CALIFORNIA

CALIFORNIA LAW REVISION COMMISSION

4000 Middlefield Road, Room D-1
Palo Alto, CA 94303-4739
650-494-1335

JOYCE G. COOK, Chairperson
ASSEMBLY MEMBER HOWARD WAYNE, Vice Chairperson
DAVID HUEBNER
FRANK M. KAPLAN
SENATOR BILL MORROW
EDMUND L. REGALIA
WILLIAM E. WEINBERGER

March 14, 2002

To: The Honorable Gray Davis
Governor of California, and
The Legislature of California

Code of Civil Procedure Section 1281.5 relates to preservation of arbitration rights during mechanic's lien enforcement proceedings. This recommendation would amend the provision to simplify the procedure for preserving arbitration rights and obtaining a stay pending arbitration, thereby reducing litigation expenses and conserving judicial resources.

This recommendation is submitted pursuant to Resolution Chapter 78 of the Statutes of 2001.

Respectfully submitted,

Joyce G. Cook
Chairperson

STAY OF MECHANIC'S LIEN ENFORCEMENT PENDING ARBITRATION

A construction dispute may be resolved through a mechanic's lien foreclosure action, contractual arbitration, or other means. Code of Civil Procedure Section 1281.5¹ governs the effect of a mechanic's lien foreclosure action on contractual arbitration of the underlying dispute. It specifies means of preserving a contractual right to arbitrate, as well as circumstances in which the right is waived:

1281.5. (a) Any person who proceeds to record and enforce a claim of lien by commencement of an action pursuant to Title 15 (commencing with Section 3082) of Part 4 of Division 3 of the Civil Code, shall not thereby waive any right of arbitration which that person may have pursuant to a written agreement to arbitrate, if, in filing an action to enforce the claim of lien, the claimant at the same time presents to the court an application that the action be stayed pending the arbitration of any issue, question, or dispute which is claimed to be arbitrable under the agreement and which is relevant to the action to enforce the claim of lien.

(b) The failure of a defendant to file a petition pursuant to Section 1281.2 at or before the time he or she answers the complaint filed pursuant to subdivision (a) shall constitute a waiver of that party's right to compel arbitration.

The Law Revision Commission recommends revision of this statute to simplify the procedure for preserving a contractual right to arbitrate and obtaining a stay pending arbitration.

1. All further statutory references are to the Code of Civil Procedure, unless otherwise indicated.

Procedure for Preserving Contractual Right to Arbitrate

Before Section 1281.5 was enacted, commencement of a mechanic's lien foreclosure action was sometimes deemed a waiver of the plaintiff's right to arbitrate.² This put the prospective plaintiff in a difficult position, because the limitations period for a mechanic's lien foreclosure action was (and is) very short,³ making it impossible for the plaintiff to delay litigation until completion of arbitration, except where arbitration was completed very quickly.⁴ To address this problem, Section 1281.5 makes clear that the filing of a foreclosure action is not a waiver of arbitration if the plaintiff simultaneously files an application for a stay of the action pending arbitration.⁵

By itself, however, an application for a stay is not sufficient to stay the action.⁶ Although the statute does not say so expressly, it contemplates that the summons, complaint, and application for a stay will be served on the opposing party within a reasonable time after the action is commenced, and a separate motion for a stay will be noticed, filed, served, and

2. Compare *Titan Enterprises, Inc. v. Armo Constr., Inc.*, 32 Cal. App. 3d 828, 832, 108 Cal. Rptr. 456 (1973) (foreclosure action was waiver of arbitration) with *Homestead Sav. & Loan Ass'n v. Superior Court*, 195 Cal. App. 2d 697, 16 Cal. Rptr. 121 (1961) (foreclosure action was not waiver of arbitration); see also *Review of Selected 1977 California Legislation*, 9 Pac. L.J. 281, 386-87 (1978).

3. Civ. Code § 3144 (lien foreclosure action must be commenced within 90 days after recording of lien claim).

4. *Review of Selected 1977 California Legislation*, *supra* note 2, at 387.

5. The application for a stay must be filed at the same time as the complaint, not afterwards. *R. Baker, Inc. v. Motel 6, Inc.*, 180 Cal. App. 3d 928, 931, 225 Cal. Rptr. 849 (1986).

6. *Kaneko Ford Design v. Citipark, Inc.*, 202 Cal. App. 3d 1220, 1226, 249 Cal. Rptr. 544 (1988).

resolved as promptly thereafter as is reasonably possible.⁷ This prevents the plaintiff from using the application as a tactic to preserve arbitration rights while exploring the defendant's case through discovery techniques unavailable in arbitration.⁸

The proposed legislation would simplify the procedure for preserving the right to arbitrate and obtaining a stay. A plaintiff could simply demand a stay in a lien foreclosure complaint, and the action would automatically be stayed pending arbitration. No application or motion for a stay would be required.

This would reduce litigation expenses and conserve judicial resources, because arbitrability is often uncontested. Under the proposed law, the court would only need to consider the matter if a defendant objects to arbitration and moves to lift the automatic stay.

7. *Id.* at 1226-27. For a proposal to codify this procedure with a few improvements, see *Stay of Mechanic's Lien Enforcement Pending Arbitration*, 30 Cal. L. Revision Comm'n Reports 307, 312-14, 317-18 (2000).

8. See *Kaneko*, 202 Cal. App. 3d at 1228-29; see generally Christensen v. Dewor Developments, 33 Cal. 3d 778, 784, 661 P.2d 1088, 191 Cal. Rptr. 8 (1983) (courtroom may not be used as "convenient vestibule to arbitration hall" permitting party to create unique structure combining litigation and arbitration); *Berman v. Health Net*, 80 Cal. App. 4th 1359, 1372, 96 Cal. Rptr. 2d 295 (2000) (discovery not available in arbitration is vice supporting waiver); *Guess?, Inc. v. Superior Court*, 79 Cal. App. 4th 553, 558, 94 Cal. Rptr. 2d 201 (2000) (waiver occurred where opponent was exposed to substantial expense of pretrial discovery and motions avoidable had arbitrability been timely asserted); *Sobremante v. Superior Court*, 61 Cal. App. 4th 980, 997, 72 Cal. Rptr. 2d 43 (1998) (benefits of arbitration become illusory "where there is a failure to timely and affirmatively implement the procedure"); *Davis v. Continental Airlines, Inc.*, 59 Cal. App. 4th 205, 215, 69 Cal. Rptr. 2d 79 (1997) (defendants waived arbitration by using court's discovery processes to gain information about plaintiff's case, then seeking to change game to arbitration, where plaintiff would not have similar discovery rights); *Zimmerman v. Drexel Burnham Lambert Inc.*, 205 Cal. App. 3d 153, 159-60, 252 Cal. Rptr. 115 (1988) (delay in requesting arbitration was prejudicial because opponent had to disclose defenses and strategies and "bear the costs of trial preparation, which arbitration is designed to avoid").

PROPOSED LEGISLATION

Code Civ. Proc. § 1281.5 (amended). Stay of mechanic's lien enforcement pending arbitration

SECTION 1. Section 1281.5 of the Code of Civil Procedure is amended to read:

1281.5. (a) Any person who proceeds to record and enforce a claim of lien by commencement of an action pursuant to Title 15 (commencing with Section 3082) of Part 4 of Division 3 of the Civil Code, shall not thereby waive any right of arbitration which that person may have pursuant to a written agreement to arbitrate, if, in filing an action to enforce the claim of lien, the claimant ~~at the same time presents to the court an application~~ *demand*s in the complaint that the action be stayed pending the arbitration of any issue, question, or dispute which is claimed to be arbitrable under the agreement and which is relevant to the action to enforce the claim of lien. *The action is automatically stayed on filing of the complaint. A party may object to arbitration by filing a motion for relief from the stay.*

(b) The failure of a defendant to file a petition pursuant to Section 1281.2 at or before the time ~~he or she answers the complaint filed pursuant to subdivision (a)~~ shall constitute a waiver of that party's *the defendant answers a complaint to enforce a claim of lien pursuant to Title 15 (commencing with Section 3082) of Part 4 of Division 3 of the Civil Code waives the defendant's* right to compel arbitration.

Comment. Subdivision (a) of Section 1281.5 is amended to simplify the procedure for obtaining a stay of a mechanic's lien foreclosure action pending arbitration of the underlying dispute pursuant to a written agreement to arbitrate.

Subdivision (b) is amended to make technical, nonsubstantive changes.
