



California Supreme Court Rules Public Employers Are Exempt from PAGA: What Employers Need to Know + 4 Practical Tips

Insights

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The California Supreme Court just ruled that public employers are not subject to civil penalties under the state's Private Attorneys General Act of 2004 (PAGA). In a pivotal decision, the court held that public entities, including public health authorities, are exempt from certain state labor rules on meal and rest breaks and, more broadly, from PAGA penalties. This ruling underscores the legal distinctions between public and private employers under California law. We'll explain what this means for both public and private employers and give you four practical tips to stay compliant.

What Happened?

In *Stone v. Alameda Health System*, healthcare workers at Alameda Health System (AHS), a public hospital authority created by Alameda County, filed a class action alleging wage and hour violations under the California Labor Code and seeking penalties under the state's Private Attorneys General Act (PAGA).

- **Trial Judge Sided With AHS.** At trial, AHS argued it was a public entity not subject to liability under PAGA or the asserted Labor Code violations. The trial judge agreed, finding that AHS was a public agency and holding that "provisions of the Labor Code apply only to private sector employees unless they are specifically made applicable to public employees."
- **Appeals Court Reversed.** An appeals court reversed, holding that AHS was subject to meal and rest period obligations, payroll requirements, and PAGA penalties under the Labor Code while exempt from wage statement claims due to its status as a "governmental entity of some kind."
- **High Court Reversed Again.** The California Supreme Court disagreed with the appellate court, emphasizing that the California legislature did, in fact, intend to exclude public employers like AHS from Labor Code provisions unless otherwise specified within the Code.

The decision clarifies that public entities are not subject to PAGA penalties unless explicitly included in the statutory language. Writing for the court, Justice Carol Corrigan also pointed out:

While subjecting public entities to civil penalties might serve PAGA's goal of augmenting the [Labor and Workforce Development Agency's] enforcement of the Labor Code, the result would simply rob Peter to pay Paul. Even though 75 percent of penalties recovered would go to the LWDA for its

enforcement efforts, those penalties would be paid from the coffers of other taxpayer-funded public institutions.

In other words, imposing PAGA penalties on public employers amounts to the state simply shuffling taxpayer money between public entities and paying out attorneys' fees that were never contemplated by lawmakers.

What Does This Mean for Employers?

For **public employers**, *the Stone* decision highlights their exemption from PAGA and its penalties. However, this newly confirmed immunity from PAGA penalties **does not** mean that all public employers are totally excused from complying with the Labor Code.

- **Public employers could still face class action liability imposed by a specific statute, unless they have pre-dispute arbitration agreements waiving the right to bring a class action.** For example, a California law (SB 1334) – which took effect in 2023 *after* the alleged conduct in *Stone* occurred – imposed meal and rest break requirements on certain public health employers with workers providing “direct patient care in a general acute care hospital, clinic, or public health setting.” The court did not address how the case might have turned out if it had been brought after the statute took effect.
- **Public employers may also face the risk of class action grievances based on any violations of a governing collective bargaining agreement’s specific requirements.**

For **private employers**, the decision underscores that you remain fully subject to the Labor Code and any related PAGA penalties, including providing compliant meal and rest breaks, maintaining accurate payroll records, and paying timely wages.

Note that PAGA reforms under SB 92 and AB 2288 apply only to actions filed on or after June 19, 2024. That reform reduced penalties, clarified when heightened penalties are imposed, and expanded an employer’s ability to cure certain Labor Code violations. While the reform did not impose new requirements on public employers, *Stone* makes it clear that such PAGA penalties would not apply to public employers. We covered the PAGA reform in depth [here](#).

Practical Tips for Employers

1. **Review and Update Policies.** Employers, particularly public health employers and employers in the private sector, should regularly review and audit their policies on meal and rest breaks, timekeeping, and payroll practices. Ensuring that these policies are compliant with California’s labor laws can prevent costly litigation.
2. **Document Agreements Carefully.** Whether in the public or private sector, employers should ensure that any agreements regarding meal period waivers or other deviations from standard labor practices are documented in writing and comply with statutory requirements.

3. **Monitor Legislative Changes.** This decision highlights the importance of keeping an eye on judicial and legislative developments that could impact your obligations under the Labor Code. [Subscribing to receive our Insight System](#) is a great way to stay on top of the latest employment law news.
4. **Seek Legal Guidance:** Navigating the complexities of California's labor laws can be challenging. Employers should consider seeking legal counsel to ensure compliance and to handle any disputes that arise. Our law firm specializes in employment law and is equipped to help you understand and navigate these legal requirements.

Conclusion

Given the recent developments in PAGA legislation and increase in claims brought under PAGA, Fisher Phillips will soon release a PAGA Resource Center that streamlines our PAGA resources into one location for your convenience. Keep an eye out for the official release of that Resource Center.

If you have questions regarding best practices for updating and implementing policies and procedures in light of these changes, please contact your Fisher Phillips attorney, the authors of this Insight, any attorney in [our California offices](#), or any attorney on our [Healthcare Industry Team](#) for more information. Make sure you are subscribed to [Fisher Phillips' Insight System](#) to get the most up-to-date information on this and other employment topics directly to your inbox.

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