SENATE JUDICIARY COMMITTEE Senator Thomas Umberg, Chair 2023-2024 Regular Session

SB 365 (Wiener)

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SUBJECT

Civil procedure: arbitration

DIGEST

This bill prohibits the staying of civil legal proceedings during the pendency of an appeal of a denial or dismissal of a petition to compel arbitration.

EXECUTIVE SUMMARY

Under California law, the power to appeal is wholly statutory and is generally from a final judgment or order. While in civil actions those rights are generally provided under Code of Civil Procedure Section 904.1, existing law also specifically enumerates the orders from which appeal may be taken in relation to arbitration. Code of Civil Procedure Section 1294 is a statutory right to appeal the dismissal or denial of a petition to compel arbitration. When a defendant appeals an order dismissing or denying a petition to compel arbitration, it stays the proceedings during the pendency of the appeal.

Proponents of this bill argue that corporate defendants are abusing the automatic stay when a motion to compel arbitration is denied by the trial court and then appealed by the defendant, using it as a delay tactic causing real harm to consumers and workers. This bill provides that there shall be no stay of the proceedings when an order dismissing or denying a motion to compel arbitration is appealed.

The bill is co-sponsored by Attorney General Rob Bonta, the California Employment Lawyers Association, and the Consumer Attorneys of California. It is supported by an array of labor groups and public prosecutors, including the California Teamsters Public Affairs Council and the San Diego and San Francisco City Attorneys' Offices. It is opposed by a variety of business groups, including the California Chamber of Commerce who argue it improperly strips courts of discretion and is preempted by federal law.

PROPOSED CHANGES TO THE LAW

Existing law:

- 1) Establishes the California Arbitration Act (CAA), which governs arbitrations in California, including the enforcement of arbitration agreements, rules for neutral arbitrators, the conduct of arbitration proceedings, and the enforcement of arbitration awards. (Code Civ. Proc. § 1280 et. seq.)
- 2) Establishes the Federal Arbitration Act (FAA), which provides that a written provision in any maritime transaction or a contract evidencing a transaction involving commerce to settle by arbitration a controversy thereafter arising out of such contract or transaction, or the refusal to perform the whole or any part thereof, or an agreement in writing to submit to arbitration an existing controversy arising out of such a contract, transaction, or refusal, shall be valid, irrevocable, and enforceable, save upon such grounds as exist at law or in equity for the revocation of any contract. (9 U.S.C. § 2.)
- 3) Authorizes appeals in civil actions to the Court of Appeal of specified orders and judgments, including:
 - a) from a judgment, except an interlocutory judgment or a judgment of contempt, as provided;
 - b) from an order made after a judgment;
 - c) from an order granting a motion to quash service of summons or granting a motion to stay the action on the ground of inconvenient forum, or from a written order of dismissal following an order granting a motion to dismiss the action on the ground of inconvenient forum;
 - d) from an order granting a new trial or denying a motion for judgment notwithstanding the verdict;
 - e) from an order granting or dissolving an injunction, or refusing to grant or dissolve an injunction;
 - f) from an order made appealable by the Probate Code or the Family Code;
 - g) from an interlocutory judgment directing payment of monetary sanctions by a party or an attorney for a party, as provided; or
 - h) from an order granting or denying a special motion to strike. (Code Civ. Proc. § 904.1.)
- 4) Authorizes an aggrieved party to appeal from the following orders:
 - a) an order dismissing or denying a petition to compel arbitration;
 - b) an order dismissing a petition to confirm, correct, or vacate an award;
 - c) an order vacating an award unless a rehearing in arbitration is ordered;
 - d) a judgment entered pursuant to this title; and
 - e) a special order after final judgment. (Code Civ. Proc. § 1294.)

- 5) Provides that, except as specified, the perfecting of an appeal stays proceedings in the trial court upon the judgment or order appealed from or upon the matters embraced therein or affected thereby, including enforcement of the judgment or order, but the trial court may proceed upon any other matter embraced in the action and not affected by the judgment or order. (Code Civ. Proc. § 916(a).)
- 6) Provides that there is a stay of proceedings other than the enforcement of the judgment, the trial court shall have jurisdiction of proceedings related to the enforcement of the judgment as well as any other matter embraced in the action and not affected by the judgment or order appealed from. (Code Civ. Proc. § 916(b).)
- 7) Requires a court, upon petition of a party to an arbitration agreement alleging the existence of a written agreement to arbitrate a controversy and that a party thereto refuses to arbitrate such controversy, to order arbitration of the controversy if it determines that an agreement to arbitrate the controversy exists, unless it determines certain conditions exist, including that the right to compel arbitration has been waived by the petitioner or grounds exist for the rescission of the agreement. (Code Civ. Proc. § 1281.2.)
- 8) Provides that a party may not appeal an order compelling arbitration until after final judgment, but may, under extraordinary circumstances, seek a writ of mandate to request review of the ruling by the court of appeal in advance of the arbitration hearing. (Laufman v. Hall-Mack Co. (1963) 215 Cal.App.2d 87; United Firefighters of Los Angeles v. City of Los Angeles (1991) 231 Cal.App.3d 1576; Mid-Wilshire Associates v. O'Leary (1992) 7 Cal.App.4th 1450.)

This bill prohibits the staying of civil legal proceedings during the pendency of an appeal of a denial or dismissal of a petition to compel arbitration, notwithstanding Section 916 of the Code of Civil Procedure.

COMMENTS

1. Arbitration and appeals

Arbitration is an alternative method for resolving legal disputes. Instead of going through the formal, public court process, the parties to the dispute submit their evidence and legal arguments to a private arbitrator (or a panel of arbitrators) who decides the case. Critics of arbitration point out that it can be one-sided, especially when it is forced upon the party with much less bargaining power, and that it lacks the transparency of the public court system, among other things.

Currently, when a plaintiff brings suit against a defendant based upon claims covered by an arbitration agreement, the defendant may petition the court to compel the

plaintiff to arbitrate the controversy. Pursuant to Section 1281.2 of the Code of Civil Procedure, the court is required to order the petitioner and the respondent to arbitrate the controversy if it determines that an agreement to arbitrate the controversy exists. Section 1281.2 provides a number of exceptions, however.

Prior to 1961, California courts widely held that neither an order compelling arbitration, nor an order denying a petition to compel arbitration is an appealable order. These cases relied on United States Supreme Court cases that held a ruling as to the right to arbitration is interlocutory and not appealable as a final judgment, and the fact that such orders were not enumerated among those made appealable under then-Section 1293, the precursor to today's Section 1294.¹ As a result, whether or not the court granted or denied a party's petition to compel arbitration, parties on both sides of the issue were limited to appealing the order after judgment – either from the award made in arbitration, or from the judgment entered after trial.

The Legislature changed the law in 1961, based on the recommendations of a California Law Revision Commission (CLRC) report examining California laws on arbitration. The CLRC recommended that California law provide for an appeal of an order denying a motion to compel arbitration in order to "be in conformity with the present spirit of the statute and with the similar provision in Section 19 of the Uniform Arbitration Act." The resulting law, Section 1294 of the Code of Civil Procedure, currently provides for a statutory right to *immediately* appeal the dismissal or denial of a petition to compel arbitration. It does not, however, provide for a parallel right of immediate appeal if the motion to compel has been granted.² Furthermore, when a party immediately appeals a denial or dismissal of a petition to compel arbitration, Section 916 of the Code of Civil Procedure then operates to stay the proceedings pending that appeal.³

In other words, under existing law, when a plaintiff files an action in court and the defendant's petition to compel arbitration is denied or dismissed, the defendant has the ability to immediately appeal the order as a matter of right and does not have to await final judgment in the matter. The proceedings are then halted pending that appeal. In contrast, the plaintiff who opposes the validity or the applicability of the arbitration agreement in that dispute and who wishes to proceed to trial is not permitted to immediately appeal an order compelling arbitration and must wait until after arbitration is complete to appeal from the final arbitration award. At best, the plaintiff, under extraordinary circumstances, may seek a writ of mandate to obtain interlocutory appellate review of the matter before proceeding to arbitration pursuant to the court order. A writ of mandate, unlike an appeal that is a matter of right, is discretionary; a

¹ (Sjoberg v. Hastrof (1948) 33 Cal.2d 116, 118-119, citing Shanferoke Co. v. Westchester Co. (1935) 239 U.S. 449 and Schoenamsgruber v. Hamburg Line (1935) 294 U.S. 454; Jardine-Matheson Co., Ltd. v. Pacific Orient Co. (1929) 100 Cal.App. 572; Fischer v. Superior Court (1930) 105 Cal.App. 466.)

² Code Civ. Proc. § 1294(a).

³ See also, Varian Med. Sys., Inc. v. Delfino (2005) 35 Cal. 4th 180, 190 ("an appeal from the denial of a motion to compel arbitration automatically stays all further trial court proceedings on the merits.")

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court has the discretionary power to issue a writ only in those exceptional circumstances that warrant such interlocutory review.

Attorneys for workers and consumers have repeatedly raised concerns that this uneven playing field denies their clients justice:

Powerful corporations abuse this appeal right to force lengthy delays on plaintiffs seeking justice – during which time important documents disappear, key witnesses move away, and witnesses' memories fade. Corporate defendants are appealing even in instances where there clearly is no arbitration agreement such as in cases brought by the city attorney and Attorney General. In *People of the State of California v. Uber and Lyft, et al.*, a coordinated government enforcement action by the Attorney General, the California Labor Commissioner, and the City Attorneys of San Francisco, Log Angeles, and San Diego against Uber and Lyft for misclassifying their workers as purported "independent contractors," the companies filed meritless motions in an attempt to compel the case into private arbitration.

The court ruled against Uber and Lyft because the government agencies did not sign the arbitration agreements and therefore could not be bound by them. But, due to the one-sided provision in the Code of Civil Procedure that places the court case on pause if an appeal is filed – even though no arbitration clause even existed to bind the State or Labor Commissioner to arbitration – Uber and Lyft were able to file a frivolous appeal to delay the State's case and prevent it from proceeding until the appeal is resolved. These delays typically last one to three years.

Attempts to "level the playing field"

In 2011, AB 1062 (Dickinson, 2011) would have addressed the identified disparity between defendants and plaintiffs by largely reducing the ability to appeal a dismissal or denial of petition to compel arbitration on an interlocutory basis. That bill would have generally required both parties to await final judgment to appeal the motion. That bill was ultimately gutted and amended and failed passage.

SB 1065 (Monning, Ch. 628, Stats. 2016) sought to take a narrower approach by addressing only the specific harm that arises for elderly individuals who have been granted a trial preference under other applicable law, and who bring claims under the Elder and Dependent Adult Civil Protection Act. It would have prevented an interlocutory appeal of an order denying arbitration under Section 1294 under these limited circumstances. Ultimately, the bill was amended to simply provide for an expedited review by the appellate courts of appeals in such cases.

This bill again approaches the issue with a narrower solution. While still maintaining the right of a party to immediately appeal an order dismissing or denying a petition to compel arbitration, it holds that such an appeal must not stay the proceedings in the trial court during the pendency of the appeal, notwithstanding Section 916. Therefore, should a court find grounds to deny a petition seeking to force the parties to arbitration, the proceedings will continue simultaneously with the appeals process.

According to the author:

Senate Bill 365 allows consumers, workers, and public entities to continue their court cases when a trial court rules that a forced arbitration agreement is invalid. Current law allows corporate defendants to pause a consumer, government, or worker's case by simply filing an appeal of a trial court's denial of a motion to compel arbitration. Through this process, powerful corporations delay cases filed against them for typically one to three years. This bill allows consumers, governments, or workers to move their case forward if a company files an appeal, rather than waiting for years while the appeal is heard. SB 365 will level the playing field for consumers, governments, and workers who deserve to move their case forward when a company or employer violates their rights.

Concerns have been raised that allowing a case to move forward pending the appeal could risk wasting judicial resources, especially should an appeal drag on so long that the case went to trial.

3. Stakeholder positions

The California Employment Lawyers Association and the Consumer Attorneys of California, co-sponsors of the measure, make the case for the bill:

SB 365 will put consumers and workers back on track toward justice by allowing them to continue their court cases while a corporation's appeal of a court's denial of the corporation's motion to compel arbitration is pending. Specifically, SB 365 amends Code of Civil Procedure § 1294 to establish that an appeal of a court's decision denying a corporation's motion to compel arbitration will not stay the consumer or worker's court proceedings in the trial court while the appeal is pending. Therefore, the consumer or worker's case can continue to move forward at the same time that the appeal is being considered.

The issue of corporations filing appeals only to delay justice has become increasingly problematic as current law allows corporate defendants to effectively freeze a worker or a consumer's case – often for years at a time

- by simply filing an appeal. Californians have an urgent need to address this delay tactic that obstructs access to justice.

The Church State Council writes in support of the bill:

The Church State Council represents workers denied religious accommodation or otherwise suffering employment discrimination, harassment and/or retaliation because of their religious practices. Too often, these cases are delayed for years by appeals to denial of arbitration. In one such case, currently pending, the plaintiff sued Charter Communications in September, 2019, nearly four years ago! It took three years to resolve the arbitration issue, so that the case could proceed.

Justice delayed is no justice at all for workers who lose their jobs. In our cases, workers lose their jobs for no other crime than seeking to practice their religious beliefs. SB 365 is an important measure to keep the wheels of justice turning.

Writing in opposition, the California Chamber of Commerce argues:

It is clear that the true motive behind SB 365 is an attempt to eliminate the use of arbitration agreements altogether. SB 365 incorrectly assumes that all appeals related to arbitration are meritless. It also undermines the judicial principles embodied in Code of Civil Procedure section 916 and eliminates a trial court's inherent right to stay its own proceedings.

Attorney General Rob Bonta, also a co-sponsor, writes in support:

The denial of a motion to compel arbitration is a rare instance in which the law allows an immediate appeal of a trial court ruling that occurs other than at the end of a case. Notably, workers and consumers are not afforded the same luxury. Existing law does not allow a worker or consumer the same automatic appeal rights and a pause on the arbitration when the court grants a company's petition to move the case to private arbitration. Corporate defendants are appealing even in instances where there clearly is no valid arbitration agreement. This specific issue deserves attention, with more than half of America's workforce forced to sign forced arbitration clauses as a condition of employment.5 These agreements are becoming more common for consumers too, as a precondition to using certain websites and apps that are embedded into modern day living.

Defendants have even employed these tactics in an effort to derail law enforcement proceedings. For example, defendant corporations filed interlocutory appeals following the denial of their motions to compel arbitration in both *People v. Handy Technologies* (Cal. Super. Ct., No. CGC21590442), brought by the district attorneys of Los Angeles and San Francisco, and *People v. Maplebear, Inc.* (Cal. Super. Ct., No. 37-2019-00048731-CU-MC-CTL), brought by the City Attorney of San Diego.

This important bill will improve Californians' access to justice, by allowing a worker's or consumer's case to proceed when a court denies a motion to compel arbitration, denials that have already been made in public and private enforcement cases in California. As these meritless appeals and stays continue, so too is justice denied.

4. Interaction with federal law

The California Chamber of Commerce also puts forth the argument that the bill is likely preempted by the Federal Arbitration Act (FAA):

By requiring litigation to continue in every case during the appeal of a denial of a motion to compel, SB 365 undercuts the benefits of arbitration in providing a speedier, less costly forum in which to resolve disputes. Similar to the Ninth Circuit's analysis of AB 51, it is clear that the intent behind SB 365 and its impact of forcing litigation in every case where an appeal is pending is to have a deterrent effect on a company's willingness to enter into arbitration agreements. That is "antithetical" to the "liberal federal policy favoring arbitration agreements." A state law "evincing hostility toward arbitration" is in direct conflict with the equal-treatment principle.

Further, SB 365 "singles out arbitration provisions as an exception" to the law. It does so by removing appeals related to the denial of a motion to compel arbitration from the purview of Code of Civil Procedure Section 916 as well as eliminating a trial court's inherent power to grant a discretionary stay in that circumstance only. SB 365 is clearly preempted by the FAA.⁴

The FAA provides:

A written provision in any maritime transaction or a contract evidencing a transaction involving commerce to settle by arbitration a controversy thereafter arising out of such contract or transaction, or the refusal to perform the whole or any part thereof, or an agreement in writing to

⁴ Citing *Chamber of Commerce of the United States v. Bonta* (9th Cir. 2023) No. 20-15291, 2023 U.S. App. LEXIS 3586, at *16-17, throughout.

submit to arbitration an existing controversy arising out of such a contract, transaction, or refusal, shall be valid, irrevocable, and enforceable, save upon such grounds as exist at law or in equity for the revocation of any contract.⁵

The concept of preemption derives from the "supremacy clause" of the federal Constitution, which provides that the laws of the United States "shall be the supreme Law of the Land." 6 Courts have typically identified three circumstances in which federal preemption of state law occurs:

(1) express preemption, where Congress explicitly defines the extent to which its enactments preempt state law; (2) field preemption, where state law attempts to regulate conduct in a field that Congress intended the federal law exclusively to occupy; and (3) conflict preemption, where it is impossible to comply with both state and federal requirements, or where state law stands as an obstacle to the accomplishment and execution of the full purpose and objectives of Congress.⁷

In assessing whether a state law is preempted by the FAA, three key aspects of the law surrounding arbitration and preemption are especially relevant. First, the federal courts have ruled that the FAA was intended to promote arbitration.⁸ Second, state laws or rules that interfere with the enforcement of arbitration agreements are preempted, except on such grounds as exist at law or in equity for the revocation of any contract.⁹ Third, state laws that explicitly or covertly discriminate against arbitration agreements as compared to other contracts are also preempted.¹⁰

Relevant here, in *Bielski v. Coinbase, Inc.*, No. C 21-07478 WHA, 2022 U.S. Dist. LEXIS 65689, at *1 (N.D. Cal. Apr. 8, 2022), the Federal Court for the Northern District of California denied the defendant cryptocurrency corporation's motion to compel arbitration. The court subsequently denied the defendant's motion to stay the proceedings pending appeal. The court found that a denial of a motion to compel arbitration does not result in an automatic stay of proceedings pending appeal of that order, but rather requires the court to apply a series of factors to determine whether to issue a stay pending appeal. The Ninth Circuit Court of Appeals upheld the denial of a stay. 12

⁶ U.S. Const., art. VI, cl. 2.

⁵ 9 U.S.C. § 2.

⁷ English v. Gen. Elec. Co. (1990) 496 U.S. 72, 78-80.

⁸ Epic Sys. Corp. v. Lewis (2018) ____U.S.___ [138 S.Ct. 1612, 1621].

^{9 9} U.S.C. Sec. 2; AT&T Mobility LLC v. Concepcion (2011) 563 U.S. 333, 339.

¹⁰ Epic Sys. Corp., 138 S.Ct. at 1645-1646.

¹¹ *Id.*, at *2.

¹² It should be noted that the decision does not have any legal effect on the state of the law in California.

The United States Supreme Court recently granted a petition for certiorari filed by the defendant in *Coinbase*.¹³ The appeal seeks to resolve a circuit split on the issue of whether a lawsuit in federal court should be automatically stayed pending an appeal of a decision denying a motion to compel arbitration. Similar to California law, the FAA provides that when a district court denies a motion to compel arbitration, the party seeking arbitration may file an immediate interlocutory appeal. However, a circuit split exists over whether the appeal automatically requires the district court proceedings to be stayed until the appeal is resolved or whether the district court retains the discretion to proceed with litigation while an appeal is pending.

Federal courts in California and other states thus find the continuation of proceedings during the pendency of an appeal of a denial of a motion to compel arbitration does not upset the goals and purpose of the FAA. One federal court has explicitly found that "a federal policy favoring arbitration 'does not, by itself, require a stay.'"¹⁴

In should also be noted that the statute, even with the changes made by this bill, explicitly favors arbitration agreements by granting defendants the right to appeal a *denial* of a motion to compel arbitration on an interlocutory basis but providing no such right when such motions are granted.

SUPPORT

Attorney General Rob Bonta (co-sponsor)

California Employment Lawyers Association (co-sponsor)

Consumer Attorneys of California (co-sponsor)

California Conference Board of the Amalgamated Transit Union

California Conference of Machinists

California Rural Legal Assistance Foundation

California Teamsters Public Affairs Council

Church State Council

Consumer Federation of California

Consumer Watchdog

Consumers for Auto Reliability and Safety

Courage California

Engineers and Scientists of California, IFPTE Local 20, AFL-CIO

Equal Rights Advocates

Roots of Change

San Diego City Attorney's Office

San Francisco City Attorney's Office

 $^{^{13}}$ The petition also included a request to review a similar denial of a stay by the Ninth Circuit in *Suski v. Coinbase, Inc.*, No. 22-15209, 2022 U.S. App. LEXIS 14737, at *1 (9th Cir. May 27, 2022).

¹⁴ Bielski v. Coinbase, Inc., No. C 21-07478 WHA, 2022 U.S. Dist. LEXIS 101748, at *4 (N.D. Cal. June 7, 2022).

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San Francisco District Attorney Brooke Jenkins SEIU California Smart Justice California TechEquity Collaborative UFCW Western States Council UNITE-HERE, AFL-CIO Utility Workers Union of America, AFL-CIO

OPPOSITION

Acclamation Insurance Management Services

Allied Managed Care

Anaheim Chamber of Commerce

CalBroadband

California Apartment Association

California Association for Health Services At Home

California Association of Health Facilities

California Attractions and Parks Association

California Beer and Beverage Distributors

California Business Properties Association

California Chamber of Commerce

California Defense Counsel

California Employment Law Council

California Farm Bureau

California Hotel & Lodging Association

California League of Food Producers

California Lodging Industry Association

California Restaurant Association

California Retailers Association

California Trucking Association

Carlsbad Chamber of Commerce

Chino Valley Chamber of Commerce

Civil Justice Association of California

Coalition for Small and Disabled Veteran Businesses

Coalition of California Chambers - Orange County

Construction Employers' Association

Corona Chamber of Commerce

Elk Grove Chamber of Commerce

Flasher Barricade Association

Fontana Chamber of Commerce

Gilroy Chamber of Commerce

Greater Coachella Valley Chamber of Commerce

Greater High Desert Chamber of Commerce

Greater Riverside Chambers of Commerce

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Hollywood Chamber of Commerce

Housing Contractors of California

Independent Lodging Industry Association.

La Canada Flintridge Chamber of Commerce

La Verne Chamber of Commerce

Laguna Niguel Chamber of Commerce

Murrieta Wildomar Chamber of Commerce

Norwalk Chamber of Commerce

Official Police Garage Association of Los Angeles

Orange County Business Council

Palos Verdes Peninsula Chamber of Commerce

Paso Robles Chamber of Commerce

Rancho Cordova Area Chamber of Commerce

Roseville Area Chamber of Commerce

San Juan Capistrano Chamber of Commerce

Santa Barbara South Coast Chamber of Commerce

Santa Clarita Valley Chamber of Commerce

Santa Maria Valley Chamber of Commerce

Santee Chamber of Commerce

Simi Valley Chamber of Commerce

South County Chambers of Commerce

Templeton Chamber of Commerce

Tri County Chamber Alliance

Tulare Chamber of Commerce

Vista Chamber of Commerce

Walnut Creek Chamber of Commerce

West Ventura County Business Alliance

Western Electrical Contractors Association

RELATED LEGISLATION

Pending Legislation: SB 716 (Alvarado-Gil, 2023) enacts the Excluded Employee Arbitration Act to permit an employee organization that represents an excluded employee who has filed certain grievances with the Department of Human Resources to request binding arbitration of the grievance if specified conditions are met. This bill is currently in the Senate Labor, Public Employment and Retirement Committee.

Prior Legislation:

AB 272 (Kiley, Ch. 146, Stats. 2021) authorizes a minor to disaffirm a provision in an educational institution's enrollment agreement that purports to waive a legal right, remedy, forum, proceeding, or procedure, arising out of a criminal sexual assault or criminal sexual battery, as defined, on that minor regardless of whether a parent or legal guardian has signed the enrollment agreement on the minor's behalf.

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SB 1065 (Monning, Ch. 628, Stats. 2016) See Comment 2.

AB 1062 (Dickinson, 2011) See Comment 2.
