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Megatel Homes, L.L.C. v. City of Mansfield, Texas

United States Court of Appeals, Fifth Circuit - March 26, 2026 - F.4th - 2026 WL 828414

Developers that sought to develop land outside of city brought action for declaratory relief and damages against city, alleging city violated the Sherman Act and committed tortious interference, fraud, and negligent misrepresentation under state law when it denied developers access to water utility services from special utility district within city's extraterritorial jurisdiction unless developers acquiesced to city's demands that it consent to the land's annexation, permitting city control and taxation, and pay various and sundry development fees.

The United States District Court adopted report and recommendation of United States Magistrate Judge and granted city's motion to dismiss the Sherman Act claims and declined to exercise supplemental jurisdiction over the state law claims. Developers appealed.

The Court of Appeals held that city did not have state-action immunity from developers' Sherman Act claims.

Although Texas Water Code conveyed clear intent to permit monopolies in water utilities, it conferred that authority only to the special utility district granted certificate of convenience and necessity by the State with respect to land developers sought to develop that was within city's extraterritorial jurisdiction, but Texas law did not permit city to act anticompetitively, and thus, city did not have state-action immunity from developers' Sherman Act claims alleging city denied developers access to water utility services unless developers acquiesced to city's demands that it consent to the land's annexation, permitting city control and taxation, and pay various and sundry development fees; Code provision explicitly permitting monopolistic behavior specified that utilities were monopolies in the areas they served.