

No. 14-543

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IN THE  
*Supreme Court of the United States*

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UNITED NATIONAL MAINTENANCE, INC.,  
*Petitioner,*

v.

SAN DIEGO CONVENTION CENTER, INC.,  
*Respondent.*

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On Petition for a Writ of Certiorari  
to the United States Court of Appeals  
for the Ninth Circuit

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**BRIEF OF THE AMERICAN ANTITRUST  
INSTITUTE AS AMICUS CURIAE IN SUPPORT  
OF PETITIONER**

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December 15, 2014

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## INTEREST OF AMICUS CURIAE

The American Antitrust Institute (“AAI”) is an independent and nonprofit education, research, and advocacy organization devoted to advancing the role of competition in the economy, protecting consumers, and sustaining the vitality of the antitrust laws. The AAI is managed by its Board of Directors, with the guidance of an Advisory Board that consists of over 130 prominent antitrust lawyers, law professors, economists, and business leaders.<sup>1</sup> See <http://www.antitrustinstitute.org>.

The AAI submits this brief in support of certiorari and summary reversal on the first question presented, which is whether the clear-articulation element of state-action immunity is satisfied by the California legislature’s general grant of authority to the City of San Diego to create the San Diego Convention Center Corporation (“SDC”) and “manage the use” of the convention center. The question raised in this case is important to the AAI’s mission because, “giv-

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<sup>1</sup> The written consents of all parties to the filing of this brief have been lodged with the Clerk. Counsel of record for all parties received notice of the AAI’s intention to file this brief at least 10 days prior to its due date. No counsel for a party has authored this brief in whole or in part, and no such counsel or party made a monetary contribution intended to fund the preparation or submission of this brief. No person or entity other than amicus curiae has made a monetary contribution to its preparation or submission. The AAI’s Board of Directors alone has approved of this filing for the AAI. Individual views of board members or members of the Advisory Board may differ from the AAI’s positions.

en the fundamental national values of free enterprise and economic competition that are embodied in the federal antitrust laws, state-action immunity is disfavored” and should be narrowly construed. *Fed. Trade Comm’n v. Phoebe Putney Health Sys., Inc.*, 133 S. Ct. 1003, 1010 (2013) (internal quotation marks omitted).

### INTRODUCTION AND SUMMARY OF ARGUMENT

In *Phoebe Putney*, this Court held that “[t]he principle articulated in *Boulder*” controlled a state-action immunity case in which the Eleventh Circuit had erroneously inferred a clearly articulated and affirmatively expressed state policy to displace competition from a State’s grant of authority to a local hospital entity. It was foreseeable only that the entity *could have* exercised its authority anticompetitively. The Court held that “when a State’s position ‘is one of mere *neutrality* respecting the municipal actions challenged as anticompetitive,’ the State cannot be said to have “contemplated” those anticompetitive actions.” *Phoebe Putney*, 133 S. Ct. at 1012 (quoting *Community Commc’ns Co. v. City of Boulder*, 455 U.S. 40, 55 (1982)). The Court reversed the Eleventh Circuit and held that “a state policy to displace federal antitrust law [is] sufficiently expressed where the displacement of competition [is] the inherent, logical, or ordinary result of the exercise of authority delegated by the state legislature.” *Id.* at 1012–13. “In that scenario, the State *must have* foreseen and implicitly endorsed the anticompetitive effects as



consistent with its policy goals.” *Id.* at 1013 (emphasis added).

In the present case, the first court of appeals decision to apply *Phoebe Putney*, the Ninth Circuit has erroneously inferred a clearly articulated and affirmatively expressed state policy to displace competition from the California legislature’s general grant of authority to the City of San Diego to create the SDC and “manage the use” of the convention center to earn profits for the municipality. As in *Phoebe Putney*, it was foreseeable only that an entity like the SDC *could have* exercised its authority anticompetitively. Indeed, the Ninth Circuit expressly concluded that it was foreseeable only that the convention center “may” engage in the challenged conduct, not that it inherently or logically or ordinarily would. As in *Phoebe Putney*, the Ninth Circuit “applied the concept of ‘foreseeability’ . . . too loosely.” *Id.* at 1012. Accordingly, the Ninth Circuit plainly contravened *Phoebe Putney*.

This Court should grant certiorari and summarily reverse on the clear-articulation question to preserve that holding. See *Marmet Health Care Ctr., Inc. v. Brown*, 132 S. Ct. 1201, 1203 (2012) (per curiam) (summarily reversing where lower court’s holding was “inconsistent with clear instruction in the precedents of this Court”); *Fla. Dep’t of Health & Rehabilitative Servs. v. Fla. Nursing Home Ass’n*, 450 U.S. 147, 147, 150 (1981) (summarily reversing where lower court “misapplied the prevailing standard”

such that its holding “cannot be reconciled with the principles set out” by the Court).

For the same important reasons certiorari was granted in *Phoebe Putney*, certiorari is warranted here. The applicability of the antitrust laws to public benefit corporations like the SDC has wide-ranging implications for the over 300 convention centers owned by state and local governments nationally, the political subdivisions in every state that are vested with ordinary corporate powers, including management authority, and the large number of consumers served by the tens of thousands of additional political subdivisions of States, which provide a broad range of services to their citizens. The clear-articulation question also is critically important for the States themselves, which must be able to know in advance whether they can reap the many benefits of delegating corporate powers to local authorities without inadvertently depriving their citizens of protections under the antitrust laws.

The AAI takes no position on the merits of petitioner’s antitrust claims<sup>2</sup> or whether the district court properly granted respondent’s motion for judgment as a matter of law even if state-action immunity does not apply. The majority of the court of appeals panel did not reach those grounds. Judge Hurwitz, concurring, thought it obvious that there was no antitrust violation. *See* Pet. App. 22 (“The

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<sup>2</sup> Nor does the AAI take a position on whether certiorari should be granted on the active-supervision issue, which is the second question presented.

district [court] correctly held that no rational finder of fact could conclude that SDC acted anticompetitively and without a legitimate business purpose by using its own employees to clean its own building.”<sup>3</sup> But the prospect that the antitrust claim may fail, and that the state-action question may not be outcome determinative in this particular case, does not preclude certiorari. *See, e.g., Goldfarb v. Va. State Bar*, 421 U.S. 773, 792 & n.22 (1975) (granting certiorari and denying state-action immunity notwithstanding that district court on remand may find Eleventh Amendment immunity); *Marmet Health Care*, 132 S. Ct. at 1204 (summarily reversing on Federal Arbitration Act grounds notwithstanding that claim may prevail on state unconscionability grounds); *cf. Royal Drug Co. v. Group Life & Health Ins. Co.*, 737 F.2d 1433 (5th Cir. 1984) (upholding grant of summary judgment to defendants on remand after this Court held that defendants were not exempt from antitrust liability under the McCarran Ferguson Act, *Group Life & Health Ins. Co. v. Royal Drug Co.*, 440 U.S. 205 (1979)).

On the contrary, in this instance at least, the prospect of dismissal on the merits is a factor favoring certiorari insofar as the court of appeals apparently allowed its skepticism of the merits of petitioner’s claims to infect its state-action analysis. Proper

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<sup>3</sup> *But see* Pet. 3, 17 n.5 (distinguishing between cleaning services in restrooms and nonpublic areas that are within the control of the SDC and cleaning services that are performed within leased space involving booths and carpets not owned or controlled by the SDC).

state-action analysis assumes the conduct at issue otherwise violates the antitrust laws. This assumption focuses the clear-articulation question not on whether the legislature merely authorized the form of conduct at issue (such as a merger), but on whether the legislature authorized conduct that would otherwise violate the antitrust laws (such as the merger to monopoly in *Phoebe Putney*).

## ARGUMENT

### I. CERTIORARI SHOULD BE GRANTED ON THE CLEAR-ARTICULATION QUESTION BECAUSE THE NINTH CIRCUIT MANIFESTLY FAILED TO FOLLOW THIS COURT'S RECENT PRECEDENT

1. In *Phoebe Putney*, this Court explained that a defendant's burden in establishing the clear-articulation element of a state-action immunity defense is to show that the State "affirmatively contemplated the displacement of competition such that the challenged anticompetitive effects can be attributed to the 'state itself.'" *Phoebe Putney*, 133 S. Ct. at 1012 (citation omitted). The Court held that affirmative contemplation is "sufficiently expressed" if displacement of competition is "the inherent, logical, or ordinary result of the exercise of authority delegated by the state legislature." *Id.* at 1013 & n.7 (discussing, inter alia, *Town of Hallie v. City of Eau Claire*, 471 U.S. 34, 41, 42 (1985) (displacement of competition "logically" resulted from grant of authority limiting municipal waste sewage service geographically); *City of Columbia v. Omni Outdoor Ad-*

*vertising, Inc.*, 499 U.S. 365, 373 (1991) (state authorizations to act pursuant to zoning ordinance regulating billboards were “inherently” anticompetitive); *Southern Motor Carriers Rate Conference, Inc. v. United States*, 471 U.S. 48, 64, 65 & n.25 (1965) (agency’s regulatory rate-setting process for common carriers was “inherently” anticompetitive); *New Motor Vehicle Bd. of Cal. v. Orrin W. Fox Co.*, 439 U.S. 96 (1978) (regulatory structure restricting establishment or relocation of automobile dealerships “inherently” displaced competition)). “In that scenario, the State *must have* foreseen and implicitly endorsed the anticompetitive effects as consistent with its policy goals.” *Phoebe Putney*, 133 S. Ct. at 1013 (emphasis added).

However, “when a State’s position is ‘one of mere *neutrality* respecting the municipal actions challenged as anticompetitive,’ the States cannot be said to have ‘contemplated’ those anticompetitive actions.” *Id.* at 1012 (citing *Boulder*, 455 U.S. at 55 (rejecting proposition that grant of authority to municipalities to enact local ordinances necessarily implies authorization to enact *anticompetitive* local ordinances)); *see also id.* at 1013 (whenever state grants power to act, “it does so against the backdrop of federal antitrust law” (citing *Fed. Trade Comm’n v. Ticor Title Ins. Co.*, 504 U.S. 621, 632 (1992))).

The principle articulated in *Boulder* controlled in *Phoebe Putney*. The “respondents’ claim for state-action immunity fail[ed] because there [was] no evidence the State affirmatively contemplated that hos-

pital authorities would displace competition by consolidating hospital ownership” pursuant to Georgia’s legislative grant of hospital acquisition powers. *Id.* at 1011. Although the Georgia legislature *may have* foreseen anticompetitive effects from granting acquisition powers to the hospital authority, the Court found that “the power to acquire hospitals still does not *ordinarily* produce anticompetitive effects,” and nothing in any other provision of Georgia law clearly articulates a state policy to allow hospital authorities to exercise their acquisition powers “without regard to negative effects on competition.” *Id.* at 1014, 1015 (emphasis added).

Elaborating on the controlling *Boulder* principle, the Court explained that a reasonable legislature’s mere “ability to anticipate [the] possibility” that a grant of corporate powers to a public or private entity *may* be used anticompetitively “falls well short of clearly articulating an affirmative state policy to displace competition with a regulatory alternative.” *Id.* at 1014. “When a state grants power to an inferior entity, it presumably grants the power to do the thing contemplated, but not to do so anticompetitively.” *Id.* at 1012 (quoting 1A Phillip E. Areeda & Herbert Hovenkamp, *Antitrust Law* ¶ 225a, at 131 (3d ed. 2006)). While Georgia law “does allow the Authority to acquire hospitals, it does not clearly articulate and affirmatively express a state policy empowering the Authority to make acquisitions of existing hospitals that will substantially lessen competition.” *Id.* at 1012. To infer otherwise

“applie[s] the concept of ‘foreseeability’ from our clear-articulation test too loosely.” *Id.*

The Ninth Circuit’s analysis and holding in *United National* cannot be reconciled with *Phoebe Putney*. The court of appeals held that the SDC is entitled to state-action immunity based on the California Government Code’s legislative grant of authority to the City of San Diego to “manage the use” of the San Diego Convention Center and to generate profits for the municipality. Pet. App. 17. The court of appeals reasoned that anticompetitive exclusionary acts “were the ‘ordinary result of the exercise of authority delegated by the state legislature’” because “a convention center represents a substantial financial investment by a municipality,” and “it is foreseeable that an operator of the convention center *may* exclusively provide cleaning staff to ensure the success of that financial commitment.” *Id.* (emphasis added). On that basis, the court of appeals held that the state legislature evinced “more than mere neutrality” as to California’s intent to displace competition with a regulatory alternative in the market for trade show cleaning services at the convention center. *Id.* at 16.

2. Without more, the State’s grant of authority to “manage the use” of the convention center and to “generate profits” for the municipality can only reasonably be construed as authority to do so competitively. Although the State could have foreseen that an operator of the convention center *may* provide cleaning services to lessees exclusively, it is at least as likely that the State would have foreseen

that the market for cleaning services would be open to competition. By spurring vendors to provide better and cheaper cleaning services to lessees, competition would allow market forces to generate profits for the municipality by making the convention center more attractive to lessees. *See* Pet. 7-9 (discussing higher prices and diminished quality after competition was replaced with monopoly service).

Indeed, according to amici involved in convention-related services nationally and internationally, competition to provide cleaning services to convention-center lessees is the norm. *See* Br. of Exhibition Servs. & Contractors Ass'n et al. at 15, *United Nat'l Maintenance, Inc. v. San Diego Convention Center Corp., Inc.*, 766 F.3d 1002 (9th Cir. 2014) (No. 12-56809) (cleaning services for convention-center lessees “generally are provided by [competing] subcontractors” rather than exclusively by convention centers). And the SDC itself allowed competition from United National for nearly 20 years before it began imposing exclusivity. Pet. 3.

For these reasons, the court of appeals could go no further than to conclude only that it was foreseeable from the enabling legislation that the convention center *may* (or may not) provide cleaning services exclusively. In *Phoebe Putney*, on the other hand, the Court held that the mere “potentially undesirable possibility” that a “local governmental entit[y] . . . *may* transgress antitrust requirements by exercising [its] . . . powers in anticompetitive ways” falls “well short of clearly articulating an af-



firmative state policy to displace competition with a regulatory alternative.” *Phoebe Putney*, 133 S. Ct. at 1013-14 (parentheses omitted and emphasis added). State enabling legislation’s mere “potential to reduce competition” is “too slender a reed” to support an inference that anticompetitive conduct is foreseeable. *Id.* at 1014.

Even if, *arguendo*, it were foreseeable that the convention center *would* provide cleaning services exclusively, the court of appeals still had no basis to infer that an *unlawful* exclusive arrangement is the “ordinary” result of a grant of authority to manage the use of the convention center and to generate profits for the municipality. Just as a merger, even a horizontal one, “does not ordinarily produce anticompetitive effects” or “raise federal antitrust concerns,” *Phoebe Putney*, 133 S. Ct. at 1014, an exclusive provider of cleaning services would not “ordinarily” acquire, enhance or maintain a monopoly in violation of Section 2 of the Sherman Act. It could, for example, become the exclusive provider of cleaning services “as a consequence of a superior product, business acumen, or historic accident,” which would not violate the antitrust laws. *United States v. Grinnell Corp.*, 384 U.S. 563, 571 (1966); *cf. Shames v. Cal. Travel & Tourism Comm’n*, 626 F.3d 1079, 1085 (9th Cir. 2010) (although legislature may have foreseen that rental car companies would pass along tourism fee to consumers, it was not foreseeable that they would do so collusively).

Similarly, it is no answer to the clear-articulation question to suggest that the *reasonable* exclusive provision of cleaning services was foreseeable. *See* Pet. App. 22 (Hurwitz, J., concurring) (concluding the convention center acted reasonably and with legitimate business purposes). Obviously, state-action immunity is not a proper basis for dismissing an antitrust case if the defendant’s “immunity” stems from the absence of an antitrust violation rather than a state policy to displace competition. Quite naturally, this Court’s state-action cases *assume* that an antitrust violation would exist absent the requisite state authorization. *See, e.g., Cantor v. Detroit Edison Co.*, 428 U.S. 579, 582 (1976); *Boulder*, 455 U.S. at 58 (Stevens, J., concurring) (“the violation issue is separate and distinct from the exemption issue”); 1A Phillip E. Areeda & Herbert Hovenkamp, *Antitrust Law* ¶ 224a (3d ed. 2013) (“anticompetitive’ is not a conclusion but a mere assumption designed to postpone the merits by asking whether a state-action immunity would shield the challenged conduct even if such conduct were anticompetitive and otherwise offensive to the antitrust laws”).

Finally, the court of appeals also ignored that the management power conferred upon the SDC mirrors powers that California routinely confers on private organizations, which *Phoebe Putney* relied upon in finding “no evidence the State affirmatively contemplated that hospital authorities would displace competition.” *See Phoebe Putney*, 133 S. Ct. at 1011-12 & n.6 (citing various provisions of Ga. Code Ann. §§ 31, 14); *see e.g., Cal. Bus. & Prof. Code* §§

21661(d)-(e), 21669, 21669.1 (granting private corporations authority to manage the use of public property throughout California to operate swap meets, flea markets, and open-air markets).

3. In addition to finding that the California legislature affirmatively contemplated the displacement of cleaning services competition because it *may* have foreseen the merely potentially undesirable possibility that the SDC would provide cleaning services exclusively, the court of appeals also misapprehended precedent in concluding that anticompetitive conduct was the “ordinary” result of the enabling legislation because it was “profit-generating.” Pet. App. 17.

The court of appeals’ analysis is exactly backwards. The profit-generating nature of the convention center is a factor that warrants *heightened* scrutiny. It not only suggests a potentially stronger motive for the convention center to behave anticompetitively, but without more, it bespeaks a legislative intent to treat the convention center like a private actor, subject to the general antitrust rules of behavior. *See City of Lafayette v. La. Power & Light Co.*, 435 U.S. 389, 403 (1978) (per curiam) (“the economic choices made by public corporations in the context of their business affairs . . . are not inherently more likely to comport with the broader interests of national economic well-being than are those of private corporations”); *id.* at 419 (Burger, C.J., concurring) (arguing that active state supervision in addition to a clearly articulated state policy to displace

competition should be necessary to confer state-action immunity where a municipality acts as a market participant); *Omni*, 499 U.S. at 379 (reiterating Court’s openness to a “possible market participation exception” and distinguishing state action in a regulatory capacity from state action in a commercial capacity).<sup>4</sup>

## II. THE CLEAR-ARTICULATION QUESTION IS CERT-WORTHY

1. For all of the important reasons certiorari was granted in *Phoebe Putney*, certiorari is warranted here. There are over 300 convention center facilities owned by state and local governments nationally, U.S. Gov’t Accountability Office, *Federal Tax Policy: Information on Selected Capital Facilities Related to the Essential Government Function Test, Report to the Ranking Minority Member, Committee on Finance, U.S. Senate* 19 (2006), <http://www.gao.gov/assets/260/251475.pdf>, and the

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<sup>4</sup> The court of appeals also purported to distinguish the SDC’s authority to “manage” from the authority to “act” at issue in *Phoebe Putney* on grounds that the former is “specific” whereas the latter is “general.” Pet. App. 16-17 (suggesting that authorization to “manage the use” of convention center is a “specific delegation of authority” required by the clear-articulation test and “is distinct from a general grant of corporate authority that simply allows a state subdivision to act”). This unexplained distinction is specious on its face and contrary to the district court’s factual findings. *See id.* at 38 (“the Court finds that SDC is a state actor with a ‘*broad grant of authority*’ from the legislature to supervise and manage the Convention Center”) (emphasis added); *see also* Pet. 12 (comparing authority to “operate” at issue in *Phoebe Putney* to authority to “manage”).

application of the Sherman Act to claims involving public and private entities with authority to manage such facilities is a recurring issue. *See, e.g., Casper v. SMG*, 2006 U.S. Dist. LEXIS 79267 (D.N.J. Oct. 31, 2006); *Helen Brett Enters. v. New Orleans Metro. Convention & Visitors Bureau*, 1996 U.S. Dist. LEXIS 9137 (E.D. La. June 25, 1996); *CSM Designs, Inc. v. Larkin-Pluznick-Larkin, Inc.*, 1991 U.S. Dist. LEXIS 2019 (S.D.N.Y. Feb. 19, 1991); *Hart Productions, Inc. v. Greater Cincinnati Convention & Visitors Bureau*, 1990 U.S. Dist. LEXIS 19013 (S.D. Ohio Oct. 19, 1990).

The implications of the Ninth Circuit's decision, moreover, extend well beyond the convention-center setting. State legislatures routinely confer ordinary corporate powers on political subdivisions of States, including management powers. *See, e.g.,* Ariz. Rev. Stat. Ann. §§ 5-801, 5-804 (tourism and sports authority granted powers to manage the use of public properties under its control); Conn. Gen. Stat. §§ 7-130a, 7-130d (recreational facilities authority granted powers to manage the use of lands and facilities under its control); Idaho Code Ann. §§ 31-4304, 31-4317(e) (recreational districts granted powers to manage the use of real and personal property); Mass. Ann. Laws ch. 40, § 12B (local beach districts granted authority to manage the use of beach facilities); *see also* Pet. 15 n.3 (citing numerous state legislatures that have authorized substate entities to manage the use of convention centers). And there are tens of thousands of political subdivisions within states that provide a range of vital services to citi-

zens. *See id.* at 15-16 & n.4 (referencing healthcare, education, parking, housing, transportation, airports, water, electricity, and law enforcement).

The application of the antitrust laws to these entities has critical importance not only for the consumers who rely on these services, but also for the States themselves, which must be able to ensure that they will not unintentionally deprive citizens of antitrust protections when they delegate corporate powers to local authorities. The Court was sensitive to this very concern in *Phoebe Putney*, noting that “loose application of the clear-articulation test would attach significant unintended consequences to States’ frequent delegations of corporate authority to local bodies, effectively requiring States to disclaim any intent to displace competition to avoid inadvertently authorizing anticompetitive conduct.” *Phoebe Putney*, 133 S. Ct. at 1016-17 (citations omitted). Consequently, the Court “decline[d] to set such a trap for unwary state legislatures.” *Id.* at 1017.

2. Certiorari also is warranted because of a divergence between the Ninth Circuit and the State of California regarding the proper standard for the foreseeability of the displacement of competition by an act of the California legislature. California, in a brief to this Court joined by nineteen other states, has unequivocally disavowed the Ninth Circuit’s “may” standard. *See Br. of Amici Curiae States of Illinois, Arizona, California et al.* at 6-7, 12, 18, *Fed. Trade Comm’n v. Phoebe Putney Health Sys., Inc.*, 133 S. Ct. 1003 (2013) (No. 11-1160) (“States’ *Phoebe*

Br.”) (arguing that an approach to clear articulation whereby “it suffices if the anticompetitive conduct *may* be reasonably anticipated” is not only “overbroad” and “far too lenient,” but it also “undercuts state antitrust efforts,” “makes it perilous for States to delegate authority to local bodies,” and should be “jettisoned” because it “undermines core state interests” (alteration omitted and emphasis added)).<sup>5</sup>

Granting certiorari is necessary to prevent this Court’s tightening up of the foreseeability standard in *Phoebe Putney* from being undone by the lower federal courts. “The *Parker* state-action exemption reflects Congress’ intention to embody in the Sherman Act the federalism principle that the States possess a significant measure of sovereignty under our Constitution.” *Boulder*, 455 U.S. at 53. “The doctrine only serves this purpose as long as it excuses anticompetitive conduct that a State *wishes* to excuse, however.” States’ *Phoebe* Br. at 6. Otherwise *Parker* risks being misused and “undermining the very interests of federalism it is designed to protect.” *Omni*, 499 U.S. at 372.

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<sup>5</sup> California and the nineteen other states also expressed concern regarding the deleterious effects of the “may” standard on States’ ability to delegate corporate authority to local bodies, discussed *supra*. See States’ *Phoebe* Br. at 1 (arguing that the standard “undermines the States’ ability to effectively delegate state authority to local bodies, while simultaneously weakening antitrust protections,” and thus “has the perverse effect of using the state-action doctrine, which was created to promote state regulatory aims, to jeopardize essential state interests”).

Consistent with the States' own well-articulated needs and concerns, and the broad, recurring implications for consumers nationwide, this Court should re-affirm the controlling principle articulated in *Boulder*. When a State's position is one of mere neutrality respecting the municipal actions challenged as anticompetitive – that is, when it is foreseeable from the enabling legislation only that a grant of authority *may* (or may not) be exercised anticompetitively, but not that the anticompetitive conduct is the inherent, logical or ordinary result of the enabling legislation – the State cannot be said to have affirmatively contemplated and endorsed those anticompetitive actions.

### CONCLUSION

For the foregoing reasons, the petition should be granted and the court of appeals should be summarily reversed.

Respectfully submitted,

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December 15, 2014