Greetings IMSCA Members

An issue that deserves our attention is the decline of the condition of our country’s infrastructure. A recent account of ten cars falling into a sinkhole in a small town in Maryland made the daily news cycle, but focusing long term public attention on the issue of infrastructure is a difficult task. Nonetheless, infrastructure, which includes such things as roads, bridges, trains, harbors and airports, is crucial to our global competitiveness as a nation, and to our quality of life and the quality of our children’s lives. There is little disagreement amongst political leaders of all persuasions at the local, state and national level – we must do more to improve the quality of our infrastructure, or at least to arrest its decline. The difficulty lies in marshaling the substantial resources needed to address such a vast and ongoing problem. Though the dilapidation of our national infrastructure is everybody’s problem, because of the construction industry’s more immediate understanding of the issues and its greater impact on our industry, we should accept a greater responsibility to publicize the issue and rally our fellow citizens and leaders to a solution.

Infrastructure has not been a priority in the United States for several decades, but our global competitors have been making infrastructure improvement an important component of their growth. By some estimations, we have been under-investing for more than 40 years, resulting in an antiquated and feeble infrastructure in dire need of attention. If we are to continue to expand our economy, enhance the ability of our citizens to obtain resources efficiently and increase our exports around the world, we must improve our infrastructure.

At a recent Congressional hearing on the problem of deteriorating infrastructure, a representative of Illinois based Caterpillar testified about the difficulties posed to domestic manufacturers struggling to be competitive in a global market. He pointed out that Caterpillar was being forced to import and export goods through Canadian ports and to avoid using certain road and train routes in the United States because of their poor condition, adding to the cost of producing materials for United States’ manufacturers. Of course, global competitiveness isn’t the only problem caused by declining infrastructure; infrastructure disrepair makes goods and services more costly domestically as well. In poor rural areas as well as run down city neighborhoods, resources and opportunities are unavailable or more difficult to attain without adequate and efficient transportation to jobs, markets and schools.

In 2013 the American Society of Civil Engineers (ACSE) released its latest in a series of Report Cards for America’s Infrastructure, giving America’s cumulative infrastructure a grade of D+. Aviation scored a D; bridges a C+; inland waterways a D-; ports a C; rail a C+; and roads a D. The United States is now ranked 15 in the World Infrastructure Ranking by the World Economic Forum in the “Global Competitiveness Report 2012-2013.” As recently as 2005 the U.S was rated number one.

Some examples of concerns raised in the Report Card include: i) One in nine of the nation’s bridges are rated as structurally deficient – the average age of the nation’s 607,380 bridges is currently 42 years; ii) Currently, 32% of America’s major roads are in poor or mediocre condition, costing U.S. motorists $67 billion a year, plus addi-
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Legislative Representation for over 2,000 Construction Employers
Imagine that an employee comes to you and asks for time off from work under the Family and Medical Leave Act (FMLA) so that she can take her dying mother on one last trip to Las Vegas. You think that you’re safe in declining that request, because the FMLA only allows eligible employees to take up to 12 weeks of unpaid leave “to care” for a parent or other immediate relative who has a serious health issue. You conclude that vacationing in Vegas doesn’t constitute care.

If the employee sues you for an FMLA violation, then you will win that case before it goes to trial, right? Not according to the federal appellate court in Chicago.

The U.S. Court of Appeals for the Seventh Circuit ruled in late January 2014 that FMLA leave to help an immediate relative with a serious health condition speaks in terms of care, not “treatment,” and that nothing in the FMLA restricts where an employee must provide that care. In Ballard v. Chicago Park District, the court noted that the employee had approached her supervisor and requested FMLA leave in writing so that she could take her dying mother on vacation. Ballard claimed that the Park District authorized her request, so she went on vacation with her mother. But the Park District fired her months later, stating it had never authorized the absences accumulated during the trip.

Ballard sued the Park District, claiming that her trip to Las Vegas with her mother was covered by the FMLA because she cared for her dying mother during their time there. The Park District, however, asked the trial court to enter summary judgment in its favor, arguing that the FMLA did not cover her absences during the trip because Ballard’s mother did not travel to Las Vegas for medical treatment, and that Ballard did not “care for” her mother on vacation.

The trial court rejected the Park District’s argument, and the Park District appealed.

The appellate court’s opinion noted that if Ballard had sought FMLA leave
to care for her mother in Chicago, then such leave surely would have been covered. Similarly, the court noted, if Ballard’s mother had lived in Las Vegas rather than with her daughter in Chicago, and Ballard had requested leave to care for her mother in Las Vegas, the FMLA would have allowed Ballard to go to Las Vegas to care for her mother. The court therefore decided that as long as an eligible employee seeks FMLA leave to care for an immediate relative with a serious medical condition covered by the act, the employer must grant it — even if care is to be given on a vacation.

The court noted that the FMLA itself does not define care. But, the court said, the U.S. Department of Labor’s regulations define the term to include helping an immediate relative with medical, hygienic and nutritional needs, driving them to doctor’s appointments, and psychological comfort and reassurance. (Certainly, most of us could use some psychological comfort and reassurance after a day or two in Las Vegas.)

The appellate court therefore returned the case to the district court for a trial on the merits.

The appellate court noted that other appellate courts around the country have come to different conclusions on this issue. Eventually, the U.S. Supreme Court will have to decide the question.

In the meantime, employers in Illinois, Wisconsin and Indiana may want to err on the side of caution and grant employees FMLA leave to take one last vacation with an immediate relative with a serious health condition.
The value of arbitration is diminished for the Illinois Construction Industry

By David J. Lloyd

The merits of arbitration are widely touted as a means by which construction contract conflicts can be resolved quickly, inexpensively, and with a finality that cannot be achieved in subcontractor/general contractor disputes that are resolved through litigation in court. That is why some contract forms include provisions for the parties to use arbitration to resolve their differences.

However, with the passage of time, judicial decisions addressing issues raised by arbitration in combination with changes to the Illinois statutes defining a subcontractor’s rights in arbitration have made arbitration more complicated, more expensive, and its results more uncertain than ever. This tends to magnify the consequences of other long-standing defects in the arbitration process to the point where one must discount the benefits of selecting arbitration over litigation. A review of recent developments illustrates this point.

What is the scope of the arbitration? The standard answer is that the scope of the arbitration (i.e. the definition of what can be decided by the arbitrator and who can participate as a party in the arbitration) is defined by the terms of the contract arbitration clause. That works so long as the contract language is clear and the parties are in agreement about what the arbitration clause allows. However, when the arbitration clause is broad, its scope is unclear, and the parties do not agree about whether a dispute is covered, Illinois courts have decided it is the arbitrator who decides both whether the issue is arbitrable and which side wins in the dispute. In short, a subcontractor signing an arbitration agreement can find itself arbitrating issues it never wanted to have arbitrated as well as arbitrating with or without the participation of entities it never thought it had involved in the proceedings in the first place. When the subcontractor considers how arbitration rulings on such questions are reviewed by the courts, this is a matter of major concern.

Where will the arbitration take place and what law applies? The Illinois legislature enacted a statute known as the Illinois Building and Construction Contract Act (an IMSCA initiative) which states that, for any construction contract to be performed in the State of Illinois, contract clauses requiring dispute resolution in other states or requiring the use of the law of other states to resolve those disputes are unenforceable. Subcontractors can rely on that statute unless the contract has an arbitration clause and the contract involves interstate commerce. If interstate commerce is involved, the Federal Arbitration Act nullifies the protection provided by the Illinois Building and Construction Contract Act. Thus, an Illinois subcontractor who agrees to an arbitration clause with an out-of-state supplier or general contractor could find itself traveling out of state, to hire out of state lawyers, to arbitrate a dispute out of state under a different state’s laws. That likely is not

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what the subcontractor anticipated when it signed the contract.

Will arbitration save a subcontractor money? The answer to this question is, “Maybe.” Most arbitrations allow more limited pretrial discovery disclosures than would be allowed to the parties had they decided to resolve their dispute in court. The rights of the parties to file motions attacking the other’s claims can also be severely curtailed. The thought is that these limitations act in combination to streamline litigation and save costs. However, if the contract arbitration clause is silent on what rules apply to the arbitration or the rules identified in the contract are ambiguous, then the rules of procedure in arbitration are, themselves, something that may have to be litigated in arbitration along with the merits of the dispute.

There are still discovery costs in arbitration (most often involving productions of documents and depositions) while arbitration imposes additional costs which judicial litigation never imposes. A subcontractor who takes his dispute to court does not have to pay for the judge’s salary. In arbitration, the parties typically each pay for half of the arbitrator’s time. Arbitrators often charge an hourly rate that is the same or higher than the subcontractor’s own attorney may be charging. If the arbitration hearing is prolonged (and complicated construction projects commonly can take a long time to present in arbitration), the subcontractor’s half of the arbitrators’ salaries could exceed whatever savings the subcontractor thought it was gaining by choosing arbitration in the first place. Remember, an arbitration award may be overturned on the basis of a claim that the arbitrator refused to hear evidence. This amounts to an invitation for both the arbitrator and the parties to bury an arbitrator with material that a court would never permit.

Has a subcontractor agreed to arbitrate and can it get out of it? Since the right to arbitrate is created by agreement of the parties, if the parties to a construction contract later agree to change their agreement and not arbitrate, they can do so. But, recent Illinois judicial decisions have made the answers to these questions much more uncertain in other circumstances. First, the general rule is that, when parties agree to a valid arbitration clause, they are irrevocably committed to arbitrating all issues clearly falling with the scope of their arbitration agreement. But, what if it is not clear whether the parties have agreed? What if the arbitration clause is not in the subcontract but is buried in some other document the subcontractor may not have read but which one side or the other believes is part of the “contract documents”? Subcontracts can incorporate binding arbitration clauses by reference but Illinois courts have held that whether that has happened in any particular case can depend upon a judicial interpretation of the intent of the parties, the clarity of the incorporation, and the common practices of the construction trade involved. In short, a subcontractor can find itself litigating in court the question of whether it will be settling its disputes in arbitration. As for the “irrevocable commitment” to arbitrate issues falling with the scope of the arbitration clause, at least one recent Illinois judicial decision has called that commitment into question, as well. What if a subcontractor has an agreement with a general contractor or supplier containing an arbitration clause and a mechanics lien is filed? If the party against whom the lien is filed serves the lien claimant with what is known as “a Section 34 Demand” (a statutorily defined demand that a lien claimant file suit to foreclose on the lien within 30 days to avoid forfeiture of all lien rights), the service of such a notice on the lien claimant can constitute a waiver of the arbitration rights the parties had previously agreed to in their contract!

If a subcontractor believes that the arbitrator’s ruling is mistaken, is legal redress in court likely to reverse or vacate the ruling? If a case is resolved through a trial before a court, the losing party always has a right to appeal and to ask the appellate court to review and possibly reverse every critical decision the trial court made. That is not the case for arbitration. Traditionally, Illinois courts have been very reluctant to second-guess an arbitration ruling. Thus, a court should not reverse or vacate an arbitration ruling simply because it believes it would have reached a different conclusion, or because it believes the award is illogical or inconsistent, or because the arbitrator made errors in judgment or mistakes of law or fact. Arbitration laws limit the grounds for overturning awards to cases in which results are based on fraud or corruption, arbitrator partiality or misconduct, arbitrator refusal to hear evidence, arbitrator delays of the hearing, there was no agreement to arbitrate, the arbitrator exceeded his authority, and the award on its face shows a gross error of law or fact or a manifest disregard for the law.

The Illinois arbitration act was amended effective January 1, 2011. The amendments imposed additional requirements on the substance of the award. Because the amendments were recent, their full impact has not yet been worked out by Illinois courts. This has a potentially huge impact on the cost of arbitration and upon the certainty of its outcomes, and it raises a number of questions about arbitration proceedings.

For example, do the increased requirements increase the bases upon which a court can vacate an award? The amendments state that the arbitrator “shall” decide the dispute in accord with any rules of law chosen by the parties? What if the arbitrator does not? What if the parties do not agree?

As another example, the amendments state that the arbitrators shall rule in accord with the terms of the parties’ contract while taking into account the usages of the trade applicable to the matters at hand. What if the arbitrator does not? What if the usages of the trade and the terms of the contract are in conflict? At the very least, these amendments invite the losing party in arbitration to submit far more information and to make far more elaborate arguments before a trial or appellate court than would have been allowed before the amendments had been made. A party seeking confirmation and enforcement of an arbitration award may easily find itself practically relitigating the arbitration before the trial court in order to prove that the applicable law, contract, and usages of the trade were sufficiently followed by the arbitrator in order to establish that a viable and enforceable award has been rendered.

With the increased uncertainty of arbitration, it is less likely to save time and money for the parties.
Avoiding Mistakes to Protect your Mechanics Lien Rights

By Mark B. Grzymala

Subcontractors and their attorneys should take extra care when preparing their mechanics lien claims, because mistakes in the claim or notice could result in a loss of the protections afforded by the Illinois Mechanics Lien Act. A mechanics lien claim will be defeated due to an error under any of the following circumstances: (1) if the claimant filed an erroneous claim with an “intent to defraud”; (2) if fraud can be inferred from the conduct of the claimant, which is commonly referred to as constructive fraud; or (3) if the error is of a fact essential to the perfection of the lien claim.

The most common problem is an error of fact in the lien claim. The Mechanics Lien Act sets forth the basic requirements to be included in a lien claim and, for an attorney practicing in the area, usually those are easy to follow. The challenge is when the claim is brought to the attorney on the eve of the deadline or when the necessary information is unknown. For example, a second or third tier subcontractor may be unaware of or have a wrong name of the prime contractor or one of the other subcontractors. Sometimes, especially when there are construction managers or other agents involved, there can even be uncertainty as to the party with whom the contractor contracted. Further, finding the name of the owner of property or an accurate legal description of the property can be a challenge regardless of whether the property is in a rural part of the state or even in downtown Chicago. Putting all of the necessary information together at the last minute is more likely to result in error and a defective lien.

Another problem that can occur is when a lien claim includes an erroneous date as the last date of furnishing. If the last date of furnishing that is written on the lien claim is more than four months from the date the lien is recorded, the lien will (for most purposes) be unenforceable, even if the actual last date of furnishing was within four months. Furthermore, other defects such as failing to provide a correct description of the contractor’s contract will also cause the lien to be invalid. The lien claim should accurately, though briefly, state the work performed or materials furnished and the name of the party with whom the claimant contracted. In one recent case, a general contractor attempted to enforce a mechanics lien recorded against a homeowner’s property for unpaid work performed for a prior owner. The lien had several defects in that it failed to identify the proper owner, the proper parties to the contract for the improvements, and most importantly...
the last date the contractor finished work was not stated. The court ruled the lien was deficient, dismissed the foreclosure count of the Complaint and ordered the contractor to release the defective mechanics lien from the property. To add insult to injury, the prior owner of the property with whom the contractor originally contracted, was deceased and, therefore, the contractor was left without any remedy!

Unfortunately, if a mistake has already been made in your lien claim, there are limitations on what can be done to fix it. Though the Mechanics Lien Act permits amendments to lien claims, an amended lien claim may not be enforceable against third parties. So, if there are mortgagees or other interested parties involved, an amendment might not help and the lien claimant will be stuck with a defective lien. It is best to avoid these types of issues by making sure your lien claim is as complete and accurate as it can be.

The Illinois Mechanics Lien Act provides a powerful remedy for a subcontractor, as long as the requirements for notice and claiming a lien are carefully followed. Any deviation from the Act or the inclusion in a claim of incorrect information may render it invalid or unenforceable. You should avoid problems with your lien claims by gathering all relevant information early on in the work, and when a payment problem is discovered, contacting an experienced attorney as soon as possible to reduce the risk of preparing a lien claim at the last minute with incomplete or inaccurate information. Taking these steps will help you to protect your right to payment for the work you have performed.
The Spring 2014 legislative session is closing in on its final weeks. IMSCA remains in a good position with our initiatives. In addition, IMSCA has had a successful session playing defense against issues that would have negatively impacted the Illinois construction industry. This has been a relatively quiet session with legislators not taking action on too many overly controversial issues.

IMSCA introduced two legislative initiatives this year, including **SB 3023** (Mulroe / Burke) – legislation to prevent subordination of mechanics liens, and **HB 4769** (Beiser / Haine) – an amendment to the Public Construction Bond Act.

**SB 3023** was introduced to address an issue that was brought to our attention by IMSCA members. We learned that some lenders were attempting to circumvent the legislative fix to the Cypress Creek decision by requiring contractors and subcontractors to subordinate their mechanics lien rights to construction lenders. An enforceable subordination clause gives a lender a priority claim to all proceeds generated by a foreclosure until its mortgage balance, accrued interest, attorneys’ fees and costs have been paid in full. We felt, that if this practice was allowed to continue, subordination clauses would have a chilling effect on the Illinois construction industry. In response to this reality, IMSCA introduced SB 3023.

As expected, IMSCA faced a tough fight against the Illinois Bankers’ Association on this legislation. The bill was assigned to the Senate Judiciary Committee – where committee members made it clear they wanted to see the two industries, contractors and bankers, come to a compromise on the issue. IMSCA lobbyists and President Jim Rohlfing worked tirelessly toward meeting a compromise – and finally those efforts came to fruition with Senate Floor Amendment #3 being adopted by the Senate Judiciary Committee on April 7th. The compromise amendment does two things: 1. prohibits subordination as a condition of a loan contract or sub-contract; and 2. allows a subordination agreement between banks and contractors IF 50% of the construction loan has been paid out. This provision allows the contractor to decide between agreeing to the subordination, or to completely step away from the project. SB 3023 was passed by the full Senate by a vote of 59-0. The legislation has been sent to the House where it is being sponsored by Representative Kelly Burke, and has been assigned to the House Judiciary Committee. We are hopeful this bill will pass the House without any problems.

**HB 4769** seeks to amend the Public Construction Bond Act by requiring sureties to meet certain qualifications. The qualifications would require bonds with a surety to have a certificate of authority from the Department of Insurance. In addition, the company should have a financial strength rating of at least A- as rated by A.M. Best Company, Moody’s, Standard & Poor or other similar rating agency. This bill has passed by the House in April and was recently passed in Senate Committee. This legislation is now waiting to be considered by the full Senate. There is no opposition to this legislation, so we are hopeful this bill will also pass without any problems.

In addition to introducing our own legislation to address issues within the subcontracting industry, your IMSCA lobbying team was also busy monitoring all legislation that was introduced – and when needed, we were on hand to defeat bills that would be bad for our industry. While it is important to keep IMSCA’s legislation alive and moving through the legislative process – it is equally important to kill bad bills. One example of such legislation is **HB 4657** (Turner) – this was the so-called “bonding over” bill.
HB 4657 is an initiative of the Illinois State Bar Association and the title companies. This legislation would have allowed a bond to replace a mechanic’s lien, leaving the contractor with no leverage for payment owed on work completed. IMSCA was vehemently opposed to this proposal. A similar bill was introduced in 2013, which IMSCA was also successful in defeating. HB 4657 was successfully sent to sub-committee this year. We argued this will give the committee ample time to review the complexity of the issue. For purposes of the current session, this bill will not be considered. We will continue to monitor this issue as we are certain it will be resurrected in the future.

HB 5663 (Sims, Jr.) is another piece of legislation that we felt would have been harmful to our industry. This proposal would require a written and executed contract before a subcontractor could have lien rights. For this reason, IMSCA opposed this bill. IMSCA staff was able to learn Representative Sims introduced this legislation on his own volition due to reports of senior citizens being scammed in remodeling construction work. IMSCA staff met with Rep. Sims on two different occasions to discuss options that worked for us and that would also allow Rep. Sims to meet his goal of protecting his constituents. As a result of those meetings, we suggested Rep. Sims look into amending the Home Repair and Remodelers Act, as this may provide a better avenue for him to meet his goal. After our discussions, he agreed protections exist within the Mechanics Lien Act for homeowners – but the knowledge of such protections may not be widespread within the industry. During our meetings with Rep. Sims, he indicated he would file an amendment to HB 5663 – but an amendment was never filed. This bill was held on second reading and was not passed by the House by the third reading deadline. Other issues that arose during session that caused concern within our industry includes HB 5595 (Phelps), SB 3287 (Raoul / Bradley), HB 5701 (Mayfield / Munoz), and SB 123 – a possible amendment (Cullerton).

HB 5595 would have created the ability for out of state contractors to enter Illinois during a declared state disaster to assist with disaster clean-up. If this bill had passed, it would have created many problems for Illinois contractors. HB 5595 specifically stated that the out of state contractors did not have to meet licensing requirements, nor would they have been required to register, file or remit state or local taxes on disaster related work. IMSCA lobbyists spoke with the bill’s sponsor, Rep. Brandon Phelps to discuss our opposition to the idea. Rep. Phelps agreed it was best not to move this bill forward.

SB 3287 eliminates the worker’s compensation immunity enjoyed by service companies that provide safety consulting – unless those companies are wholly-owned by the employer, insurance broker, or the insurer. Many IMSCA members reached out to their lobbying team to voice their concerns with this bill, and IMSCA joined the business industry coalition in opposition of this bill. This legislation would especially hurt small employers. Small employers typically cannot afford nor do they need a full-time safety professional on their staff to address safety issues. That is why they use consulting firms to provide this expertise and to assist in keeping their business compliant with OSHA standards. Despite the concerns of the business community, this bill was recently passed in committee, and is now being considered by the full House. IMSCA continues to reach out to House members to voice our concerns with this proposal.

HB 5701 would apply to employers with more than 15 employees. This proposal would prohibit an employer from inquiring about an applicants’ criminal background until after a job interview has taken place, or in the event there is no interview, until after a conditional offer of employment has been made. This proposal originated from members of the black caucus. The bill is aimed at addressing concerns within their districts regarding their constituents’ abilities to gain employment. The House sponsor negotiated this bill with business groups including the Illinois Retail Merchants Association, and the Illinois Chamber. These negotiations resulted in the original bill being amended, which allowed these groups to remove their opposition. This legislation is supported by many coalitions including the ACLU, Shriver Center, John Howard Association, Chicago Coalition for the Homeless, legal aid groups and the Safer Foundation. This bill was passed by the House and is currently waiting to be heard by the Senate Executive Committee.

Finally, as it goes in the final days of session, last minute proposals seem to make their way around the Statehouse. IMSCA lobbyists have been made aware of an amendment to a shell bill (SB 123) that is being floated around. (As of press time, the amendment has not been filed.) As written, the amendment would permit an action or claim to be filed against a contractor or any subcontractor at any level of a public job by the union, fund or a committee, asserting that wages were not paid pursuant to either the Prevailing Wage Law or a collectively bargained agreement. A full 10% of the whole contract must be withheld by the public agency or entity, and the money must be withheld without showing that the claim is well founded for as long as it takes to resolve the claim. IMSCA lobbyists have reached out to other construction organizations, and we are all in agreement – this is a terrible idea that would be very harmful to the Illinois construction industry. We are monitoring this legislation very closely and we are ready to oppose.

The third reading deadline for bills to be considered by their full chambers is May 23rd. All of the bills mentioned here (that are still alive) have until that date to be passed. The Illinois General Assembly is scheduled to adjourn on May 31st for the remainder of the summer. Your IMSCA lobbying team will continue working hard on these bills until adjournment.

I would also like to take this opportunity to thank all of our IMSCA members who responded to IMSCA Calls to Action on important bills during this session. Your willingness to participate in the legislative process on behalf of IMSCA is not only appreciated – but plays a major role in making sure IMSCA’s voice is heard in Springfield.