

CLIENT NEWS BRIEF

New School Funding Scheme Does Not Eliminate Immunity From Federal Damage Claims

Changes to California's school funding scheme did not eliminate local school district and county office of education immunity from federal claims for damages, the Ninth Circuit Court of Appeals has ruled.

In *Sato v. Orange County Department of Education* (9th Cir. 2017) ___ F.3d ___, the Ninth Circuit affirmed that California school districts and county offices of education retain their absolute defense to claims for damages in federal court due to sovereign immunity under the United States Constitution's Eleventh Amendment, regardless of changes to California's school funding scheme resulting from Assembly Bill (AB) 97's creation of the Local Control Funding Formula (LCFF).

The Eleventh Amendment

The Eleventh Amendment bars federal lawsuits for damages against California and "arms of the state." While the Eleventh Amendment "sovereign immunity" defense does not extend to counties and municipal corporations, it does extend to California community college districts, school districts, and county offices of education.

Background

Michael Sato was a systems database architect for the Orange County Department of Education (OCDE). After OCDE fired Sato within weeks of starting his job, he filed a federal lawsuit alleging breach of contract, wrongful termination and various federal constitutional claims. The district court granted OCDE's motion to dismiss Sato's constitutional claims for damages based on its sovereign immunity under the Eleventh Amendment. Sato subsequently dismissed his state law breach of contract claim voluntarily and appealed the dismissal of his federal claims to the Ninth Circuit, which affirmed the district court's ruling and held that AB 97 did not abrogate sovereign immunity for school districts and county offices of education as previously established in *Belanger v. Madera Unified School District* (9th Cir. 1992) 963 F.2d 248 and *Eaglesmith v. Ward* (9th Cir. 1996) 73 F.3d 857.

The central question before the Ninth Circuit in *Sato* was whether, after AB 97's establishment of the LCFF, school districts and county offices of education retained their status as "arms of the state" entitled to Eleventh Amendment immunity. In concluding that such entities, including OCDE, remain arms of the state, the court analyzed five factors:

- Whether a money judgment would be satisfied out of state funds;
- Whether the entity performs central governmental functions;
- Whether the entity may sue or be sued;
- Whether the entity has the power to take property in its own name or only the name of the state; and
- The corporate status of the entity.

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Sloan R. Simmons
Partner and Co-Chair
Litigation Practice Group
Sacramento Office
ssimmons@lozanosmith.com



Lauren A. Lyman
Associate
Los Angeles Office
lyman@lozanosmith.com



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Since state and local revenue for schools remain commingled in a single fund under state control, even under the new funding system, the court determined that any use of commingled funds to satisfy a judgment necessarily amounts to the use of state funds. The court also held that OCDE performs central government functions, relying on prior case law that says that California law treats public schooling as a statewide or central government function. The court held that the first and second factor weighed in favor of Eleventh Amendment immunity and that AB 97 did not impact the analysis of the remaining three factors.

Applying the five-factor test, the Ninth Circuit upheld the trial court's decision and found that AB 97, which significantly reformed the financing and governance of California public schools, did not change the fact that school districts and county offices of education remain entitled to sovereign immunity under the Eleventh Amendment, thus barring claims for damages against them in federal court—whether based upon state or federal law.

Takeaways

Sato presented a novel argument: that the passage of AB 97, which reformed public education financing and decentralized education governance, abrogated previous Ninth Circuit decisions supporting that school districts and county offices of education are entitled to state sovereign immunity. However, the court held in *Sato* that school districts and county offices of education remain arms of the state and cannot be sued for damages in federal court.

The Eleventh Amendment defense for California's community college districts also remains undisturbed by the *Sato* opinion.

Lozano Smith represented the Madera Unified School District in the *Belanger* case, which first established Eleventh Amendment immunity for California school districts facing damage claims in federal court.

For more information on the *Sato* decision or on school district and county office of education immunity from federal damage claims, please contact the authors of this Client News Brief or an attorney at one of our [eight offices](#) located statewide. You can also visit our [website](#), follow us on [Facebook](#) or [Twitter](#) or download our [Client News Brief App](#).