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no-fault newsline

A ROAD MAP FOR MOTOR VEHICLE INSURERS AND OWNERS

Michigan Supreme Court reverses *Hodge v State Farm* and holds that District vs. Circuit Court jurisdiction is to be determined by the pleadings alone

By: Drew W. Broaddus **June 7, 2016**

SECREST WARDLE NOTES

"[I]n its subject-matter jurisdiction inquiry, a district court determines the amount in controversy using the prayer for relief set forth in the plaintiff's pleadings, calculated exclusive of fees, costs, and interest." *Hodge v State Farm*, __ Mich __ ; __ NW2d __ (2016) (Docket No. 149043).

However, based upon older Supreme Court precedents – which were left undisturbed by the *Hodge* decision – "[w]hen the circumstances clearly demonstrate that jurisdiction has been obtained by a pleading in bad faith, the case must be dismissed." *Hodge*, __ Mich at __; slip op at 22 (Markman, J., concurring).

* * *

MCL 600.8301(1) provides that, in our state court system, district courts have "exclusive jurisdiction in civil actions when the amount in controversy does not exceed $25,000.00." For suits where the amount in controversy exceeds $25,000.00, however, jurisdiction lies exclusively in the circuit courts. MCL 600.601(1); MCL 600.605.

Despite this bright-line rule, confusion often arises in first-party no-fault litigation,[1] in part because claimants frequently continue to receive accident-related treatment – and incur "allowable expenses" – after their suits are filed. Also, because attorney fees are recoverable under MCL 500.3148(1) whenever "overdue" benefits are "recovered," some attorneys were seemingly willing to forgo larger substantive recoveries in order to avail themselves of a district court forum where § 3148(1) fee awards were considered easier to obtain. The Court of Appeals sought to eliminate some of the confusion (and gamesmanship) in *Moody v Home Owners Ins Co*, 304 Mich App 415 (2014) when it held, among other things, that (1) courts should look beyond the pleadings to determine the amount in controversy, and (2) a district court cannot cure this type of jurisdictional defect by simply capping a judgment at $25,000.

But on June 6, 2016, the Michigan Supreme Court reversed. *Hodge v State Farm*, __ Mich __ ; __ NW2d __ (2016) (Docket No. 149043). After a lengthy analysis of the historical meaning of the phrase "amount in

[1] See *No-Fault Newsline*, February 4, 2015, "*Affiliated Medical v Liberty Mutual:* no-fault provider suits continue to cause confusion with respect to District vs. Circuit Court jurisdiction," by Drew Broaddus.

controversy" in both Michigan and federal jurisprudence, Justice Joan Larsen – in an opinion that all seven Justices signed on to – found that "the statute and court rules are properly read as incorporating the long-settled rule that the jurisdictional amount is determined on the face of the pleadings." *Hodge*, __ Mich at __; slip op at 8. "[I]n its subject-matter jurisdiction inquiry, a district court determines the amount in controversy using the prayer for relief set forth in the plaintiff's pleadings, calculated exclusive of fees, costs, and interest." *Id.* at __; slip op at 12. Absent "bad faith in the pleadings," the "prayer for relief" set forth in the Complaint "controls when determining the amount in controversy…." *Id.*

Hodge arose out of a lawsuit for no-fault damages filed in the 36th District Court. Plaintiff was struck by a car in Detroit. She brought this suit for first-party no-fault benefits against defendant State Farm, which insured the driver who struck her. In two separate parts of her Complaint, Hodge stated that she sought damages "not in excess of $25,000." During discovery, State Farm came to believe that Hodge would present at trial proof of damages in excess of $25,000. Such proofs, in State Farm's view, would take the "amount in controversy" above the district court's jurisdictional limit. State Farm, therefore, filed a motion in limine, seeking to prevent Hodge from presenting evidence of claims exceeding $25,000 and to prevent the jury from awarding damages above that limit. The District Court denied the motion. At trial, Hodge did present proof of injuries exceeding $25,000, including more than $150,000 in attendant-care services alone. At the conclusion of the trial, the jury returned a verdict of $85,957. The 36th District Court then reduced its judgment for Hodge to $25,000 in damages and $1,769 in no-fault interest.

State Farm appealed in the Wayne County Circuit Court, claiming that the amount in controversy exceeded the district court's jurisdictional limit and that capping Hodge's recovery at $25,000 could not cure the defect. The Circuit Court agreed and reversed the District Court's judgment. The Court of Appeals – after consolidating Hodge's appeal with *Moody v Home Owners* – affirmed the Circuit Court's decision, holding that although the district court's jurisdiction "will most often be determined by reviewing the amount of damages or injuries a party claims in his or her pleadings," district courts here were divested of jurisdiction when the "pretrial discovery answers, the arguments of [plaintiff's] counsel before trial and the presentation of evidence at trial," pointed to damages in excess of $25,000. *Moody*, 304 Mich App at 430. But in reversing, the *Hodge* Court made clear that the Complaint alone is dispositive, absent evidence of bad faith; if a plaintiff in district court offers evidence of damages in excess of the jurisdictional threshold, recovery is capped at $25,000.

In order to directly address the forum shopping problem (attorneys choosing district court at the expense of their clients, in order to maximize their chances of being awarded fees), Justice Markman wrote separately to elaborate upon those circumstances where bad faith may warrant looking beyond the pleadings. "[A] court subject to a jurisdictional limit may dismiss a complaint for lack of subject-matter jurisdiction, notwithstanding that the jurisdictional allegations are nominally valid, when the court concludes that those allegations were clearly made in bad faith." *Id.* at __; slip op at 6 (Markman, J., concurring). But because State Farm did not argue bad faith in *Hodge*, the Court was unable to consider whether it occurred in this case. *Hodge*, __ Mich at __; slip op at 12.

Notably, the Court of Appeals' *Moody* decision decided two consolidated appeals (*Moody* and *Hodge*), only one of which was reviewed by the Supreme Court (*Hodge*). The *Moody* Court of Appeals opinion also stated that when the claims of providers and the claims of the injured person are consolidated, it becomes a single controversy for jurisdictional purposes (and the case must be sent to circuit court if the aggregate amount sought exceeds $25,000). The Supreme Court did not address this aspect of the Court of Appeals' holding because the *Moody* plaintiffs voluntarily dismissed their Supreme Court Application (even though the Supreme Court had granted leave). *Hodge*, __ Mich at __; slip op at 3-4. Presumably, that aspect of the *Moody* Court of Appeals opinion remains good law, as that analysis would simply call for adding up the amounts requested in each first-party complaint that arises out of the same accident.

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