Federal Court Limits California's Wage-Hour Laws

Insights
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Three years ago, the California Supreme Court addressed the scope of California's overtime regulations contained in the California Labor Code and Wage Orders promulgated by its Industrial Welfare Commission. *Sullivan et al v. Oracle Corporation*. The Supreme Court held that work performed in California by nonresident employees of Oracle was covered by the California Labor Code.

But the Court further concluded that overtime claims based on violations of the Fair Labor Standards Act (FLSA) for work performed by nonresident employees outside California are not covered by California's unfair competition laws.

The Court cautioned that it was ruling on limited facts and thus was not prepared to hold that California's wage orders necessarily applied to "*all* employment in California, and *never* to employment outside California." The California Supreme Court's ruling therefore left unresolved many specific factual and legal questions for California employers.

Fortunately, a recent decision provides guidance that limits the scope of California's extra-territorial jurisdiction. The federal district court for the Northern District of California recently held that a California-based business hiring allegedly misclassified independent contractors to work exclusively in states other than California could not be liable for noncompliance with California wage and hour laws in those other states. The court held that it was not sufficient for the employees to show that the employer's principle place of business was California, that its decision to classify the drivers as independent contractors was made in California, or that its decision to charge a challenged "administrative fee" was made in California.

The court also rejected the employees' argument that the conflict of laws rules required California's laws to be applied in part because California's laws were more protective than other states. The court made clear that this was simply not universally true, noting that both Washington and Oregon's minimum wages were higher than in California.

More importantly, the court rebuffed the employees' attempt to extend the *Sullivan* holding, noting that this decision "focused on the location of the work," which actually supported the court's decision. The federal court reasoned that each state has a right (subject to federal law) to regulate work performed within its own borders without having to worry about another state's approach to regulating the employee-employer relationship.

The court concluded that there is "no hint" that California's wage and hour laws could ever apply to employees who work exclusively in another state. The court also ruled that parties could not legally agree to apply California's wage and hour laws to regulate pay for work performed outside California. *Cotter v. Lyft, Inc*.

Despite this ruling, remember that there still may be occasions where the wage-hour laws of California will follow an employee to other states, such as when an employee works and resides in California, but occasionally works outside the state for periods of short duration (e.g., truck drivers, traveling salespersons, traveling executives). Because a number of factors must be considered, we suggest that you seek legal counsel whenever such issues arise during the course of employment.

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