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IN THE UNITED STATES DISTRICT COURT
FOR THE EASTERN DISTRICT OF CALIFORNIA

SACRAMENTO COUNTY RETIRED
EMPLOYEES ASSOCIATION; et al.,

Plaintiffs,

No. CIV S-11-0355 KJM-EFB

vs.

COUNTY OF SACRAMENTO,

ORDER

Defendant.

_____ /
This matter comes before the court upon defendant’s motion for summary judgment. The court heard argument on June 28, 2013. Mark Merin appeared for plaintiffs; Krista Whitman appeared for defendant County of Sacramento. Following hearing, the court allowed brief supplemental filings, after which the matter was submitted. After considering the parties’ briefing and arguments at the hearing, the court GRANTS defendant’s motion for summary judgment.

I. BACKGROUND

On February 8, 2011, plaintiffs Sacramento County Retired Employees Association (“SCREA”), Prestwich, Rogers, Harding, Abernathy, Remson and Flores (collectively “plaintiffs”) filed a putative class action complaint against the County of Sacramento

1 (“County”) on behalf of four subclasses¹ of retired Sacramento County employees, challenging
2 the County’s decision to reduce or terminate a health and dental insurance subsidy for several
3 classes of employees. Compl., ECF No. 1. Plaintiffs allege that since 1980, defendant has
4 provided medical and dental insurance subsidies that assisted County retirees with their medical
5 and dental insurance premiums through the Sacramento County Employee Retirement System
6 (“SCERS”). ECF No. 1 ¶ 2. From 1993 to 2002, the Sacramento County Board of Supervisors
7 (“Board”) provided the subsidies “by resolution and set the amount at the highest HMO premium
8 for non-Medicare eligible retirees.” *Id.* The Board froze the subsidy in 2003 at a maximum of
9 \$244 per month for medical insurance and a flat rate of \$25 per month for dental insurance
10 premiums, without distinguishing between former employees based on management status or
11 union representation. *Id.* In 2007, the Board adopted its Retiree Medical and Dental Insurance
12 Program Administrative Policy for 2008, eliminating subsidies for employees who retired after
13 May 31, 2007. *Id.* ¶ 4. Six unions representing their members who were County employees
14 challenged this action before the California Public Employment Relations Board (“PERB”),
15 which issued a decision on June 30, 2009; according to the complaint, PERB ordered defendant to
16 rescind the subsidy cut. (ECF No. 1 ¶¶ 4-5.) The Board did so, but only for those current and
17 prospective retirees who were represented by the unions in the claim before the PERB. *Id.* ¶ 8.
18 In 2010, the Board reduced the medical insurance subsidy to a maximum of \$144 per month and

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20 ¹ Subclass one consists of “[r]etirees who retired before June 1, 2007, and who were not
21 represented by a union before the PERB who are currently receiving a maximum health
22 insurance subsidy off-set of \$80.64 each month.” Compl., ECF No. 1 ¶ 8. Subclass two consists
23 of “[r]etirees who were informed in 2007 that they would need to retire on or before May 31,
24 2007, in order to be eligible to receive the health insurance subsidy and who did retire prior to
25 June 1, 2007, with the intent to remain eligible for the health insurance subsidy for the duration
26 of their retirement who are now receiving a maximum medical insurance premium off-set for
\$80.64 each month.” *Id.* Subclass three consists of “[r]etirees who retired after May 31, 2007,
who were not represented by a union before the PERB and who are currently receiving no health
or dental insurance subsidy off-set as a result of the changes enacted by the Sacramento County
Board of Supervisors.” *Id.* Subclass four consists of “[r]etirees who were represented by a
union before the PERB who are receiving a maximum medical insurance subsidy of \$244 each
month with an additional \$25 subsidy for dental insurance premiums plus 7% interest as a result
of the PERB ruling.” *Id.*

1 eliminated the dental insurance subsidy for employees who had retired prior to June 1, 2007. *Id.*
2 ¶¶ 3, 7. In 2011, the medical insurance subsidy was reduced to a maximum of \$80.64 per month.
3 *Id.* ¶ 3.

4 Plaintiffs allege four causes of action on behalf of themselves and their putative
5 subclasses: 1) violation of the contract clause of Article I, Section 10 of the U.S. Constitution;
6 2) violation of the contract clause of Article I, Section 9 of the California Constitution;
7 3) violation of the Equal Protection Clause of the Fourteenth Amendment to the U.S.
8 Constitution; and 4) violation of the equal protection clause of Article I, Section 7 of the
9 California Constitution. *Id.*

10 Defendant filed a motion to dismiss in lieu of an answer on April 1, 2011, arguing
11 there was no express contract, it could not be bound by an implied contract, and it had a rational
12 basis for treating the unionized employees differently. ECF No. 8.

13 On March 31, 2012, this court denied the motion to dismiss, relying chiefly on the
14 California Supreme Court's decision in *Retired Employees Association of Orange County, Inc.*
15 *v. County of Orange*, 52 Cal. 4th 1171, 1194 (2011) ("*REAOC III*"),² which found that "under
16 California law, a vested right to health benefits for retired county employees can be implied under
17 certain circumstances from a county ordinance or resolution." *Id.* at 1194. *See* ECF No. 33 at 5.
18 The court also concluded that whether the County could rationally treat the plaintiffs and their
19 putative classes differently than the unionized employees who secured a favorable PERB decision
20 was a question of fact not susceptible to resolution on a motion to dismiss. *Id.* at 10.

21 Defendant filed its answer on April 12, 2012. ECF No. 34.

22 The parties have stipulated to vacating the deadline for filing a class certification
23 motion pending resolution of the instant motion for summary judgment. ECF No. 47.

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26 ² For a discussion of the relevant series of *REAOC* cases, *see* pages 12 to 15 below.

1 II. EVIDENTIARY ISSUES

2 Under Rule 56 this court may consider only admissible evidence in support of or in
3 opposition to summary judgment. “It is well settled that only admissible evidence may be
4 considered by the trial court in ruling on a motion for summary judgment.” *Beyene v. Coleman*
5 *Sec. Servs., Inc.*, 854 F.2d 1179, 1181 (9th Cir. 1988); FED. R. CIV. P. 56(c)(2). A court cannot
6 consider inadmissible hearsay in opposition to a motion for summary judgment. *Orr v. Bank of*
7 *America*, 285 F.3d 764, 773–74 (9th Cir. 2002).

8 A. Defendant’s Request For Judicial Notice

9 The County has asked the court to take judicial notice of a number of official
10 records, including SCERS resolutions regarding the health insurance subsidies; staff reports to the
11 Board, also on the topic of the health insurance subsidies; and the PERB decisions stemming from
12 the County’s changes to the subsidies. Defendant’s Req. for Jud. Notice, ECF No. 44.

13 Under Rule 201 of the Federal Rules of Evidence, a court may take judicial notice
14 of an adjudicative fact which “must be one not subject to reasonable dispute in that it is either
15 (1) generally known . . . (2) or capable of accurate and ready determination by resort to sources
16 whose accuracy cannot reasonably be questioned.” Courts have taken judicial notice of a Board
17 of Supervisors’ resolution and of administrative decisions. *Merced Irrigation Dist. v. Cnty. of*
18 *Mariposa*, ___ F. Supp. 2d ___, 2013 WL 1749904, at *20 (E.D. Cal. Apr 23, 2013) (taking
19 judicial notice of Board of Supervisors’ resolution as matter of public record); *Lee v. City of Los*
20 *Angeles*, 250 F.3d 668, 689 (9th Cir. 2001) (stating a court may take judicial notice of matters of
21 public record); *Mack v. S. Bay Beer Distrib., Inc.*, 798 F.2d 1279 (9th Cir. 1986), *disapproved on*
22 *other grounds by Astoria Fed. Sav. & Loan Ass’n v. Solimino*, 501 U.S. 104 (1991) (taking
23 judicial notice of an administrative board decision). As plaintiffs do not contest their authenticity,
24 this court takes judicial notice of the documents contained in ECF Nos. 44-1 through 44-5.

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1 B. Plaintiffs' Exhibits

2 Plaintiffs' counsel has submitted a number of exhibits attached to his declaration,
3 including a copy of an article from *The Sacramento Bee*; a report submitted to the County by
4 CPA Richard Green; the United States Governmental Accounting Standards Board (GASB)
5 Statement 45, referenced in Mr. Green's report; and literature issued by the County's Department
6 of Employee Relations and Benefits to new retirees. In addition, counsel reports on the results of
7 questionnaires he mailed to SCREA members in an effort to determine their understanding of the
8 nature of the health insurance subsidy.

9 The newspaper article plaintiffs offer is hearsay: even if the statement plaintiffs
10 seek to admit satisfies some hearsay exception, the author of the article has not provided a
11 declaration affirming what County Counsel Ryan said. *Larez v. City of Los Angeles*, 946 F.2d
12 630, 642 (9th Cir. 1991); *Green v. Baca*, 226 F.R.D. 624, 637-38 (C.D. Cal. 2005). At oral
13 argument, counsel conceded the article is hearsay; it is disregarded.

14 Plaintiff's counsel also attests to the results of a questionnaire he mailed to
15 SCREA members. The results of surveys are not automatically inadmissible; criticisms of the
16 format of the questions or the manner in which the survey was taken generally go to weight,
17 rather than admissibility. *See Fortune Dynamic, Inc. v. Victoria's Secret Store Brand Mgmt.*, 618
18 F.3d 1025, 1036 (9th Cir. 2010). In this case, because counsel has not provided the questions,
19 the court is unable to evaluate their format or content. At oral argument, counsel described the
20 questionnaire as "elaborate" and did not dispute opposing counsel's characterization that it called
21 for narrative answers. As the court cannot determine from counsel's description how he derived
22 his conclusions from the narrative responses to the questionnaires, the court will not consider the
23 summary. *See Gibson v. Cnty. of Riverside*, 181 F. Supp. 2d 1057, 1071 (C.D. Cal. 2002)
24 (declining to consider a chart under Rule 1006 when the county "ha[d] not even detailed with any
25 particularity the methods employed in the investigation or its results." (emphasis in original)).

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1 Moreover, even though counsel said he mailed the questionnaire to all the SCREA
2 members he could locate, he does not explain what percentage of County retirees are SCREA
3 members. Accordingly, the fact that 85 percent of those responding believed they were entitled to
4 a lifetime subsidy is of no weight.

5 III. ANALYSIS

6 A. Standard

7 A court will grant summary judgment “if . . . there is no genuine dispute as to any
8 material fact and the movant is entitled to judgment as a matter of law.” FED. R. CIV. P. 56(a).
9 The “threshold inquiry” is whether “there are any genuine factual issues that properly can be
10 resolved only by a finder of fact because they may reasonably be resolved in favor of either
11 party.” *Anderson v. Liberty Lobby, Inc.*, 477 U.S. 242, 250 (1986).³

12 The moving party bears the initial burden of showing the district court “that there
13 is an absence of evidence to support the nonmoving party’s case.” *Celotex Corp. v. Catrett*, 477
14 U.S. 317, 325 (1986). The burden then shifts to the nonmoving party, which “must establish that
15 there is a genuine issue of material fact” *Matsushita Elec. Indus. Co. v. Zenith Radio Corp.*,
16 475 U.S. 574, 585 (1986). In carrying their burdens, both parties must “cit[e] to particular parts
17 of materials in the record . . . ; or show [] that the materials cited do not establish the absence or
18 presence of a genuine dispute, or that an adverse party cannot produce admissible evidence to
19 support the fact.” FED. R. CIV. P. 56(c)(1); *see also Matsushita*, 475 U.S. at 586 (“[the
20 nonmoving party] must do more than simply show that there is some metaphysical doubt as to the
21 material facts”). Moreover, “the requirement is that there be no *genuine* issue of *material*
22 fact Only disputes over facts that might affect the outcome of the suit under the governing

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25 ³ Rule 56 was amended, effective December 1, 2010. However, it is appropriate to rely
26 on cases decided before the amendment took effect, as “[t]he standard for granting summary
judgment remains unchanged.” FED. R. CIV. P. 56, Notes of Advisory Comm. on 2010
amendments.

1 law will properly preclude the entry of summary judgment.” *Anderson*, 477 U.S. at 247-48
2 (emphasis in original).

3 In deciding a motion for summary judgment, the court draws all inferences and
4 views all evidence in the light most favorable to the nonmoving party. *Matsushita*, 475 U.S. at
5 587-88; *Whitman v. Mineta*, 541 F.3d 929, 931 (9th Cir. 2008). “Where the record taken as a
6 whole could not lead a rational trier of fact to find for the non-moving party, there is no ‘genuine
7 issue for trial.’” *Matsushita*, 475 U.S. at 587 (quoting *First Nat’l Bank of Arizona v. Cities Serv.*
8 *Co.*, 391 U.S. 253, 289 (1968)).

9 B. Undisputed Facts

10 As the admissible facts are generally undisputed, the court refers to the County’s
11 Statement of Undisputed Facts and in some instances to Plaintiffs’ Separate Statement of
12 Undisputed Facts as the sources of the following factual recitation. The court discusses the
13 impact of any relevant disputed facts in the discussion of the merits below.

14 In 1977, the County’s Board of Retirement⁴ approved a \$25 a month health
15 insurance subsidy for retirees for the year 1978 only, but discontinued it for the year 1979. In
16 1980, the Sacramento County Board of Supervisors approved a plan to provide a premium
17 subsidy to retirees, not to exceed \$30 a month, to be paid from the excess earnings account of the
18 retirement fund, which would be subject to annual reaffirmation by the Board of Retirement.
19 Pl.’s Response to Def.’s Statement of Undisputed Facts, ECF No. 48-1 ¶ 1. The resolution giving
20 effect to the subsidy stated it was payable only so as long as there were excess earnings available
21 in the retirement fund. ECF No. 48-1 ¶ 1. The Board of Retirement adopted the resolution and

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23 ⁴ A county’s Retirement Board is an administrative agency, created by the County
24 Employees Retirement Law of 1937, which is independent from the county itself and which
25 manages a county employee retirement system. *Bd. of Retirement of the Kern Cnty. Emp.*
26 *Retirement Ass’n v. Bellino*, 126 Cal. App. 4th 781, 791 (2005); *Howard Jarvis Taxpayers’*
Ass’n v. Bd. of Supervisors of Los Angeles Cnty., 41 Cal. App. 4th 1363, 1373 (1996); CAL.
GOV’T CODE § 31450, et seq.

1 approved it on an annual basis until 1993. *Id.*; Def.'s Response to Pl.'s Statement of Undisputed
2 Facts, ECF No. 50 ¶¶ 2–4.

3 In 1993, the Board of Supervisors issued a resolution that did several things,
4 effective June 30, 1994: it adopted Government Code section 31592.4; changed the funding
5 source for the retirees' subsidy so it would be paid from excess earnings from the Sacramento
6 County Employees' Retirement System; noted this arrangement would mean that health care
7 subsidies would remain non-taxable to retirees; and finally resolved it would make annual
8 determinations of the level of the retiree health benefit subsidy, if any. ECF No. 48-1 ¶ 2; ECF
9 No. 44-2 at 18-19; ECF No. 50 ¶ 13. The Board subsequently adopted governing rules for the
10 Retiree Health Care Benefits Program. ECF No. 44-2 at 36-43. Beginning in 1994, the Board
11 adopted a policy to govern eligibility for, and access to, health insurance plans and subsidies for
12 the subsequent year. ECF No. 48-1 ¶ 4.

13 In 2003, the funding source changed from excess earnings from the SCERS system
14 to allocated charges to County departments. ECF No. 48-1 ¶ 3; ECF No. 44-3 at 83.

15 In 2006, the Board made changes to the Retiree Medical and Dental Program
16 Administrative Policy, but later rescinded the changes. ECF No. 48-1 ¶ 5.

17 On June 5, 2007, the Board adopted a Retiree Medical and Dental Insurance
18 Program Administrative Policy for 2008, which provided that those who retired on or before
19 May 31, 2007 would continue to receive the subsidy, but which eliminated the subsidy for all
20 those retiring after May 31, 2007. ECF No. 48-1 ¶ 6; ECF No. 44-4 at 19-20, 26. This change to
21 the policy of providing subsidies to retirees interrupted the practice that had until then been in
22 place for 27 continuous years. ECF No. 50 ¶ 1.

23 Six unions filed unfair labor practice charges, challenging the County's failure to
24 meet and confer with union representatives before eliminating the medical and dental insurance
25 subsidy for current employees. ECF No. 48-1 ¶ 6; ECF No. 44-5 at 10. In January 2008, an
26 Administrative Law Judge (ALJ) held hearings on all the cases and issued Proposed Decisions in

1 each, concluding generally that the County breached its duty to meet and confer with a number of
2 unions. ECF No. 44-5 at 20-21, 45, 67. The ALJ proposed that the County cease and desist from
3 unilateral implementation of the policy and make those affected by the changes whole. *Id.* In
4 June 2009, PERB upheld the ALJ's decisions, finding that the County committed an unfair labor
5 practice by unilaterally implementing the changes in eligibility to participate in the subsidy
6 program without fulfilling its obligation to bargain in good faith, ordering the County to rescind
7 the change, and to make whole those impacted by the unlawful change. ECF No. 44-5 at 4, 26,
8 50-51. The County complied with the PERB order. ECF No. 1 ¶ 8.

9 On June 10, 2008, while a final PERB decision was pending, the Board adopted its
10 annual Retiree Health Policy for the year 2009, making no eligibility changes. On August 25,
11 2009, it adopted the Policy for 2010, reducing the subsidy to a maximum of \$144 a month. On
12 September 28, 2010, the Board approved the policy for 2011, this time reducing the subsidy to
13 \$80.64. ECF No. 48-1 ¶ 9.

14 For the last twenty years, since 1993, the Board's Retiree Health Policies have
15 expressly stated that the Retiree Health Program does not create any contractual, regulatory or
16 other vested entitlement to health care benefits; since 2003, the policies also state that subsidies, if
17 provided, are not a vested benefit. ECF No. 48-1 ¶¶ 12-13. In addition, in the years that the
18 subsidies were approved by the Board of Retirement, the resolutions provided the payments
19 would terminate after one year unless extended. ECF No. 48-1 ¶ 14.

20 In addition, pension payroll inserts mailed from 1983 to 1997 informed retirees
21 about Board action on the subsidies, always observing that extensions of the subsidy were
22 effective for the period of a year. Decl. of Suzanne Likarich & Ex. 45, ECF No. 43-1. From
23 1983 to 1986, the inserts say "[t]his extension was granted, effective [date], for a period of one
24 year." ECF No. 43-1 at 1-3. In 1987 and 1989, the inserts say "[t]his extension was approved for
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1 a period of one year” *Id.* at 4-5.⁵ In 1989, the inserts not only notified retirees that the
 2 extension was for the period of a year, but also that the subsidy is not a vested benefit and is
 3 “provided subject to annual review by the Board and may be cancelled whenever the Board
 4 deems it appropriate.” ECF No. 43-1 at 5, 7-9. In 1992, the insert notified retirees that the health
 5 insurance subsidy had been reduced, though it was extended at this reduced level for a year. ECF
 6 No. 43-1 at 10. During this same time period, letters from the County’s retirement administrator
 7 stated that the plan “does not create any contractual, regulatory, or other vested right or
 8 entitlement to either present or future retirees . . . to any particular level of subsidization of health
 9 care costs, or to subsidization at all.” *See, e.g.*, ECF No. 43-1 at 13, 15, 18. Similarly, employee
 10 handbooks stated generally that the subsidy is provided on a year-to-year basis, may be cancelled
 11 or not renewed by the Board at any time, and is not a vested benefit; retirement checklists and
 12 planning guides provided the same information. *See, e.g.*, ECF No. 43-1 at 24, 26, 38; ECF
 13 No. 43-2 at 23 (stating that the insurance offset “[i]s not a vested benefit and may be changed or
 14 discontinued by the Board of Supervisors”).

15 SCREA itself sent periodic newsletters to its members and letters to the Board of
 16 Retirement and thereafter to the Board of Supervisors, recognizing that the subsidy “must be
 17 reapproved on an annual basis or “respectfully requesting that your Board authorize the

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 20 ⁵ Plaintiffs dispute this fact, noting that the inserts say that the subsidy is provided subject
 21 to annual review by the Board, “the understanding being that the amount of the subsidy might
 22 change depending upon the cost of the insurance premiums and the availability of funds for the
 23 subsidy.” ECF No. 48-1 ¶ 15. The court quotes directly from representative inserts, finding
 24 their language undisputed. To the extent plaintiffs ask the court to draw a particular inference,
 25 they have not cited to any evidence supporting the claimed inference and the court thus
 26 disregards their claimed dispute. *Palila v. Hawaii Dept. of Land & Natural Res.*, 639 F.2d 495,
 497 (9th Cir. 1981) (“[Parties] cannot withstand a motion for summary judgment by simply
 asserting that facts are disputed. Sufficient evidence supporting a claimed fact must be
 submitted to create a genuine factual issue.”); *Murphy v. Sebit LLC*, No. CV-12-1509-PHX-FJM,
 2013 WL 1499003, at *1 (D. Ariz. Apr. 10, 2013) (stating that any disputed fact that a party does
 not support with admissible evidence is insufficient to defeat summary judgment); FED. R. CIV.
 P. 56(c)(1)(A) (stating that a party asserting that a fact is disputed must support the assertion by
 citing to particular parts of material in the record).

1 continuance of the Health Insurance Premium Subsidy . . . and give consideration to increasing
2 the subsidy amount” ECF No. 43-2 at 56, 62, 64.

3 C. First and Second Causes of Action

4 Defendant argues that plaintiffs cannot succeed on a claim under either the state or
5 federal contract clauses because there was no contract between the County and its employees to
6 provide a full health insurance subsidy to employees after their retirement. Def.’s Mem. P. & A.,
7 ECF No. 41 at 11.

8 Plaintiffs argue both that there is an implied contract and implied contractual term,
9 arising from the County’s enactment of the Retiree Premium Subsidy and from “a multitude of
10 acts,” including the County’s practice since 1980 of enacting resolutions providing the subsidy,
11 the county’s intent to use excess earnings to provide a subsidy, the County’s adoption of
12 Government Code section 31592.4 to permit the payment of the subsidy in conformance with the
13 Internal Revenue Code, and the County’s adoption of task force recommendations designed to
14 enhance the County’s ability to guarantee continued subsidies. Pls.’ Mem. P. & A., ECF No. 15
15 at 9, 16.

16 i. The Contract Clauses

17 The constitutions of the United States and California forbid the state from passing
18 laws that impair the obligation of contracts. U.S. CONST. ART. I, § 10, cl. 1; CAL. CONST., ART. 1,
19 § 9. To succeed on the Contract Clause claim, a plaintiff must show that “he or she has a contract
20 with the state, which the state, through its legislative authority, has attempted to impair.” *Univ. of*
21 *Hawaii Prof’l. Assembly v. Cayetano*, 183 F.3d 1096, 1101 (9th Cir. 1999). The first inquiry has
22 three parts: “whether there is a contractual relationship, whether a change in law impairs that
23 contractual relationship, and whether the impairment is substantial.” *RUI One Corp. v. City of*
24 *Berkeley*, 371 F.3d 1137, 1147 (9th Cir. 2004) (quoting *Gen. Motors v. Romein*, 503 U.S. 181,
25 186 (1992)); *Hanford Exec. Mgmt. Emp. Ass’n v. City of Hanford*, No. 1:11-cv-0828-AWI-DLB,
26 2012 WL 603222, at *6 (E.D. Cal. Feb. 23, 2012); *Fourth La Costa Condominium Owners*

1 *Ass'n v. Seith*, 159 Cal. App. 4th 563, 584 (2008) (applying same analysis to California contract
2 clause claim). Defendant's motion addresses only the contractual relationship and relies on
3 several recent cases to argue that no such relationship exists. Plaintiffs counter that the same
4 cases demonstrate there are disputed issues of material fact as to the existence of the contractual
5 relationship, precluding summary judgment.

6 ii. *Retired Employees of Orange County* and its Progeny

7 The relevant body of case law begins with a suit filed in the Central District by an
8 association of Orange County retirees, challenging that county's decision to discontinue
9 "pooling" the retirees with active employees to set rates for health care benefits, which ultimately
10 led to higher premiums for the retirees. *Retired Emp. Ass'n of Orange Cnty., Inc. v. County of*
11 *Orange*, 632 F. Supp. 2d 983 (C.D. Cal. 2009) (*REAOC I*). The district court rejected the
12 retirees' argument that an implicit promise to continue the pooling arrangement arose from the
13 Memorandum of Understanding (MOU) in that case and reasoned that only "explicit language in
14 statutes or legislative enactments" gives rise to contractual obligations. *Id.* at 986.

15 The retirees appealed to the Ninth Circuit, which certified the following question
16 to the California Supreme Court: "Whether, as a matter of California law, a California county and
17 its employees can form an implied contract that confers vested rights to health benefits on retired
18 county employees." *See Retired Emp. Ass'n of Orange Cnty v. County of Orange*, 610 F.3d 1099,
19 1101 (9th Cir. 2010) (*REAOC II*).

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1 The California Supreme Court’s decision answering the certified question is the
2 first of the cases cited by both parties. In that case, *REAOC III*, the court concluded:

3 Although Government Code section 25300 does require that
4 compensation of county employees be addressed in an ordinance or
5 resolution, the statute does not prohibit a county from forming a
6 contract with implied terms, inasmuch as contractual rights may be
7 implied from an ordinance or resolution when the language or
8 circumstances accompanying its passage clearly evince a legislative
9 intent to create private rights of a contractual nature enforceable
10 against the county. Whether an implied term creates vested rights,
11 in the absence of a legislative bar, is a matter of the parties’ intent.

12 52 Cal. 4th at 1176-77. The court began its analysis with an examination of California’s law of
13 contracts, observing that contracts may be either express or implied and that even a written
14 contract may include implied terms “‘derived from experience and practice.’” *Id.* at 1178-79
15 (quoting *Scott v. Pac. Gas & Elec. Co.*, 11 Cal. 4th 454, 463 (1995)). It continued that implied
16 terms generally are treated the same as express terms, “‘provided that, ‘as a general matter,
17 implied terms should never be read to vary express terms.’” *Id.* at 1179 (quoting *Carma*
18 *Developers (Cal.), Inc. v. Marathon Dev. California, Inc.*, 2 Cal. 4th 342, 374 (1992)). The court
19 then turned to the certified question, which asked the court to decide, as relevant here, whether
20 counties can form implied contracts with their employees and whether implied contracts can
21 create vested rights. *Id.* at 1179.⁶

22 In answering the first question, the court said that “[w]here the relationship
23 [between the county and the employees] is governed by a contract, a county may be bound by an
24 implied contract (or by implied terms of a written contract), as long as there is no statutory
25 prohibition against such an agreement.” *Id.* at 1183 (emphasis and parentheses in original). The
26 court then turned to Government Code section 25300, which provides that a county board of
supervisors may fix compensation of county employees by resolution or ordinance, and

⁶ As the County does not argue that there cannot be an implied vested right to health care, this court does not discuss the third part of the California Supreme Court’s analysis, answering whether any such implied vested contractual rights can include health benefits.

1 concluded that “a court must look to Board resolutions, including those resolutions approving or
2 ratifying MOU’s . . . to determine the parties’ contractual rights and obligations.” *Id.* at 1184-85.
3 The court added it did not need to decide whether a county may form an implied contract on
4 terms of compensation, because the retirees argued they sought recognition of an implied term of
5 a contract; it continued, “[t]hat matters of compensation must be addressed by resolution does not
6 necessarily bar recognition of implied terms concerning compensation.” *Id.* at 1185.
7 Nevertheless, the court said that a resolution by a county board generally does not establish
8 contract rights because a resolution is generally a means to effect policy. *Id.* It gave two
9 examples of when legislation does create contracts. First, “[w]here . . . the legislation is itself the
10 ratification or approval of a contract, the intent to make a contract is clearly shown.” *Id.* at 1187.
11 Second, ““a legislative intent to grant contractual rights can be implied from a statute if it contains
12 an unambiguous element of exchange of consideration by a private party for consideration offered
13 by the state.”” *Id.* at 1186 (quoting *Cal. Teachers Ass’n v. Cory*, 155 Cal. App. 3d 494, 505
14 (1984)). The court concluded that “legislation in California may be said to create contractual
15 rights when the statutory language or circumstances accompanying its passage clearly . . . evince
16 a legislative intent to create private rights of a contractual nature enforceable against the
17 [governmental body].” *Id.* at 1187 (internal citation, quotation omitted, alteration in original).
18 The court cautioned, however, that “[a] court charged with deciding whether private contractual
19 rights should be implied from legislation . . . should ‘proceed cautiously both in identifying a
20 contract within the language of a . . . statute and in defining the contours of any contractual
21 obligation,’” so that “neither the governing body nor the public will be blindsided by unexpected
22 obligations.” *Id.* at 1188-89 (quoting *Nat’l R.R. Passenger Corp. v. Atchison, Topeka & Santa Fe*
23 *Ry. Co.*, 470 U.S. 451, 466 (1985)). Accordingly a court must presume that legislation is not
24 intended to create contractual or vested rights; the party who claims an ordinance creates a
25 contract has the burden of overcoming the presumption. *Id.* at 1186

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1 In the second part of its opinion, the California Supreme Court rejected the
2 county's argument that it was impermissible to infer vested rights⁷ and said that "[v]esting
3 remains a matter of the parties' intent" and can arise by implication. *Id.* at 1189-90. It noted that
4 whether the retirees had a contractual right to be part of a unified pool that vested when they
5 retired was beyond the scope of the Ninth Circuit's question, but said that "as with any
6 contractual obligation that would bind one party for a period extending far beyond the term of the
7 contract of employment, implied rights to vested benefits should not be inferred without a clear
8 basis in the contract or convincing extrinsic evidence." *Id.* at 1191.

9 After receiving the Supreme Court's decision, the Ninth Circuit remanded the case
10 to the district court "for further proceedings consistent with the answer provided by the California
11 Supreme Court." *Retired Emp. of Orange Cnty. v. County of Orange*, 663 F.3d 1292 (9th Cir.
12 2011) (*REAOC IV*). The district court again rejected the retirees' claim. *Retired Emp. of Orange*
13 *Cnty. v. County of Orange*, Case No. SACV 07-1301 AG (MLGx), 2012 U.S. Dist. LEXIS
14 146637 (C.D. Cal. Aug. 13, 2012) (*REAOC V*). An appeal of this ruling is pending in the Ninth
15 Circuit. *Retired Emp. of Orange Cnty. v. County of Orange*, No. 12-56706 (9th Cir. Sep. 17,
16 2012) (*REAOC VI*).

17 In another recent case, *Harris v. County of Orange*, 682 F.3d 1126 (9th Cir.
18 2012), the Ninth Circuit considered a challenge to Orange County's determination to restructure
19 the retirees' grant to be applied to their health insurance premiums, brought not by REAOC, but
20 by a different group of retirees. The terms and conditions of the grant were contained in sections
21 of the MOU between the county and its active and retired employees and in personnel resolutions
22 for those employees not represented by a union. *Id.* at 1129. After the county adopted changes to
23

24 ⁷ A vested right is one that is "already possessed or legitimately acquired," generally after
25 a person "has rendered services" in reliance on another's representations. Contractual rights
26 arise from the parties' bargain or are implied by their conduct. *Hanford Exec. Mgmt. Emp.*
Ass'n., 2012 WL 603222, at *7. "In the context of public employment, vested contractual rights
are the exception, not the rule." *Id.* at *8.

1 the grant, the retirees filed suit, alleging that the grant was an implied term of the MOU and that
2 they had a contractual right to receive it because its terms were part of the respective MOUs in
3 effect when they retired. *Id.* at 1130.

4 The Ninth Circuit first opined that “[i]n order to state a claim for a contractual
5 right to the Grant, the Retirees must plead specific resolutions or ordinances establishing that
6 right.” *Id.* at 1134. It said the retirees had not done so, but had asked the court to take judicial
7 notice of a number of MOUs, two of which were accompanied by board resolutions adopting
8 them. *Id.* at 1135. The Circuit found these MOUs did not help the retirees satisfy the pleading
9 requirement because “[t]here are no terms or provisions in the MOUs, or in the Board resolutions
10 adopting them, that guarantee the Grant will continue as the Grant existed in the MOUs in place
11 on the dates of retirements. Further, the referenced MOUs, including those adopted by the Board
12 of Supervisors, contain durational language.” *Id.* at 1135. Typical of the durational clauses was
13 this language: “This Memorandum of Understanding sets forth the terms of agreement reached
14 . . . for the period beginning July 23, 1993 through June 23, 1994.” *Id.* at 1135 n.4.

15 The retirees in *Harris* argued that the durational terms were “merely generic
16 statements” that should not be considered for purposes of a motion for judgment on the pleadings.
17 The Ninth Circuit disagreed:

18 the Retirees have failed to plead facts that suggest that the County
19 promised, in the MOUs or otherwise, to maintain the Grant as it
20 existed on the Retirees’ respective dates of retirement. The Retirees
21 also argue that the durational clause in the MOUs is not an
22 indication of when the terms of the MOUs expire. That may be so,
23 but the durational clause surely cannot be the source of a claim that
24 the benefits survive indefinitely.”

25 *Id.* at 1135. The Circuit did find that the district court should have granted the retirees leave to
26 amend because there were other MOUs adopted by the board that might provide a basis for their
claim. *Id.*

The Ninth Circuit returned most recently to the issue of public employee rights in
Sonoma County Association of Retired Employees v. Sonoma County, 708 F.3d 1109 (9th Cir.

1 2013). In that case, the Association alleged the county had breached an obligation to provide
2 vested healthcare benefits in perpetuity. The district court dismissed the original complaint
3 because the Association had not identified resolutions or ordinances creating an express contract
4 for healthcare benefits. *Id.* at 1113. The Association then sought to amend, offering copies of
5 resolutions, MOUs and ordinances, and stating it would provide evidence of the county’s intent
6 “through the testimony of the employees who drafted the County’s resolutions and policies, and
7 through a member of the Board of Supervisors, who would testify as to the Board’s promises and
8 intent” *Id.* The district court nevertheless dismissed the complaint without leave to amend
9 and the Association appealed.

10 On appeal, the Circuit began by examining *REAOC III*’s resolution of the certified
11 question and from that distilled the pleading requirements for the claim before it: the “complaint
12 must plausibly allege that the County: (1) entered into a contract that included implied terms
13 providing healthcare benefits that vested for perpetuity; and (2) created that contract by ordinance
14 or resolution.” *Id.* at 1115.⁸ The Circuit found the Association had satisfied the first of the
15 requirements by alleging that the board had ratified MOUs, which included provisions for county
16 contributions toward retiree health premiums for those hired after 1990 who had worked for the
17 county for at least ten years; and that the benefits were vested for perpetuity based on the county’s
18 “long-standing course of conduct” and claims that employees who had drafted various documents
19 would testify about the background and intent. *Id.* at 1116. It found, however, that the
20 Association had not plausibly pointed to a resolution or ordinance that created the contract
21 implying the benefits and so returned the case to the district court to permit plaintiffs to amend
22 the complaint. *Id.* at 1118.

23 ////

25 ⁸ The Circuit in the decision cited here addresses only two of the *REAOC* cases; the
26 decision refers to the Supreme Court decision identified in this order as *REAOC III* as *REAOC II*,
and to the Circuit’s 2010 decision identified here as *REAOC II*, as *REAOC I*.

1 iii. Application of Law to this Case

2 a. Alleged Express Contract

3 As noted above, in the complaint, plaintiffs allege “there existed a contract
4 between the COUNTY and its employees (now Plaintiff retirees) to provide a substantial health
5 subsidy to its employees upon their retirement, which constituted deferred compensation during
6 the employment relationship that vested upon retirement.” ECF No. 1 ¶¶ 50, 55 (capitalization in
7 original). In their opposition to the motion for summary judgment, plaintiffs argue there is an
8 implied contract arising from “a multitude of acts.” They acknowledge that the legislation
9 effectuating the subsidy “does not itself expressly provide for indefinite entitlement to the
10 subsidy,” but argue that implied terms can be inferred from evidence derived from experience and
11 practice. ECF No. 48 at 10.

12 In their Separate Statement of Undisputed Facts, plaintiffs aver that under various
13 contracts between the County and the County-sponsored medical plans, SCERS was required to
14 maintain a minimum level of subsidy for the retirees’ medical coverage. ECF No. 48-2 ¶ 5. They
15 cite to a report provided to the Board of Supervisors by the Retiree Health Benefit Task Force
16 concerning Government Code section 31592.4. The report said that “[e]xisting contractual
17 arrangements with your Board and the Sacramento County-sponsored medical plans require a
18 minimum level of subsidies for SCERS retirees’ medical plan coverage,” and suggested that
19 should the subsidies be discontinued, these contractual rights might be violated. ECF No. 44-2 at
20 3. Plaintiffs have not presented copies of any such contracts, or pointed to anything else in the
21 record supporting their claim that these contracts existed, or explained how their alleged status as
22 third party beneficiaries of such contracts fits within the framework of the *REAOC* cases.
23 Plaintiffs thus have not raised a disputed issue of fact regarding the existence of an explicit
24 contract. Moreover, the same report provided to the Board of Supervisors confirms this
25 conclusion; it says that “[p]rovision of these health benefit subsidies has been on an ‘annual
26 review’ basis. They are not legally considered ‘vested’ benefits. They may be lowered or

1 eliminated entirely whenever the SCERS Board deems it to be prudent, appropriate and
2 necessary, e.g., whenever excess interest earnings are inadequate or nonexistent. Annuitants are
3 advised annually of the tentative nature of these benefits.” ECF No. 44-2 at 1.

4 b. Retirement Fund Earnings

5 Next, plaintiffs have presented the declaration of John L. Benbow, who served on
6 the County Board of Retirement from 1980 through 1986 and who avers that the Retirement
7 Board would intentionally underestimate the expected earnings of the retirement fund every year,
8 which then resulted in a surplus when compared to actual earnings, which in turn were used to
9 fund the health insurance subsidy. ECF No. 48-8 ¶¶ 2-4. Benbow avers that he does not know
10 when this practice was discontinued and asserts his belief that the Retirement Board’s actions
11 reflect County policy. ECF No. 48-8 ¶ 6. Plaintiffs have presented no other evidence suggesting
12 that this practice was in fact County policy; nor do they point to any authority that a practice
13 admittedly discontinued at some unknown time gives rise to an implicit promise to fund the
14 subsidy in perpetuity. Moreover, even Benbow describes this method as a matter of policy and
15 says nothing about the Board’s ratification of the practice in ordinance or resolution. *See*
16 *REAOC*, 52 Cal. 4th at 1185 (“Policies, unlike contracts, are inherently subject to revision and
17 repeal”) (quoting *Nat’l R.R. Passenger Corp.*, 470 U.S. at 466)).

18 c. Legislation

19 Former County Executive Robert E. Smith declares he believes and believed that
20 legislation drafted by the Retiree Health Insurance Task Force and adopted by the Board in 1991
21 would guarantee retirees’ access to the subsidy and provides a letter expressing that belief; he
22 does not, however, attach the legislation he discussed in that letter. Decl. of Robert E. Smith,
23 ECF No. 48-17 ¶ 3. At argument, plaintiffs clarified that the legislation Robert E. Smith
24 referenced was the County’s adoption of the resolution making the provisions of Government
25 Code section 31592.4 operative in the county which, according to the report, would bring the
26 County in compliance with IRS requirements. *See* ECF No. 44-2 at 2. Plaintiffs have presented

1 nothing else showing that the County’s ultimate determination to make Government Code section
2 31592.4 operative and Task Force’s examination of ways to fund the premium subsidy “if any”
3 translates to a contractual promise to fund the subsidy in perpetuity. ECF No. 44-2 at 18. Indeed,
4 the Resolution adopting the Rules for the Retiree Health Care Benefits Program says that the
5 Board deems it “necessary to comply with federal tax law in order to preserve the tax qualified
6 status of the retirement plan; and also intend to provide the benefits established hereunder without
7 creating any contractual, regulatory or other vested entitlement thereto in present or future retirees
8” ECF No. 44-2 at 36. The Rules adopted by this resolution also say that they were intended
9 to ensure that the annual subsidy complies with federal law and “to prevent the vesting . . . of any
10 right to payment of the cost of future health care benefits” ECF No. 44-2 at 38.

11 Gary Cassady was a member of the Retiree Health Insurance Task Force, which
12 contracted with a consulting group to provide twenty-year cost estimates for retiree health plans.
13 The task force also prepared legislation, which the Board enacted in 1993, effective 1994. Decl.
14 of Gary Cassady, ECF No. 48-9 ¶¶ 2, 4, 6. Although Cassady says he believed that the legislation
15 “would effectively guarantee” the subsidy because it would be drawn from a more stable funding
16 source, the legislation itself says that the Board and its retirement system deem it necessary to
17 comply with federal tax law and “intend to provide the benefits established hereunder without
18 creating any contractual, regulatory or other vested entitlement thereto in present or future
19 retirees, their spouses or dependants.” *Compare* ECF No. 48-9 ¶ 5 with ECF No. 48-11 at 5. As
20 noted, the resolutions adopted in the wake of this report explicitly deny any intent to create a
21 vested benefit. Mr. Cassady’s declaration does not establish a disputed issue of fact. *See Virtusio*
22 *v. Fina. Indus. Reg. Auth.*, No. 12-cv-00602 NC, 2013 WL 1899830, at *6 (N.D. Cal. May 7,
23 2013) (“The issue is whether the employer’s words or conduct, on which an employee
24 reasonably relied, gave rise to that *specific* understanding.”) (quoting *Guz v. Bechtel Nat. Inc.*, 24
25 Cal. 4th 317, 342 (2000)) (emphasis in original).

26 ////

1 d. GASB Provisions

2 In 2006, the County sought the opinion of CPA Richard Green about the impact of
3 Government Account Standards Board (“GASB”) provisions on the retiree health insurance
4 program. Decl. of Mark Merin, ECF No. 48-3 ¶ 3. Plaintiffs’ counsel quotes selectively from
5 Mr. Green’s analysis to suggest that the GASB accounting requirements imposed an obligation on
6 the county. In the introduction to the report, however, Green said, “[b]ecause funding the
7 Program requires annual authorization from the County Board of Supervisors and there are no
8 vested benefits associated with the Program nor have the County management made any
9 guarantees or promises to continue the Program, we believe the County does not have a legal
10 obligation to continue the Program.” ECF No. 48-5 at 2. Green concluded that for purposes of
11 accounting and financial statement reporting, the plan exists as a mutual understanding between
12 the County and the retirees. *Id.* at 3. Even this latter conclusion does not raise a disputed issue
13 of fact as to the County’s intent, as there is no indication in the evidence that Green was
14 authorized to speak for the County. *See City of San Diego v. Haas*, 207 Cal. App. 4th 472, 495
15 (2012) (statements by city’s retirement board could not give rise to implied contract for benefits
16 because the court could “only look to whether the City Council, and not SDCERS, intended to
17 grant vested rights . . .”).

18 e. Retiree Declarations

19 Plaintiffs have also offered declarations from retirees, who say that they were
20 assured that the subsidy would become vested upon retirement and that they accepted County
21 employment in part on that promise or that retirement counselors assured them “not to worry
22 about language pertaining to discontinuation of the subsidy, because there was no reason to
23 suspect it would be discontinued as long as retirement benefits remained the same, even if the
24 County experienced a “bad’ year” or that retirement counselors did not inform retirees of the
25 potential that the subsidy might be discontinued.” *See, e.g.*, Decl. of Penelope Clark, ECF No.
26 48-12 ¶ 2; Decl. of Judy Cook, ECF No. 48-13 ¶¶ 2-3; Decl. of Donald Savage, ECF No. 48-15

1 ¶ 2. Plaintiffs have presented only one unequivocal statement from a human resources employee
2 that the subsidy would vest upon retirement; the other, attributed to a retirement counselor,
3 explicitly acknowledged that the benefit had to be renewed from year-to-year, but claimed that
4 this was merely a formality. This falls short of the “significant probative evidence tending to
5 support [their] claim that material, triable issues of fact remain.” *Sanchez v. Vild*, 891 F.2d 240,
6 242 (9th Cir. 1989) (internal citation, quotation omitted). Moreover, plaintiffs have not shown
7 that these County employees were authorized to speak for the County or otherwise bind it.

8 f. Recruitment

9 In addition, Robert T. Smith, who was employed by the County Health
10 Department, notes that it was difficult to recruit medical personnel because of the County’s low
11 salaries and that the subsidy was used as a recruiting tool. Decl. of Robert T. Smith, ECF No.
12 48-19 ¶¶ 2-4.⁹ Smith’s vague claim that the benefits were used as a recruiting tool is not
13 supported by any recruiting materials prepared by the County promising the subsidy in perpetuity.

14 g. Implied Promise

15 None of the evidence reviewed above creates a disputed issue of material fact on
16 the question whether the County created a contract that provided the subsidy to retirees with an
17 implied term that the subsidy was vested in perpetuity. The undisputed evidence shows that
18 although the Board consistently ordered the subsidy to be paid over a period of time, it did so by
19 adopting a policy, not a MOU or other contract. *See REAOC III*, 52 Cal. 4th at 1187 (“Where, for
20 example, the legislation is itself the ratification or approval of a contract, the intent to make a
21 contract is clearly shown.”).¹⁰ *See also Requa v. Regents of the Univ. of Cal.*, 213 Cal. App. 4th

22
23 ⁹ The court disregards Robert T. Smith’s statement that employees detrimentally relied on
24 the idea that the subsidy was vested and so did not transfer to jobs with better retirement health
benefits. To the extent the statement is within Mr. Smith’s personal knowledge, it is based on
hearsay.

25 ¹⁰ At argument plaintiffs’ counsel asserted that every time the county approved an MOU
26 including the subsidy, this was an implied understanding of the contractual obligation. Plaintiffs
have presented no evidence of any MOUs the County adopted, with or without the subsidy.

1 213, 227 (2013) (finding that Livermore Laboratory retirees sufficiently pleaded the existence of
2 an implied contract for health benefits by showing the Regents authorized insurance coverage for
3 retirees and offered to provide that coverage to Livermore retirees through benefit booklets and
4 handbooks published by their authorized representatives).

5 It is true that a course of conduct may show an implied promise, but “the very
6 heart of this kind of agreement is an *intent* to promise,” *Gorlach v. The Sports Club Co.*, 209 Cal.
7 App. 4th 1497, 1507 (2013) (internal citation omitted), and so the conduct alleged to provide the
8 implied contract must give rise to the specific understanding sought to be enforced. *Guz v.*
9 *Bechtel Nat’l., Inc.*, 24 Cal. 4th 317, 352 (2000); *see also Foley v. Interactive Data Corp.*,
10 47 Cal.3d 654, 679 (1988); CAL. CIV. CODE §1621. The County has presented evidence showing
11 it did not have the intent to promise. Plaintiffs’ belief that they were entitled to receive the
12 benefit for life is insufficient. *Gateway Rehab & Wellness Center, Inc. v. Aetna Health of Cal.,*
13 *Inc.*, No. SACV 13-0087-DOC (MLGx), at *3 (C.D. Cal. Apr. 10, 2013) (stating that “the
14 assumption, intention or expectation of either party alone, not made known to the other, can give
15 rise to no inference of an implied contract”) (quoting *Travelers Fire Ins. Co. v. Brock & Co.*, 47
16 Cal. App. 2d 387, 392 (1941)). The course of conduct in this case does not give rise to the
17 specific understanding that the subsidy was part of the contractual exchange of labor for
18 compensation in light of the County’s continued stance that the subsidy was not guaranteed.
19 Plaintiffs have offered nothing suggesting that a course of conduct with explicit restrictions can
20 give rise to a unrestricted specific understanding. *See Harris*, 682 F.3d at 1135 (stating that the
21 durational clause in a MOU “surely cannot be the source of a claim that the benefits survive
22 indefinitely”).

23 ////

24 _____
25 Plaintiffs also claimed that the yearly Resolutions adopting the retirees’ subsidy were probably
26 simply boilerplate, adopted with little thought but have again provided no evidence supporting
this claim.

1 Plaintiffs argue that in *Sonoma County*, the Ninth Circuit rejected *Harris* when, as
2 here, a plaintiff relied on implied in fact contract rights. Plaintiffs read *Sonoma County* in too
3 limited a fashion. In discussing *Harris*, the Ninth Circuit recognized that “the express terms of
4 the MOUs and resolutions at issue do *not* establish a specific end date to healthcare benefits, and
5 the Association alleges that the right to healthcare benefits in perpetuity is an *implied* term of a
6 contract, not an express contractual right.” *Sonoma Cnty.*, 708 F.3d at 1119, n.7. The court thus
7 did not say a durational clause is irrelevant when a party alleges that there is an implied term
8 granting retirees the right to benefits in perpetuity.

9 h. Collective Bargaining

10 At hearing, plaintiffs argued that the subsidy is a mandatory subject of bargaining.
11 Under California Government Code section 3505, “[t]he governing body of a public agency . . .
12 shall meet and confer in good faith regarding wages, hours, and other terms and conditions of
13 employment with representatives of such recognized employee organizations . . . and shall
14 consider fully such presentations as are made by the employee organization . . . prior to arriving
15 at a determination of policy or course of action.” *See Coachella Valley Mosquito & Vector*
16 *Control Dist. v. California Public Emp’t. Relations Bd.*, 35 Cal. 4th 1072, 1083 (2005). Indeed,
17 the PERB upheld the ALJ’s conclusion that the County’s refusal to bargain constituted an unfair
18 labor practice. Yet the fact that something might be a mandatory subject of bargaining does not
19 mean a bargain was struck or that the subject of bargaining becomes part of a contract absent the
20 Board’s adoption of an MOU including terms guaranteeing the subsidy. As noted above,
21 plaintiffs have presented no MOUs in opposition and their own evidence shows that the subsidy
22 was not a bargained-for provision: retired Deputy Sheriff Robert Denham, Jr. avers that he
23 attended at least five different bargaining sessions, and that one of the top demands was retiree
24 health benefits because the bargaining units wanted to ensure that benefits were protected. Decl.
25 of Robert Denham, Jr., ECF No. 48-14 ¶¶ 2-3. At each session, the County refused to discuss the
26 subsidy, taking the consistent position that the subsidy “would not be in the contract and would

1 not be a subject of bargaining.” ECF No. 48-14 ¶ 4. This position is manifested by the policies
2 themselves, which say nothing about any bargained-for exchange. None of plaintiffs’ evidence
3 clearly evinces the County’s intent to enter into a contract for payment of the health insurance
4 premium subsidy in perpetuity.

5 Defendant is entitled to summary judgment on the first and second causes of
6 action.

7 D. Third and Fourth Causes of Action

8 Section one of the Fourteenth Amendment provides that no state shall “deny to any
9 person within its jurisdiction the equal protection of the laws.” U.S. CONST. amend. XIV, § 1.
10 Section 7(a) of Article I of the California Constitution provides: “A person may not be . . . denied
11 equal protection of the laws” CAL. CONST. art. I, § 7(a). “California courts read the
12 rationality review component [of] the Equal Protection clause contained in Article I, section 7, of
13 the California Constitution as ‘coextensive with its federal counterpart.’” *Katz v. Children’s*
14 *Hosp.*, 28 F.3d 1520, 1529 n.9 (9th Cir. 1994) (quoting *Dept. of Developmental Servs. v. Ladd*,
15 224 Cal. App. 3d 128, 129 (1990)); *see also Safeway Inc. v. City & Cnty. of San Francisco*, 797
16 F. Supp. 2d 964, 971 (N.D. Cal. 2011) (“The equal protection provision of the California
17 constitution is substantially the same as the equal protection clause of the Fourteenth Amendment
18 to the United States Constitution and, thus, may be analyzed under the same standard.”).

19 States may “treat different classes of persons in different ways”; however,
20 classifications “must be reasonable, not arbitrary, and must rest upon some ground of difference
21 having a fair and substantial relation to the object of the legislation, so that all persons similarly
22 circumstanced shall be treated alike.” *Reed v. Reed*, 404 U.S. 71, 75-76 (1971) (internal citations
23 and quotation omitted); *see also Creighton v. Regents of the Univ. of Cal.*, 58 Cal. App. 4th 237,
24 246 (1997) (“Equal protection requires that persons similarly situated with respect to the
25 legitimate purpose of the law receive like treatment.”).

26 ////

1 Here, rational basis scrutiny applies. *Nordlinger v. Hahn*, 505 U.S. 1, 10 (1992)
2 (“unless a classification warrants some form of heightened review because it jeopardizes exercise
3 of a fundamental right or categorizes on the basis of an inherently suspect characteristic, the
4 Equal Protection Clause requires only that the classification rationally further a legitimate state
5 interest.”). “In general, the Equal Protection Clause is satisfied so long as there is a plausible
6 policy reason for the classification, the legislative facts on which the classification is apparently
7 based rationally may have been considered to be true by the governmental decisionmaker, and the
8 relationship of the classification to its goal is not so attenuated as to render the distinction
9 arbitrary or irrational.” *Id.* at 11 (internal citations omitted).

10 Defendant here argues that the employees covered by the PERB decisions are not
11 similarly situated to the non-unionized employees because the latter group of retirees are former
12 members of unions that challenged the change in benefits and were covered by the PERB ruling
13 directing the County to make them whole. ECF 54. Plaintiffs suggest this distinction does not
14 matter, because frequently the non-unionized employees held the same jobs, but are now treated
15 differently, and the County has applied “an across-the-board denial of the subsidy to both union
16 and non-union retirees.” ECF No. 53 at 1.

17 In the Eleventh Circuit case of *Marshall v. Western Grain Co, Inc.*, 838 F. 2d 1165
18 (11th Cir. 1988), the plaintiffs were union members who were not given severance pay when they
19 were laid off, even though other employees who did not have a collective bargaining agreement
20 did receive severance pay. The union employees, all but one of whom were African American,
21 brought a Title VII action, alleging racial discrimination. *Id.* at 1165-66. The Eleventh Circuit
22 said that plaintiffs had not stated a claim of discrimination under Title VII, recognizing that
23 “because of their unique status in the workplace, bargaining unit employees are *never* similarly
24 situated with non-bargaining unit employees. The unique treatment that employers give to
25 bargaining unit members is, of course, reflected best by the collective bargaining agreement.” *Id.*
26 at 1170 (footnote omitted; emphasis in original). The court in *Marshall* recognized that an

1 employer may not modify the provisions of the collective bargaining agreement (CBA)
2 concerning wages, hours and other conditions of employment without bargaining. *Id.* at 1170-71.

3 It concluded that

4 [t]he plaintiffs . . . seek the opportunity to demonstrate that the
5 defendants were motivated by race . . . in making payment of
6 severance benefits, not by the collective bargaining agreement
7 Although plaintiffs may be able to show that the employer gave to
8 non-bargaining unit members all of the *tangible* benefits that were
9 given to bargaining unit members, . . . they will not be able to show
10 that the employer's decisions regarding non-bargaining unit
11 members were restricted by the many *intangible* considerations
12 inherent in collective bargaining.

13 *Id.* at 1171 (emphasis in original); *see also Davis v. Ineos ABS (USA) Corp.*, Civil Case
14 No. 09-773 JGW, 2011 WL 1114409, at *3-4 (S.D. Ohio Mar. 24, 2011) (noting that union
15 employees are not similarly situated to non-union employees in Title VII cases because “an
16 employer must often go through a complex process in order to discipline an employee covered by
17 a collective bargaining agreement”). The Eleventh Circuit has applied *Marshall* when evaluating
18 whether non-union employees are similarly situated to union employees as part of an equal
19 protection challenge. *Donnell v. Lee Cnty. Port Auth.*, 509 F. App'x 903, at *2 (11th Cir. 2013)
20 (unpublished).

21 Plaintiffs argue that *Marshall* is not persuasive, as the Eleventh Circuit
22 distinguished it in *National Labor Relations Board v. United States Postal Service.*, 888 F.2d
23 1568 (11th Cir. 1989).¹¹ In that case, the NLRB sought information about discipline imposed on
24 supervisors who had engaged in gambling, but the Postal Service resisted, citing *Marshall* among
25

26 ¹¹ Plaintiffs also cite to two California federal district court cases they say suggest
Marshall is unpersuasive within the Ninth Circuit. *See* ECF 53 at 2. The court has reviewed
both cases, which declined to follow certain other cases relied on in *Marshall*; those courts'
determinations, however, were based on factual distinctions evident in determining whether or
not to certify a class and do not signal that *Marshall* runs afoul of any established Ninth Circuit
precedent. *See California State Employees' Ass'n v. California*, 1985 U.S. Dist. LEXIS 15974
(N.D. Cal. 1985); *Walthall v. Blue Shield of California*, 1977 U.S. Dist. LEXIS 13773 (N.D. Cal.
1977).

1 other reasons. The court said that the information the NLRB requested had some bearing on
2 whether the union employees were unjustly disciplined even though the supervisors had different
3 responsibilities, as “the same rule prohibiting gambling activities is applicable to both unit
4 employees and to supervisors.” *Id.* at 1571. Plaintiffs here argue the County has applied an
5 across-the-board denial of the subsidy to both union and non-union employees alike, making this
6 case more like *National Labor Relations Board* than *Marshall*. (ECF No. 53.) However, nothing
7 in *National Labor Relations Board* implicated the employer’s reaction to and/or accommodation
8 of a CBA. In contrast, in *Marshall* as in this case, the County has presented evidence that its
9 actions were restricted by the considerations and limitations inherent in collective bargaining.

10 This court thus finds *Marshall* to have some persuasive force, as long as its
11 pronouncement, that “bargaining unit employees are *never* similarly situated with non-bargaining
12 unit employees,” is not read as a blanket statement that applies without respect to the facts of a
13 given case. In California, under the Meyers-Milias-Brown Act (“MMBA”), the County has a
14 duty to bargain with employees’ unions before changing wage or working conditions: “The duty
15 to bargain requires the public agency to refrain from making unilateral changes in employees’
16 wages and working conditions until the employer and employee association have bargained to
17 impasse” *Coachella Valley*, 35 Cal. 4th 1072, 1083 (quoting *Santa Clara Cnty. Counsel*
18 *Attorneys Ass’n v. Woodside*, 7 Cal. 4th 525, 537 (1994)). Plaintiffs have not pointed to a similar
19 duty to bargain with non-union employees. And in this case, it was the County’s failure to
20 bargain that led to the PERB action. The remedies available to union employees means they are
21 not similarly situated to non-union employees.

22 While one putative sub-class in this case consists of unionized employees whose
23 unions pursued the action before PERB, both equal protection claims as pled compare the
24 employees whose subsidy was reinstated because of the PERB action to those who did not appear
25 before PERB. The one subclass cannot claim they were denied their right to equal protection
26 given the way the issue is framed in the complaint.

1 Even if the non-unionized employees were similarly situated, plaintiffs still have
2 not rebutted the County's showing that the disparate treatment had a rational basis. Under that
3 highly deferential level of review, the County "has no obligation to produce evidence to sustain
4 the rationality of a statutory classification," because "[t]he burden is on the one attacking the
5 legislative enactment to negative every conceivable basis that might support it." *Heller v. Doe*,
6 509 U.S. 312, 320 (1993). Here the County complied with the PERB order to make the unionized
7 employees whole, which satisfies the rational basis test.

8 Plaintiffs argue generally that the distinction between union and non-union
9 employees was not rational because PERB ordered the County to make all the employees affected
10 by the change whole. ECF No. 48 at 23. This argument is puzzling, for it suggests, without any
11 citation to authority, that the non-unionized employees were somehow in privity with the union
12 members or that PERB had the authority to issue sweeping orders unconstrained by the unfair
13 labor practice before it.

14 The California Legislature created PERB "to adjudicate unfair labor practice
15 charges: "[t]he initial determination as to whether the charges of unfair practices are justified
16 and, if so, what remedy is necessary to effectuate the purposes of this chapter, shall be a matter
17 within the exclusive jurisdiction of the board.'" *San Diego Mun. Emp. Ass'n v. Superior Court*,
18 206 Cal. App. 4th 1447, 1456 (2012) (quoting CAL. GOV'T CODE § 3541.5) (emphasis omitted);
19 *see also* 8 Cal. Code Regs. § 32615(a) ("A charge may be filed alleging that an unfair practice or
20 practices have been committed."). Nothing suggests that PERB has the authority to adjudicate
21 questions unrelated to unfair labor practices before it or that a finding of an unfair labor practice
22 can somehow be construed as a finding that the County had an implied contract to provide a
23 vested health care subsidy to all its employees. This argument does not advance plaintiff's cause.
24 Defendant is entitled to judgment on these claims.

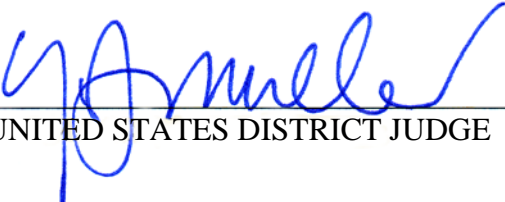
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IT IS THEREFORE ORDERED that defendant's motion for summary judgment (ECF No. 40) is GRANTED and this case is CLOSED.

DATED: September 27, 2013.


UNITED STATES DISTRICT JUDGE