PENSIONS - CALIFORNIA

California ex rel. California Dept. of Transp. v. U.S. Dept. of Labor

United States District Court, E.D. California - July 23, 2014 - Slip Copy - 2014 WL 3687540

Under Section 13(c) of the Urban Mass Transportation Act (UMTA), state and local governments seeking federal grants for transit assistance must seek certification from the Department of Labor (DOL) that the "interests of employees affected by the assistance" are protected by "fair and equitable" arrangements. These employee protective arrangements are called 13(c) agreements.

In 2012, California enacted the Public Employees' Pension Reform Act of 2013 (PEPRA). Under PEPRA, new state employees must contribute at least 50 percent of the normal costs of their defined benefit plan. PEPRA also establishes a cap on the amount of compensation that can be used to calculate a retirement benefit for both new and veteran employees.

The DOL has subsequently refused to certify grants to California transit agencies, stating that PEPRA's elimination of certain collective bargaining rights renders it legally impermissible for the DOL to certify fair and equitable employee protective conditions under section 13(c). This has resulted in the withholding of over $1 billion in transportation funding.

In their complaint, filed October 4, 2013, plaintiffs Sacramento Transit and CalTrans challenged DOL's determination that California's enactment of PEPRA prevented 13(c) certification. The complaint raised five claims: (1) DOL's interpretation of PEPRA and Section 13(c) was arbitrary and capricious in violation of the Administrative Procedure Act (APA); (2) DOL acted in excess of statutory authority in denying 13(c) certification; (3) DOL's refusal to grant 13(c) certification is inconsistent with limits on federal power embodied in the Spending Clause and violates the state's fiscal sovereignty in violation of the Tenth Amendment; (4) DOL prejudged the merits of the issues before it and denied plaintiffs due process in violation of APA; and (5) they are entitled to a declaratory judgment.

Because plaintiffs have filed a motion for summary judgment to be heard on August 28, 2014, the court declined to address defendant's motion to dismiss or in the alternative for summary judgment on claims one, two and four at this time and will consider those claims in conjunction with plaintiffs' motion.

This order addresses only the defendant's motion to dismiss the Spending Clause and declaratory judgment claims. The court granted the motion, but gave plaintiffs leave to amend their Spending Clause claim.

The court stated that it cannot evaluate whether plaintiffs have adequately pled the underlying coercive effect of DOL's interpretation of section 13(c) given its intersection with PEPRA, without more information about the relationship between the loss of funds and the total state transit budget or total state budget, thus granting leave to amend.