“While humans and corporations can assert their own citizenship, other entities take the citizenship of their members,” the U.S. Supreme Court said in a short, unanimous decision penned by Justice Sonia Sotomayor. Americold Logistics, LLC v. ConAgra Foods, Inc., No. 14-1382, 2016 U.S. LEXIS 1652 (U.S. Mar. 7, 2016). This settles a split among the lower courts as to the citizenship of a trust for the purposes of diversity-of-citizenship jurisdiction.

The case began in state court and involved a warehouse fire and a contract dispute. The fire took place in 1991 in an underground storage facility owned by Americold Corporation, the predecessor of Americold Realty Trust (the “Trust”) (a real estate investment trust commonly known as a “REIT”) organized under Maryland law, and leased by ConAgra Foods, Inc. and others.

The plaintiffs sued Americold Corporation in Kansas state court and the lawsuits settled for $58.7 million. The settlement also assigned to the plaintiffs Americold Corporation’s right to seek recovery from its excess insurance carriers. After almost 20 years and multiple trips to the Kansas Supreme Court for garnishment proceedings against the insurance carriers, the underlying judgments against Americold Corporation were extinguished because they had become dormant and extinct under Kansas law.

The plaintiffs then sued the Trust and Americold Logistics in Kansas state court, alleging breach of contract for their alleged refusal to execute documents that would have allowed the plaintiffs to act on the 1994 consent judgments against Americold Corporation.

The plaintiffs named the Trust rather than the individual trustees as the defendant in its breach of contract action. The Trust and Americold Logistics removed the case to federal court based on diversity-of-citizenship jurisdiction under 28 U.S.C. §§1332(a)(1), 1441(b), without objection. The district court granted summary judgment in favor of the Trust and Americold Logistics, and the plaintiffs appealed.

The Tenth Circuit Court of Appeals on its own accord raised the issue of subject-matter jurisdiction. While the record showed that the plaintiffs were incorporated under Delaware laws and had principal places of business in Nebraska and Illinois, there was no evidence as to the citizenship of the Trust’s beneficiaries.

Because the Trust was a real estate investment trust, rather than a corporation, the Tenth Circuit held that citizenship of any “non-corporate artificial entity” is determined by considering all of the entity’s “members, including its shareholders.” The record was devoid of evidence as to the citizenship of Americold’s shareholders, so the Tenth Circuit held that it did not have subject-matter jurisdiction because complete diversity of the parties was lacking.

The U.S. Supreme Court affirmed the Tenth Circuit’s decision, spending several pages on the history of the old rule that only a human could be a citizen for jurisdictional purposes. It then noted the limited exception carved out for corporations, such that a corporation could be considered a citizen of its state of incorporation. This left the question of how to deal with artificial entities other than corporations. Over time, the Court stated, it has adhered to a rule that diversity jurisdiction involving such an
artificial entity (e.g., a joint-stock company or limited partnership) depended on the citizenship of “all its members.” While never defining the term “member,” the Court equated an association’s members with its owners or those persons composing the corporation. So it was that the members of a joint-stock company were its shareholders, the members of a partnership its partners, and the members of a union the workers affiliated with it, the Court explained.

Accordingly, the Court held that the Trust possessed the citizenship of all its members, and those members, under Maryland law, were its shareholders. Further, because the record was silent as to the identity of those members, proof of complete diversity for diversity jurisdiction was lacking, and the Court affirmed the Tenth Circuit’s decision.

In so holding, the Court was careful to distinguish the situation in which an artificial entity is sued in its name, as happened in this case, from cases in which legal proceedings involving a trust were brought by or against the trustees in their respective names. In the latter scenario, the trustees’ citizenship is all that matters for diversity purposes.

The Court also rejected the suggestion of an amicus curiae (Latin for “friend of the Court,” i.e., an entity not a party to the case) that a publicly traded REIT should be treated under the rule governing corporations, stating that it saw “no reason to tear … down” the “doctrinal wall between corporate and unincorporated entities.”

The Supreme Court's decision likely will affect courts’ determination of the citizenship of REITs and other unincorporated entities. Entity formation matters and contractual relationships with unincorporated entities may need to be considered more closely for possible federal diversity jurisdiction as a result of the Supreme Court decision.

Jackson Lewis attorneys are available to answer inquiries regarding this case.