



Significant Decision

No. 24-01

August 2, 2024

CASTELLANOS V. STATE OF CALIFORNIA

CALIFORNIA SUPREME COURT DECISION [S279622]

Filed: July 25, 2024

Business and Professions Code section 7451 does not conflict with Article XIV, section 4 of the California Constitution which provides plenary power over the workers' compensation system to the Legislature.

Significance: The California Supreme Court concluded that the purpose of Article XIV, section 4 was to remove doubts on the constitutionality of existing workers' compensation laws, not to limit the initiative power for workers' compensation matters. It does not limit the ability of California voters to enact laws through the initiative process that impact the workers' compensation system. Therefore, Prop 22 is constitutional.

Facts: In 2020, voters passed Prop 22 giving app-based delivery companies an exemption from AB5/*Dynamex* and effectively confirming their drivers as independent contractors. A group of drivers successfully obtained a ruling from the Alameda Co. Superior Court declaring Prop 22 unconstitutional. The Superior Court determined that the law intruded on the California Legislature's exclusive authority to create workers' compensation laws, holding that Prop 22 was unconstitutional and unenforceable. That ruling was appealed to the 1st District Court of Appeal, and the sponsors of the original ballot measure intervened. A divided 1st District Court of Appeal affirmed in part and reversed in part on March 13, 2023. The Court of Appeal held Prop 22 does not intrude on the Legislature's plenary authority over California's workers' compensation system or violate the initiative single subject rule, but its definition of amendment violates separation of powers principles. As those unconstitutional provisions could be severed, that portion of judgment was affirmed, and otherwise the Court of Appeal reversed. The drivers appealed.

Holding: The California Supreme Court, having limited the issue to be argued to: "Does Business and Professions Code section 7451, which was enacted by Proposition 22 (the 'Protect App-Based Drivers and Services Act'), conflict with article XIV, section 4 of the California Constitution and therefore require that Proposition 22, by its own terms, be deemed invalid in its entirety?", rejected arguments that Prop 22 is unconstitutional.

Discussion: The Court affirmed the judgment of the Court of Appeal, holding that Business and Professions Code section 7451 does not conflict with Article XIV, section 4 of the California Constitution which provides plenary power over the workers' compensation system to the Legislature "because the latter does not preclude the electorate from exercising its initiative power to legislate on matters affecting workers' compensation." The Court found that the history of the 1918 amendment that codified the present version of

Article XIV, section 4 demonstrates that the amendment was in response to constitutional challenges to the then existing workers' compensation system. It does not show that the amendment was meant to limit the initiative power in any respect.

Justice Liu wrote that the Court concluded that the state Legislature does not have sole authority to govern workers' compensation as the state Constitution does not bar voters from passing initiatives impacting the California workers' compensation system.

The decision was not surprising to those that observed the oral argument, as the Justices continually questioned plaintiff's arguments that Article XIV, section 4 which provides in pertinent part "The Legislature is hereby expressly vested with plenary power, unlimited by any provision of this Constitution, to create, and enforce a complete system of workers' compensation, by appropriate legislation..." prevented voters from using their initiative power to legislate on workers' compensation matters.

The Attorney General argued that although section 7465, which requires a seven-eighths majority to amend the proposition, and Article II, section 10(c) may conflict with Article XIV, section 4, those provisions were not before the Court, and that the sole provision at issue was section 7451, which does not conflict with Article XIV, section 4 "because it does not assign the Legislature sole authority, to the exclusion of the initiative power, to govern workers' compensation." The Court agreed, leaving open whether a future statute that changes the consequences of section 7451 would properly be characterized as an amendment of section 7451.

The Court declined to rule on hypothetical questions, including how the Court would address legislative acts that would provide workers' compensation benefits to app-based drivers. The court also left open the question of whether the Legislature could vote to include drivers in its workers' compensation system with a simple majority, rather than a seven-eighths supermajority, as required by section 7465.

SWB/