

A Lawyer's Guide to Mandatory Arbitration in Illinois

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I. Introduction

More than 10 years since the enactment of the Mandatory Arbitration Act¹, questions remain concerning its function in Illinois' court system. This article explains how the mandatory arbitration program works in conjunction with the Illinois Code of Civil Procedure and supreme court rules. It also discusses the content of the rules governing mandatory arbitration, including recent amendments and case law interpretations.

I. Rules Governing Mandatory Arbitration

The Mandatory Arbitration Act, which took effect in Illinois January 1, 1986, authorized the Illinois Supreme Court to promulgate rules and adopt procedures to establish mandatory arbitration.² Soon after its enactment, the supreme court implemented the mandatory arbitration system with Supreme Court Rules 86 through 95.³ These rules must be read in conjunction with other applicable supreme court rules, the circuit court rules, and enabling legislation.⁴

Rule 86 sets forth the eligibility requirements for mandatory arbitration.⁵ As originally adopted, this rule provided that arbitration claims could not have a value exceeding \$15,000.⁶ Today, however, the monetary limit on damages must not exceed \$50,000, exclusive of interest and costs or as prescribed otherwise by rule.⁷

That a civil claim falls within the jurisdictional amount does not automatically force it into arbitration. A party who believes he or she has a reasonable basis for removing the matter from arbitration may move the court for such relief prior to hearing.⁸ Also, where there are multiple claims in the action, the court may sever those that are not eligible for arbitration.⁹

The goal of mandatory arbitration is to ease court congestion by providing a forum for expedited hearings, where all issues of law and fact are to be decided by a panel of three arbitrators.¹⁰ So that all issues can be fully presented at the hearing, Rule 89 provides for preparing discovery in accordance with Rule 222¹¹ and requires that discovery be completed prior to the hearing.¹² If an award is rejected and the case proceeds to trial, no additional discovery may be had except upon leave of court for good cause shown.¹³

Since the arbitration hearing is evidentiary, parties may compel the appearance of witnesses and other parties pursuant to Rule 237(b) notice.¹⁴ Rule 90(g), as amended in 1993,¹⁵ makes clear that Rule 237 is equally important to arbitration hearings and to trials. A party's failure to comply with Rule 90(g) may warrant sanctions, including an order debaring that party from rejecting the arbitration award pursuant to Rule 91(b).

Rule 91¹⁶ clearly contemplates the presence of parties, either personally or by counsel, at the arbitration hearing. Nevertheless, the hearing will proceed in a party's absence where due notice is given.¹⁷ If the hearing goes forward without due notice, the arbitration award is deemed void and should be vacated by the court upon the challenging party's motion.¹⁸

However, where a party is given notice and fails to appear, his or her absence constitutes waiver of the right to reject the award and is consent to the entry of judgment on the award.¹⁹ Where a party fails to appear inadvertently, he or she may move to vacate the judgment entered on the award pursuant to section 2-1301 or 2-1401 of the Code of Civil Procedure.²⁰ However, when both parties are present at the arbitration hearing, the court cannot vacate the arbitration award or order a second arbitration hearing.²¹

Along with Rule 90(g), Rule 91 was amended in 1993 to include a new subsection (b), which requires parties to participate in the arbitration hearing in a meaningful way and in good faith.²² A party who fails to participate in this way may be subjected to the sanctions of Rule 219(c), including an order debarring him or her from rejecting the award.²³ A finding by arbitrators that a party failed to participate in the hearing in good faith and in a meaningful manner constitutes prima facie evidence of that fact and will not be set aside unless it is against the manifest weight of the evidence.²⁴

Without the arbitrator's finding of bad faith, it is usually inappropriate for the trial court to determine independently that a party rejecting the award did not participate in good faith.²⁵ However, an arbitrators' "bad faith" finding is by no means a prerequisite to the trial court's authority to make that finding and, as a sanction, debar a party from rejecting an award.²⁶ Evidence of bad faith includes, but is not limited to, the failure of a party to present evidence in support of his or her case-in-chief or to provide any defense whatsoever at the arbitration hearing.²⁷

Promptly after the hearing, the arbitrators shall make a written award that disposes of all claims for relief.²⁸ The award will not be disturbed unless a gross error of judgment in law or mistake of fact is apparent upon the face of the award.²⁹ Judicial review of an arbitration award is even more limited in scope than an appellate court's review of a trial court's decision, and a court must construe an arbitration award so as to uphold its validity.³⁰

Consequently, a party who challenges the validity of an arbitration award must prove it improper by clear and convincing evidence.³¹ Correction of an award is limited to obvious and unambiguous errors in mathematics or language.³² Errors in judgment or mistakes of law or fact are not bases for seeking correction or modification; the only remedy is rejection of the award.³³

II. Right to Reject Arbitration Award

A. Before 1993 Amendments

Rule 93 governs the procedure for rejecting an arbitration award. Like Rules 90 and 91, rule 93 was amended in 1993. Prior to the amendments, *Weisenburn v Smith*³⁴ was the seminal case concerning the right to reject – and debarment from rejecting – arbitration award.

In *Weisenburn*, the court considered whether the defendant waived his right to reject the arbitration award because he had not appeared at the arbitration hearing pursuant to Rule 237(b) notice. The court held that the failure to appear was not a waiver of the defendant's right to reject the award because the defendant's counsel was present at the hearing.³⁵ The court reasoned that although a party may be sanctioned for failure to attend the hearing pursuant to Rule 237(b) notice, where a party's attorney appears at the hearing instead, the party has preserved his or her right to reject the award.³⁶ Accordingly, debarment of a party from rejecting the award was deemed an inappropriate sanction where at least counsel appeared at the hearing.³⁷

In *Allstate Insurance Co. v Pena*,³⁸ the court also held that despite the defendant's failure to appear pursuant to Rule 237(b), he did not waive his right to reject the arbitration award since he was represented by counsel at the hearing. Justice Inglis dissented in *Pena*, noting that the rejection of an award under Rule 93 is an entirely separate question from a Rule 237 violation. Justice Inglis stated that the defendant may have preserved his right to reject the award under Rule 93(a) by the appearance of his attorney, but it was a reasonable sanction on him to lose that right for violating Rule 237.³⁹

B. After 1993 Amendments

The vision expressed in Justice Inglis' dissent is the prevailing view espoused in today's case law. In light of the amendments to Rules 90(g), 91(b), and 93(a), *Weisenburn* and its progeny are of questionable validity.

In 1993, Rule 91(b) was adopted to provide sanctions, including debarment from rejection of an award, for a party's failure to participate in the arbitration hearing in good faith and in a meaningful manner.⁴⁰ Rule 90(g) was also amended to provide that courts could debar rejection of an award as a sanction for failing to comply with Rule 237.⁴¹ In addition, Rule 93(a) was amended to provide that filing a notice of rejection is not effective as to any party who is debarred from rejecting an award, even if the party was present at the arbitration hearing in person or by counsel.⁴² This amendment makes Rule 93 consistent with Rules 90(g) and 91(b), which allow a court to debar a party from rejecting the award.

In a case of first impression, the appellate court in *Williams v Dorsey*⁴³ interpreted the 1993 amendments to Rules 90, 91, and 93 and considered the interplay of these rules and Rule 237. In *Williams*, the trial court debarred the defendants from rejecting the arbitration award after they failed to appear at the hearing pursuant to Rule 237(b) notice. On appeal, the defendants argued they did not waive the right to reject the award because they were represented by counsel at the arbitration hearing. The defendants cited *Weisenburn* after considering the amendments to the mandatory arbitration rules. The

court agreed with the defendants that they did not waive their rights to reject the award by not appearing personally at the arbitration hearing. However, that fact did not preclude the trial court's entry of an order debaring the defendants from rejecting the award as a sanction for failure to comply with Rule 237(b).⁴⁴ "Under Illinois' rules, parties have the right of rejection – unless they are subjected to a sanction debaring rejections."⁴⁵

Accordingly, even a party who was present by counsel at the arbitration hearing may be debarred from rejecting the award as a sanction, particularly where he or she has failed to present evidence or defend against a claim. This rationale has been reaffirmed in other court decisions.⁴⁶

C. Who May File a Written Rejection?

In sum, under Rule 93(a), only a party who was present at the arbitration hearing, either in person or by counsel, may file a written notice of rejection of the award.⁴⁷ The phrase "either in person or by counsel" refers to the party's presence at the hearing; it does not specify who must file or sign the notice of rejection.⁴⁸

Accordingly, where a party appears personally or through counsel at the hearing, the court will allow either the party, his or her counsel, or another attorney in that law firm to sign and file the notice of rejection.⁴⁹ However, a court will not allow a non-lawyer or legal secretary to affix an attorney's signature to the rejection notice.⁵⁰

Although a party who has appeared at the hearing, either in person or by counsel, may reject an award for any reason, filing a notice of rejection is not effective if the party is debarred from rejecting the award.⁵¹ If a debarred party files a notice of rejection, the attempt to reject is not effective and the trial court may properly enter judgment on the award.⁵²

If the award is not rejected within 30 days of its filing, any party who was present at the hearing may move the court to enter judgment on the award.⁵³ This rule expressly places the obligation on the parties to move the court to enter judgment on an arbitration award; the court cannot do so sua sponte.⁵⁴

III. Constitutional Challenges to Rules

As indicated above, rules 90(g) and 91(b) were amended in 1993. Both rules have withstood constitutional challenge, and it is unlikely that future challenges to any of the rules governing mandatory arbitration will be successful.

Rule 90(g) has been challenged on the basis that the supreme court lacked authority to enact the rule because section 2-1004A of the Code of Civil Procedure⁵⁵ allows a party to reject an arbitration award. However, although section 2-1004A allows a party to reject an award, it also recognizes the supreme court's authority to limit the right of rejection as prescribed by rule.⁵⁶

In this case, the supreme court has seen fit to bar litigants from rejecting an award and proceeding to trial when they fail to comply with certain procedural rules. Furthermore, even if Rule 90(g) conflicted with section 2-1004A, the rule would prevail over the statute.⁵⁷

In addition, Rule 90(g) has been questioned on constitutional grounds. The primary contention is that Rule 90(g) is unconstitutional because it deprives unsuccessful litigants of the right to a jury trial. The Illinois Appellate Court has repeatedly rejected this argument, finding that the rule does not foreclose a litigant's access to court or a jury trial.⁵⁸ Although the rules allow a party to reject an arbitration award for any reason, a party may lose that right as a sanction for violating discovery or procedural rules.⁵⁹ Moreover, since the supreme court itself promulgated Rule 90(g), it is "all to sanguine" to argue the rule is an unconstitutional infringement upon the right to a jury trial.⁶⁰

Rule 91(b) has also been challenged as an unconstitutional infringement upon the right to a jury trial. The appellate court has rejected this argument as well, noting that "it would be absurd to conclude that the authority of a trial court to debar a party from rejecting an arbitration award as a sanction for failing to comply with arbitration rules is somehow constitutional if imposed under Rule 90(g) but not under Rule 91(b)."⁶¹

IV. Sanctions

Although sanctioning is the province of the trial court, the court's powers are not absolute. Its discretion is limited by the dictates of the rules governing mandatory arbitration. Accordingly, it has been held that the court cannot impose sanctions prospectively, anticipating that the party will violate future discovery orders.

In *Moon v Jones*,⁶² the trial court entered an order granting the plaintiff's motion to vacate the judgment entered on the arbitration award. The court later imposed sanctions on the plaintiff that barred her from rejecting any future arbitration awards, regardless of whether she attended the arbitration hearings or participated in good faith and in a meaningful manner. This was an abuse of discretion.⁶³

The appellate court stated that the intent of the rules governing mandatory arbitration was only to allow the court to debar a party from rejecting the award from the present hearing, not future hearings. The court explained that while the trial court has discretion to refuse an absent party a trial or a new arbitration hearing, the court may not, once it has excused the party's absence, redefine that litigant's rights with regard to the new arbitration or trial.⁶⁴ To do so, in effect, would rewrite the applicable supreme court rules and redefine the litigant's rights to a new arbitration hearing.⁶⁵

In two recent cases, the appellate court also ruled on whether sanctions may be imposed pursuant to Rule 91(b) for a party's alleged failure to participate in good faith in the entire arbitration process, not just the hearing.

In both *Knight v Guzman*⁶⁶ and *Webber v Bednarczyk*,⁶⁷ the issue was whether sanctions under Rule 91(b) were justified for the lack of good faith in rejecting the award after full participation in the hearing. The appellate court rejected this contention, holding that Rule 91(b) does not provide for sanctions for what parties do or do not do prior to or after an arbitration hearing; it only concerns itself with the parties' conduct during the arbitration hearing.⁶⁸

The court in *Knight* and *Webber* also rejected the contention that sanctions may be imposed under Rule 91(b) as punishment for a law firm's track record in rejecting numerous awards.⁶⁹ The court noted that a law firm's rejection of numerous awards is more appropriately the subject of attorney disciplinary proceedings, and that although the integrity of the arbitration system is threatened by the unjustified rejection of awards, Rule 91(b) sanctions are not available to punish such conduct.⁷⁰

Logic dictates this conclusion. Otherwise, innocent parties would suffer sanctions of debarment for their attorneys' conduct in past, unrelated arbitration proceedings.

V. Recent Cases

A. Attorney Fees

1. The Illinois Supreme Court's *Cruz* Case

Many questions concerning attorney fees in the context of mandatory arbitration have arisen as of late. In *Cruz v Northwestern Chrysler Plymouth Sales*,⁷¹ the Illinois Supreme Court harmonized its rules governing mandatory arbitration with statutory provisions for attorney fees. The court held that attorney fees authorized by statute and prayed for in the complaint, but not requested during the arbitration hearing, cannot be awarded by the court after judgment is entered on the award.

In *Cruz*, the plaintiffs argued that Rules 86 through 95 do not empower arbitrators to address the issue of statutory attorney fees, which is more properly a matter for the trial court. The plaintiffs noted that statutory attorney fees are awarded only to prevailing parties. However, a person who receives an arbitration award is not a prevailing party until after the court enters judgment on the award. Thus, arbitrators are without jurisdiction to decide the issue of fees because no prevailing party is identified at that point.

The defendants argued in response that arbitrators have authority to award attorney fees pursuant to Rules 92(b) and 90. Rule 92(b) provides that the award shall dispose of all claims for relief, and Rule 90 allows arbitrators to decide the facts and law of the case. The defendants also argued that limiting the power of the arbitrators to award fees is contrary to the goal of mandatory arbitration, which is to release some of the burden from the courts. The objective of easing the burden from the courts is especially valid in cases involving attorney fees, which are often the sine qua non of the case.

The supreme court agreed with the defendants that arbitrators have the power to decide fees under Rule 92(b), which provides that the award shall dispose of all claims for relief.

The supreme court held that every claim a plaintiff has, including attorney fees, must be submitted to an arbitration panel along with other claims for relief. A claim for statutory attorney fees is as much a claim for relief under Rule 92 as is a prayer for damages.

2. Rule 90 – No Longer a Promising Route to Attorney Fees

At least until *Cruz* came down, a strong argument could be made that, pursuant to Rule 90, attorney fees were for the court to decide because it is an ancillary issue that arises after the hearing.

Rule 90(a) provides that the arbitrators shall have the power to determine the admissibility of evidence and to decide the law and facts of the case.⁷² However, ancillary issues and issues that may arise prior to or subsequent to the hearing must be resolved by the court.⁷³ Tying into the plaintiffs' argument that there is no prevailing party until after judgment is entered on the award, logic dictates the conclusion that the issue of fees is an ancillary issue and arises subsequent to the hearing.

An analogy can be drawn to *Maher v Chicago Park District*,⁷⁴ where the court considered the issue of setoff under the Joint Tortfeasor Contribution Act.⁷⁵ In *Maher*, after the court entered judgment on the arbitration award, the defendant filed a motion to reduce the judgment in the amount of the settlement from a joint tortfeasor. The plaintiff contended that the defendant waived its right of setoff by failing to present the setoff claim to the arbitrators and not rejecting the award.

The appellate court disagreed, reasoning that a motion to reduce a judgment by a setoff amount is an ancillary issue that can be resolved by the court and that filing a notice of rejection would have been inappropriate.⁷⁶ Accordingly, the circuit court had authority to consider and allow the defendant's contribution claim, notwithstanding the defendant's failure to present the issue to the arbitration panel.

Following the *Maher* reasoning, an argument could have been made in *Cruz* that the plaintiffs did not waive their right to attorney fees because fees constitute an ancillary issue that can be resolved by the court. However, given the supreme court's language in *Cruz*, that the claim for fees is equivalent to a prayer for damages and often the crux of the case, it is likely that the supreme court would have rejected the characterization of fees as "ancillary" under Rule 90.

3. Summary of Law Governing Fees in Mandatory Arbitration

Once the arbitration panel makes a decision concerning the issues raised, the award is an all-or-nothing proposition that must be either accepted or rejected in its entirety. If a party fails to raise the issue of attorney fees at the hearing, he or she is deemed to have waived the right to fees by accepting the award. A party who is unsatisfied that the award does not provide for fees may reject it and proceed to trial.

Additionally, if the arbitrators' award does not specify a statutory basis for relief and authorization of fees, a party must decide whether to accept or reject the award without fees as total recovery. Unfortunately, the party may not seek clarification of the award,

