

California Supreme Court Limits Employers' Defenses Against PAGA Claims

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There has long been a split in appellate authority as to whether trial courts have the inherent authority to strike PAGA claims based on manageability. To consider this issue, the California Supreme Court granted review in *Estrada v. Royalty Carpet Mills, Inc.* There, the Court held that trial courts **do not** have the inherent authority to strike PAGA claims on manageability grounds, further limiting employers' few defenses to PAGA claims. In doing so, the Court highlighted the "tools" available to employers to supposedly limit the scope of PAGA claims.

Jorge Estrada, who was later joined by additional plaintiffs, filed two actions against his former employer, a class action and a PAGA action for various alleged Labor Code violations. Following a bench trial, the trial court decertified two subclasses reasoning there were too many individualized issues to support class treatment and also dismissed the PAGA claim on manageability grounds. The plaintiffs appealed, and the Court of Appeal reversed Royalty Carpet Mills then petitioned the California Supreme Court for review, arguing that trial courts possess the inherent authority to strike unmanageable claims for reasons of judicial economy, or, at a minimum, may strike PAGA claims in particular on manageability grounds. The California Supreme Court rejected both arguments.

The Supreme Court held that trial courts **do not** have broad inherent authority to strike any type of claim in order to promote judicial economy. The Court explained that trial courts possess only a tightly circumscribed inherent power to dismiss with prejudice. The Court noted that, in the past, "the inherent power to dismiss claims has been confined to two types of situations: (1) the plaintiff has failed to prosecute diligently; or (2) the complaint has been shown to be fictitious or sham such that the plaintiff has no valid cause of action." However, the Court did acknowledge the possibility of seeking dismissal on due process grounds, which were not present in the case before it.

Additionally, in rejecting Royalty's argument that, PAGA claims may be dismissed on manageability grounds, the Court reiterated that PAGA actions are *not* class actions. Because of this, it would be inappropriate, and contrary to the Legislature's intent to maximize the enforcement of labor laws, to impose a class-action-based manageability requirement on PAGA actions. In short, while manageability may warrant the use of case management techniques to reduce the scope of PAGA claims, employers may not seek to strike PAGA claims based solely on manageability.

The Court clarified that trial courts, and employers, continue to have a variety of tools in their arsenal. Specifically, the Court stated that trial courts may limit PAGA claims via demurrer or motion for summary judgment or judgment notwithstanding the verdict, provided the circumstances warrant such rulings. Additionally, trial courts may limit the evidence presented at trial, thereby incentivizing plaintiffs to ensure that their PAGA claims are manageable. Limiting the evidence plaintiffs may present could redefine the group of "aggrieved employees" or even limit the claims a plaintiff can establish. The Court also noted that employers may limit the number of aggrieved employees through evidence that "reveals the generalized characteristics of a population, such as representative testimony, surveys, and statistical analysis." The Court leaves open the possibility of dismissal on due process grounds (but did not detail when this might be appropriate).

California employers have grappled with PAGA for years, and the California Supreme Court's Estrada decision shows that employers will continue struggle when defending against PAGA claims. It remains to be seen how practical or effective the Court's suggested tools are at stemming the PAGA tide. Contact your Vorys lawyer if you have questions about PAGA claims or California employment law compliance.