

AUGUST 2026

AGENCY

Federal

On July 13, 2026, the IRS surprised employers and announced that the standard mileage rate for business travel increased to 76 cents per mile, retroactive to July 1, 2026, up from 72.5 cents per mile. California Labor Code section 2802 requires employers to reimburse employees for all reasonable and necessary business expenses, such as the use of a personal vehicle for business travel.

JUDICIAL

California

Sexual Orientation Harassment is Sexual Harassment Subject to EFAA

In *Decloedt v. Radnet Management, Inc.*, Trevor Decloedt (“Decloedt”) sued his former employer, RadNet Management, Inc., alleging multiple Fair Employment and Housing Act violations. Decloedt alleged that a coworker repeatedly made derogatory comments about his homosexuality and engaged in threatening and unwanted physical conduct. The California Court of Appeal, Second Appellate District, affirmed the trial court’s denial of the employer’s motion to compel arbitration, holding that the Ending Forced Arbitration of Sexual Assault and Sexual Harassment Act of 2021 (“EFAA”) applied to the dispute. The court concluded that harassment based on sexual orientation constitutes harassment because of sex under Government Code section 12940(j)(4)(C). In reaching its decision, the court emphasized the EFAA’s broad language extending to disputes “relating to conduct” alleged to constitute sexual harassment.

Last Mile Delivery Driver Exempt from FAA Under Transportation Worker Exemption

In *Betanco v. Living Spaces Furniture, LLC*, Luis Betanco (“Betanco”), a furniture delivery driver employed by Of Service Transportation, LLC (“Of Service”), delivered furniture on behalf of Living Spaces Furniture, LLC (“Living Spaces”). Betanco filed a putative class action alleging various Labor Code violations against Living Spaces and Of Service (collectively, “Defendants”). In response, Defendants moved to compel arbitration pursuant to an arbitration agreement governed by the Federal Arbitration Act (“FAA”).

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Betanco's duties consisted of delivering furniture from Living Spaces' California distribution centers to customers located within California. The furniture originated both within and outside California, including shipments from Mexico, before arriving at the distribution centers. Defendants contended that Betanco's work involved only local retail deliveries occurring after the goods had reached their final destination and therefore fell outside the scope of interstate commerce. The California Court of Appeal, First Appellate District, rejected this argument, emphasizing that the furniture was neither altered nor transformed after arriving at the distribution centers and was delivered to customers in substantially the same condition in which it had been received. Accordingly, the court concluded that the furniture remained in the stream of interstate commerce and that the final delivery to the customer constituted the last stage of a continuous interstate transportation process.

The court held that Betanco qualified as a transportation worker exempt from the FAA under 9 U.S.C. § 1. The court reasoned that Betanco played a direct and active role in the interstate movement of goods because his deliveries represented the final leg of a continuous interstate journey. The fact that his deliveries occurred entirely within California and were made directly to retail customers, rather than between commercial entities, did not sever his connection to interstate commerce or remove him from the transportation-worker exemption.

The decision broadens the scope of the FAA's transportation-worker exemption by recognizing that workers who perform exclusively intrastate retail deliveries may nevertheless be engaged in interstate commerce when their duties constitute an integral component of a continuous interstate transportation stream. As a result, *Betanco* further limits the availability of FAA-governed arbitration agreements for employers whose workers participate in the final stages of interstate distribution networks.

Warehouse Workers with Only Certain Intrastate Duties are Exempt from FAA Under Transportation Worker Exemption

In *Doss v. Tesla*, Kenneth Doss ("Doss"), a former yard hostler, filed a putative class action against his former employer, Tesla, Inc. ("Tesla"), alleging various wage-and-hour violations. Tesla moved to compel arbitration pursuant to an employment arbitration agreement. Doss and other yard hostlers were responsible for moving trailers containing automobile parts within Tesla's Fremont manufacturing facility. Tesla argued that the transportation-worker exemption to the FAA did not apply because the goods transported by the yard hostlers had already reached their final destination and had therefore ceased moving in interstate commerce. The court rejected this argument, reasoning that the yard hostlers did not merely handle goods after they had come to rest; rather, they moved and positioned trailers loaded with out-of-state parts immediately upon their arrival at the facility as part of the ongoing process of transporting those goods.

The California Court of Appeal held that Tesla's yard hostlers fall within the transportation-worker exemption set forth in section 1 of the FAA because they are transportation workers engaged in interstate commerce. Although the yard hostlers performed their duties exclusively on Tesla's premises and did not themselves transport goods across state lines, the court concluded that their work constituted a necessary link in the continuous interstate movement of goods. By receiving, relocating, and positioning trailers containing parts shipped from outside California, the yard hostlers played a direct and integral role in the interstate transportation process. As a result, they were sufficiently connected to the flow of interstate commerce to qualify for the FAA exemption.

The decision significantly broadens the scope of the FAA's transportation-worker exemption by recognizing that employees need not cross state lines or work outside a single facility to be considered engaged in interstate commerce. Rather, workers whose duties form an essential component of the interstate movement of goods may qualify for the exemption even when their activities occur entirely within a localized setting. The ruling has important implications for employers that rely on arbitration agreements in logistics, warehousing, manufacturing, and supply-chain operations.

This is Pettit Kohn Ingrassia Lutz & Dolin PC's employment update publication intended to be educational regarding recent legislative changes and court decisions affecting California employers. If you would like more information regarding our employment team, please contact Tom Ingrassia, Jennifer Lutz, Ryan Nell, Shannon Finley, Christine Clark, Kristin Kameen, Nicole Allen, Ethan Anderson, Ruby Carlon, Kevin Chicas, Melina Corona, Alec Dea, Will Dischmann, Kendall Garald, Michelle Guitard, Emma Hill, Gabriella Kelly, Celeste Leung, Haley Murphy, Jessica O'Malley, Nia Perkins, Mariam Saleh, Jenny Sturman, Jackson Sullivan, Lisa Thorsson or Ben Watson at our San Diego office: 11622 El Camino Real, Suite 300, San Diego, CA 92130, (858) 755-8500; or Colette Asel, Steven Dawson, Jenny Che, Brett Greenberg or Jacob Schwartz at our Los Angeles office: 101 Continental Blvd., Suite 820, El Segundo, CA 90245, (310) 649-5772.