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PENSIONS - CALIFORNIA

California v. U.S. Dept. of Labor

United States District Court, E.D. California - December 30, 2014 - F.Supp.3d - 2014 WL 7409478

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) “to reform California’s public employee pension systems and to bring the staggering cost of funding such systems under fiscal control.” Under PEPRA, employees hired after January 1, 2013 must contribute at least 50 percent of the normal costs of their defined benefit plan, and PEPRA establishes a cap on the amount of compensation that can be used to calculate a retirement benefit for new and “classic” employees. The law ends the ability of public employees to purchase nonqualified service time, or “airtime,” toward their pensions, with no further applications for such credit accepted after January 1, 2013. In addition, it implements a two percent at age 62 defined benefit for all new non-safety employees and uses the highest average annual compensation over a three-year period as final compensation for pension calculations, excluding bonuses, unplanned overtime and unused vacation or sick leave from this calculation.

Subsequently, certain California transit agencies (“Plaintiffs”) were informed by the DOL that the implementation of PEPRA prevented 13(c) certification due to the DOL’s conclusion that PEPRA infringed on the collective bargaining rights guaranteed by Section 13(c). This ruling had the effect of eliminating all federal funding of state transportation projects. Plaintiffs sued, alleging violations of the Administrative Procedures Act (APA) and the Spending Clause of the U.S. Constitution. Both parties moved for summary judgment.

The District Court held that:

- The DOL’s interpretation of PEPRA and Section 13(c) was arbitrary and capricious in violation of the APA, as PEPRA did change the parameters within which collective bargaining could proceed but did not give a transit agency unilateral authority to eliminate collective bargaining in its entirety (granting Plaintiffs’ motion for summary judgment);
- In rejecting 13(c) certification based on its evaluation of PEPRA’s impact on new employees, DOL misinterpreted the law when it rejected state law defining when a public employee becomes entitled to pension benefits (granting Plaintiffs’ motion for summary judgment); and
- DOL’s refusal to grant 13(c) certification was not inconsistent with limits on federal power embodied in the Spending Clause and did not violate the state’s fiscal sovereignty in violation of the Tenth Amendment (granting Defendant’s motion for summary judgment).

The matter was remanded to the DOL for further proceedings consistent with the order.

