

Nos. 11-1057 & 11-1058

IN THE UNITED STATES COURT OF APPEALS  
FOR THE FOURTH CIRCUIT

---

COMMONWEALTH OF VIRGINIA, EX REL. KENNETH T. CUCCINELLI, II,  
in his official capacity as Attorney General of Virginia,  
Plaintiff-Appellee/Cross-Appellant,

v.

KATHLEEN SEBELIUS, Secretary of the Department of Health and  
Human Services, in her official capacity,  
Defendant-Appellant/Cross-Appellee.

---

ON APPEAL FROM THE UNITED STATES DISTRICT COURT  
FOR THE EASTERN DISTRICT OF VIRGINIA

---

RESPONSE/REPLY BRIEF FOR APPELLANT

---

NEAL KUMAR KATYAL  
Acting Solicitor General

TONY WEST  
Assistant Attorney General

BETH S. BRINKMANN  
Deputy Assistant Attorney General

NEIL H. MacBRIDE  
United States Attorney

MARK B. STERN

ALISA B. KLEIN

ANISHA S. DASGUPTA

(202) 514-5089

Attorneys, Appellate Staff

Civil Division, Room 7531

Department of Justice

950 Pennsylvania Ave., N.W.

Washington, D.C. 20530-0001

## TABLE OF CONTENTS

	<u>Page</u>
PART I: REPLY BRIEF AS APPELLANT.....	1
SUMMARY OF ARGUMENT.....	1
ARGUMENT.....	3
I.    Virginia Lacks Standing To Challenge the Minimum Coverage Provision. ....	3
II.   The Minimum Coverage Provision Is a Valid Exercise of Congress’s Commerce Power. ....	9
A.   The Minimum Coverage Provision Properly Regulates the Means by Which People Pay for Health Care Services. ....	10
B.   The Minimum Coverage Provision Is Integral to the Affordable Care Act’s Guaranteed-Issue and Community-Rating Requirements.....	20
C.   No Precedent Suggests that the Minimum Coverage Provision Is an Impermissible Means of Regulating Commerce.....	25
III.  The Minimum Coverage Provision Is Also Independently Authorized by Congress’s Taxing Power.....	34
A.   The Minimum Coverage Provision Operates as a Tax and Will Produce Billions of Dollars in Annual Revenue.....	35
B.   The Minimum Coverage Provision Is Not Punitive.....	37
C.   The Validity of a Tax Does Not Depend on Its Label. ....	40

PART II: BRIEF AS CROSS-APPELLEE.....	42
SUMMARY OF ARGUMENT.....	42
ARGUMENT.....	43
The District Court Properly Rejected the Commonwealth’s Request to Set Aside Affordable Care Act Provisions of Unquestioned Validity.....	43
CONCLUSION.....	50
CERTIFICATE OF COMPLIANCE	
CERTIFICATE OF SERVICE	

**TABLE OF AUTHORITIES**

<b>Cases:</b>	<b><u>Page</u></b>
<i>A. Magnano Co. v. Hamilton</i> , 292 U.S. 40 (1934).....	37
<i>Adventure Res., Inc. v. Holland</i> , 137 F.3d 786 (4th Cir. 1998). .....	40
<i>Alaska Airlines, Inc. v. Brock</i> , 480 U.S. 678 (1987).....	44, 46
<i>Alfred L. Snapp &amp; Son, Inc. v. Puerto Rico ex rel. Barez</i> , 458 U.S. 592 (1982).....	6, 7
<i>Arizona Christian School Tuition Organization v. Winn</i> , __ S. Ct. __ (Apr. 4, 2011), 2011 WL 1225707. ....	8
<i>Ashwander v. TVA</i> , 297 U.S. 288 (1936).....	42
<i>Astra USA, Inc. v. Santa Clara Cnty.</i> , __ S. Ct. __ (Mar. 29, 2011), 2011 WL 1119021.....	45
<i>Ayotte v. Planned Parenthood of N. New England</i> , 546 U.S. 320 (2006).....	44, 49
<i>Bob Jones Univ. v. Simon</i> , 416 U.S. 725 (1974).....	35, 39
<i>Brockett v. Spokane Arcades, Inc.</i> , 472 U.S. 491 (1985).....	44
<i>The Child Labor Tax Case</i> , 259 U.S. 20 (1922).....	39, 40

*CSX Transp. v. Bd. of Pub. Works of W. Va.*,  
 138 F.3d 537 (4th Cir. 1998). ..... 40

*Dep’t of Revenue of Mont. v. Kurth Ranch*,  
 511 U.S. 767 (1994)..... 39

*Diamond v. Charles*,  
 476 U.S. 54 (1986)..... 5, 6

*Florida ex rel. Bondi v. HHS*,  
 \_\_\_ F. Supp. 2d \_\_\_ (N.D. Fla. 2011), 2011 WL 285683. .... 15, 17, 45, 46

*Free Enterprise Fund v. Pub. Co. Accounting Oversight Bd.*,  
 130 S. Ct. 3138 (2010)..... 43, 44

*Freilich v. Upper Chesapeake Health, Inc.*,  
 313 F.3d 205 (4th Cir. 2002). .... 27, 29

*Gibbs v. Babbitt*,  
 214 F.3d 483 (4th Cir. 2000). .... 29

*Gonzales v. Raich*,  
 545 U.S. 1 (2005)..... 10, 19, 21, 23, 26, 28, 29, 30, 31

*Hodel v. Virginia Surface Mining & Reclamation Assn.*,  
 452 U.S. 264 (1981)..... 33

*Hoffman v. Hunt*,  
 126 F.3d 575 (4th Cir. 1997). .... 28, 29

*Knowlton v. Moore*,  
 178 U.S. 41 (1900)..... 38

*Liberty Univ., Inc. v. Geithner*,  
 \_\_\_ F. Supp. 2d \_\_\_ (W.D. Va. 2010), 2010 WL 4860299..... 14

*License Tax Cases*,  
 72 U.S. 462 (1866)..... 38, 40

*Maine v. Taylor*,  
 477 U.S. 131 (1986)..... 7

*Massachusetts v. EPA*,  
 549 U.S. 497 (2007)..... 5, 8

*Massachusetts v. Mellon*,  
 262 U.S. 447 (1923)..... 5

*McCulloch v. Maryland*,  
 17 U.S. 316 (1819)..... 7, 10, 31, 33

*Mead v. Holder*,  
 \_\_ F. Supp. 2d \_\_ (D.D.C. 2011), 2011 WL 611139..... 13, 14

*NLRB v. Jones & Laughlin Steel Corp.*,  
 301 U.S. 1 (1937)..... 43

*Nelson v. Sears, Roebuck & Co.*,  
 312 U.S. 359 (1941)..... 35

*New York v. United States*,  
 505 U.S. 144 (1992)..... 6, 34, 46, 48, 49

*Nigro v. United States*,  
 276 U.S. 332 (1928)..... 37

*Northwest Austin Mun. Utility Dist. No. One v. Holder*,  
 129 S. Ct. 2504 (2009)..... 42

*Nortz v. United States*,  
 294 U.S. 317 (1935)..... 32

*Oregon v. Mitchell*,  
 400 U.S. 112 (1970)..... 6

*Printz v. United States*,  
 521 U.S. 898 (1997)..... 34, 47, 48

*Regan v. Time, Inc.*,  
468 U.S. 641 (1984)..... 43, 45, 46

*Rosenberger v. Rector & Visitors of the Univ. of Va.*,  
515 U.S. 819 (1995)..... 36

*Sabri v. United States*,  
541 U.S. 600 (2004)..... 9, 33

*Shalala v. Illinois Council on Long Term Care, Inc.*,  
529 U.S. 1 (2000)..... 25, 48

*Simmons v. United States*,  
308 F.2d 160 (4th Cir. 1962). .... 40

*Sonzinsky v. United States*,  
300 U.S. 506 (1937)..... 36, 37

*South Dakota v. Dole*,  
483 U.S. 203 (1987)..... 49

*Thomas More Law Ctr. v. Obama*,  
720 F. Supp. 2d 882 (E.D. Mich. 2010). .... 14, 15, 21

*United States v. Comstock*,  
130 S. Ct. 1949 (2010)..... 10, 31, 32, 34

*United States v. Constantine*,  
296 U.S. 287 (1935)..... 39

*United States v. Darby*,  
312 U.S. 100 (1941)..... 10, 19, 28, 31

*United States v. Doremus*,  
249 U.S. 86 (1919)..... 37, 38

*United States v. Forrest*,  
429 F.3d 73 (4th Cir. 2005). .... 30, 31

*United States v. Gould*,  
568 F.3d 459 (4th Cir. 2009). . . . . 23, 29

*United States v. Jackson*,  
390 U.S. 570 (1968). . . . . 46

*United States v. Kahriger*,  
345 U.S. 22 (1953). . . . . 38

*United States v. LaFranca*,  
282 U.S. 568 (1931). . . . . 38, 39

*United States v. Lopez*,  
514 U.S. 549 (1995). . . . . 26, 27, 29

*United States v. Morrison*,  
529 U.S. 598 (2000). . . . . 26

*United States v. One Ford Coupe Auto.*,  
272 U.S. 321 (1926). . . . . 39

*United States v. Sanchez*,  
340 U.S. 42 (1950). . . . . 37, 39

*United States v. Sotelo*,  
436 U.S. 268 (1978). . . . . 40

*United States v. South-Eastern Underwriters Ass’n*,  
322 U.S. 533 (1944). . . . . 20, 26

*Usery v. Charleston Cnty. Sch. Dist.*,  
558 F.2d 1169 (4th Cir. 1977). . . . . 41

*Williams v. Motley*,  
925 F.2d 741 (4th Cir. 1991). . . . . 36

*Woods v. Cloyd W. Miller Co.*,  
333 U.S. 138 (1948). . . . . 40



*Wyoming ex rel. Crank v. United States*,  
539 F.3d 1236 (10th Cir. 2008). ..... 7

**Constitution:**

U.S. Const. art. I, § 3..... 19

U.S. Const. art. I, § 8, cl. 1..... 33

U.S. Const. art. I, § 8, cl. 3..... 33

U.S. Const. art. I, § 8, cl. 4..... 33

U.S. Const. art. I, § 8, cl. 7..... 33

U.S. Const. art. I, § 8, cl. 9..... 33

U.S. Const. amend. XIII..... 33

U.S. Const. amend. XIV. .... 33

U.S. Const. amend. XV..... 33

**Statutes:**

18 U.S.C. § 2252(c). .... 30

26 U.S.C.A. § 4980H(b)(2)..... 41

26 U.S.C.A. § 4980H(c)(2)(D). .... 41

26 U.S.C.A. § 5000A..... 35

26 U.S.C.A. § 5000A(a). .... 35

26 U.S.C. § 5000A(b)(1). .... 40

26 U.S.C.A. § 5000A(b)(2)..... 35, 36

26 U.S.C.A. § 5000A(b)(3).....	35
26 U.S.C.A. § 5000A(b)(3)(B). ....	35
26 U.S.C.A. § 5000A(c) . ....	35
26 U.S.C. § 5000A(c)(1)(B). ....	39
26 U.S.C.A. § 5000A(e)(2).....	35
26 U.S.C.A. § 5000A(g) . ....	35
26 U.S.C.A. § 7809.....	36
29 U.S.C. §§ 1001 <i>et seq.</i> .....	27
42 U.S.C.A. § 1395w-152.....	48
42 U.S.C.A. § 18091(a)(2)(F).....	11
42 U.S.C.A. § 18091(a)(2)(G). ....	11
42 U.S.C.A. § 18091(a)(2)(I).....	23
Pub. L. No. 111-148, 124 Stat. 119. ....	36, 44, 45
S. 1796 (Oct. 19, 2009).....	41
Virginia Code § 38.2-3430.1:1. ....	3, 4, 13

**Regulations:**

75 Fed. Reg. 50042 (Aug. 16, 2010).....	45
75 Fed. Reg. 71800 (Nov. 24, 2010).....	44
75 Fed. Reg. 73170 (Nov. 29, 2010).....	44

**Legislative Material:**

47 Million and Counting: Hearing Before the S. Comm. on Finance, 110th Cong. (2008) (Prof. Hall). ..... 24, 25

155 Cong. Rec. S13,558, S13,581-82 (Dec. 20, 2009) (Sen. Baucus). ..... 41

155 Cong. Rec. S13,751, S13,753 (Dec. 22, 2009) (Sen. Leahy). ..... 41

155 Cong. Rec. S13,830, S13,832 (Dec. 23, 2009). ..... 41

156 Cong. Rec. H1824, H1826 (Mar. 21, 2010) (Rep. Slaughter). ..... 41

156 Cong. Rec. H1854, H1882 (Mar. 21, 2010) (Rep. Miller). ..... 41

Chairman Waxman and Rep. Stupak, Memorandum on Maternity Coverage in the Individual Health Insurance Market to H. Comm. on Energy & Commerce (Oct. 12, 2010). ..... 24

Expanding Consumer Choice and Addressing “Adverse Selection” Concerns in Health Insurance: Hearing Before the Joint Economic Comm. (2004) (Prof. Pauly). ..... 11

S. Rep. No. 111-89 (Oct. 19, 2009). ..... 42

## **PART I: REPLY BRIEF AS APPELLANT**

### **SUMMARY OF ARGUMENT**

**I.** The Commonwealth concedes that it cannot bring suit as *parens patriae*, to remove its citizens from the reach of federal law, and fails to demonstrate any other basis for standing. Virginia does not dispute that the purpose of its statute is to exempt its citizens from federal law, as Virginia's leaders proclaimed when the statute was passed.

Virginia asserts that its statute also would preclude local governments and private employers from requiring the purchase of insurance. The minimum coverage provision that Virginia challenges here, however, applies only to individuals, and does not prevent Virginia from barring entities other than the United States from requiring insurance.

**II.** Although the Commonwealth insists that the minimum coverage provision is not a proper means to regulate interstate commerce, it disputes none of the premises of the statute. The Commonwealth recognizes that virtually all individuals participate in the market for health care services. It does not dispute that an individual's demand for health care services may arise unexpectedly; that medical expenses often far exceed the resources of even the most prudent individuals; and that the cost of uncompensated medical services is shifted to other consumers, inflating insurance premiums.

The Commonwealth’s argument boils down to the contention that Congress has not regulated individuals in their “capacity” as participants in the health care market, but “on account of the passive status of being uninsured.” Pl. Br. 46. That argument has no basis in Commerce Clause doctrine, disregards the express findings in the Act, and defies common sense. The purpose of health insurance is to pay for expenses incurred in the health care services market. That some participants in the health care market may be “passive” in the insurance market — in the sense that they may not currently have insurance — has no constitutional significance.

**III.** In urging that the minimum coverage provision is not a valid exercise of the taxing power, the Commonwealth recites contentions that have long been laid to rest. The Supreme Court has repeatedly rejected claims, such as that advanced by Virginia, that a provision is not a tax because its purpose “is to alter conduct in hopes that the penalty will not be collected at all.” Pl. Br. 55. The minimum coverage provision has none of the hallmarks of a “punitive” sanction, and its validity as a tax does not turn on how it is denominated in the statute. The presumption that statutes are constitutional requires that a court determine whether Congress has the constitutional authority to adopt the minimum coverage provision, not whether Congress used particular terminology in doing so.

## ARGUMENT

### I. Virginia Lacks Standing To Challenge the Minimum Coverage Provision.

Virginia concedes that it cannot bring this action as *parens patriae*. Pl. Br. 13.

It fails, however, to demonstrate any other basis for standing.

The Commonwealth does not dispute that it enacted Virginia Code § 38.2-3430.1:1 to preclude the application of federal law to its citizens. That purpose is evident from the face of the Virginia statute, which the district court correctly characterized as merely “declaratory.” JA 308. It is likewise evident from the pronouncements made by the Commonwealth’s leaders when the Virginia law was enacted. Virginia’s Governor, in signing the Virginia law on the day after enactment of the Affordable Care Act, expressly linked the state law with the federal statute. Press Release, Virginia Governor McDonnell, Governor McDonnell Signs Virginia Healthcare Freedom Act Legislation (Mar. 24, 2010) (“March 24 Press Release”), <http://www.governor.virginia.gov/news/viewRelease.cfm?id=88>. The Lieutenant Governor, describing the new state law, said, “[W]e again assert that decisions of this nature should be made on the state level, not in Washington, D.C.” *Ibid.* The Attorney General proclaimed: “Clearly, what we’ve done in Virginia is set a bar, where we do not accept the individual mandate for our citizens, and we’ll

defend that position.” *Cuccinelli Ready To Defy Federal Health-Insurance Mandate*, Richmond Times-Dispatch (Feb. 4, 2010); *see also* March 24 Press Release (Virginia Attorney General noted “opposition to the new federal health care law” as a result of which “the Virginia Health Care Freedom Act is being signed today”).

The Attorney General proceeded to “defend that position” by bringing this lawsuit. The Commonwealth argues that, by enacting § 38.2-3430.1:1, it created standing where no justiciable controversy would otherwise exist: “The Virginia law transforms Tenth Amendment issues of the sort found to be merely abstract in *Mellon* into an immediate and concrete dispute within the ambit of the sovereign standing cases.” Pl. Br. 18.

But as our opening brief explained, this reasoning would allow any state to create standing to challenge any federal policy or statute by enacting a state statute to preclude the application of federal law to its residents. The Commonwealth does not argue otherwise and, indeed, embraces that result. It declares that “[t]he Secretary’s hypotheticals, positing that a State could legislate against Social Security taxes or the federal war powers, fail to appreciate that litigants frequently have standing to lose on the merits.” Pl. Br. 16-17. In other words, the Commonwealth believes that a state *can* create standing by declaring that its citizens may not be called to service pursuant to the federal war powers, although the state might not

prevail in the litigation on the merits.

The Commonwealth makes no attempt to reconcile this position with the Supreme Court's unambiguous pronouncement that "it is no part of [a State's] duty or power to enforce [its citizens'] rights in respect of their relations with the federal government." *Massachusetts v. Mellon*, 262 U.S. 447, 485-86 (1923). The Supreme Court has made clear that "there is a critical difference between allowing a State 'to protect her citizens from the operation of federal statutes' (which is what *Mellon* prohibits) and allowing a State to assert its rights under federal law (which it has standing to do)." *Massachusetts v. EPA*, 549 U.S. 497, 520 n.17 (2007). Virginia's position would obliterate this distinction and nullify the limitation on *parens patriae* standing that has stood for almost 90 years.

The Commonwealth places great reliance on *Diamond v. Charles*, 476 U.S. 54 (1986), declaring that "[t]he Secretary reads [*Mellon*] as though *Diamond* had never been decided." Pl. Br. 15. As the Commonwealth notes, *Diamond* recites the uncontroversial proposition that "a State has standing to defend the constitutionality of its statute." Pl. Br. 13 (quoting *Diamond*, 476 U.S. at 62). The issue in *Diamond* was whether a private citizen could intervene to seek review of a court of appeals decision that held a state abortion statute unconstitutional, after the state declined to challenge the ruling. The Supreme Court noted that "Diamond's attempt to maintain



the litigation is, then, simply an effort to compel the State to enact a code in accord with Diamond's interests." *Diamond*, 476 U.S. at 65. However, "[b]ecause the State alone is entitled to create a legal code, only the State has the kind of 'direct stake' [required to] defend[] the standards embodied in that code." *Ibid.* The *Diamond* decision did not involve a lawsuit by a state, much less a lawsuit by a state against the federal government to enjoin application of a federal statute that, by its terms, applies only to private persons.

Virginia also asserts that, "[w]hen the claimed powers of the States and the federal government collide, the Supreme Court usually addresses the merits without even addressing standing." Pl. Br. 22 (citing *New York v. United States*, 505 U.S. 144 (1992); *Oregon v. Mitchell*, 400 U.S. 112 (1970)). But as our opening brief explained (Def. Br. 29), the federal statutes at issue in those cases directly regulated the states. *New York* addressed a federal law that required states to enact a scheme for the disposal of low-level radioactive waste or else to take title to the waste. *Mitchell* addressed a federal law that barred states from requiring literacy tests or disqualifying voters for failure to meet state residency requirements. The Affordable Care Act's minimum coverage provision, by contrast, applies only to individuals.

Virginia cites *Alfred L. Snapp & Son, Inc. v. Puerto Rico ex rel. Barez*, 458 U.S. 592 (1982), for the proposition that it has "sovereign power over individuals

and entities within the relevant jurisdiction,” Pl. Br. 14 (quoting *Snapp*, 458 U.S. at 601), and asserts that it thus has “sovereign standing” to “enforce[] ... its own statute[]” through this suit, Pl. Br. 13 (quoting *Maine v. Taylor*, 477 U.S. 131, 137 (1986)). The citation is correct, but the validity of the assertion does not follow. The United States is not an “individual[]” or “entit[y]” over whom Virginia has “sovereign power.” Pl. Br. 14; see *McCulloch v. Maryland*, 17 U.S. 316, 429 (1819) (“The sovereignty of a state extends to everything which exists by its own authority, or is introduced by its permission; but does it extend to those means which are employed by congress to carry into execution powers conferred on that body by the people of the United States? We think it demonstrable, that it does not.”). This is not a statute that Virginia can “enforce.” It is, as the district court recognized, merely “declaratory.” JA 303.

As noted in our opening brief (Def. Br. 29), it may be assumed that in some circumstances a state may have standing to challenge federal action that significantly disrupts that state’s regulation of its own citizens. Thus, in the Tenth Circuit case on which Virginia relies, *Wyoming ex rel. Crank v. United States*, 539 F.3d 1236, 1242 (10th Cir. 2008), the court found standing on the ground that the federal action “interfere[d] with Wyoming’s ability to enforce its legal code.” The minimum coverage provision, however, effects no such disruption. Virginia asserts that its new

law prevents local governments and private employers from requiring insurance, Pl. Br. 14, although it cites no examples of such insurance requirements. The assertion is irrelevant, however, because the Affordable Care Act does not prevent Virginia from barring local governments and private employers from requiring insurance. The minimum coverage provision applies only to individuals and, if Virginia wishes to preclude entities other than the United States from imposing their own insurance requirements, the minimum coverage provision poses no obstacle.

Thus, no conflict between federal and state law exists insofar as Virginia seeks to preclude its local governments and private employers from requiring the purchase of health insurance. Because federal law does not preempt the operation of state law, Virginia has no basis to seek an order declaring the federal statute unconstitutional.

A conflict exists only to the extent that Virginia seeks to “protect her citizens from the operation of” the federal statute. *Massachusetts*, 549 U.S. at 520 n.17 (2007). That, the Supreme Court has made abundantly clear, is exactly “what *Mellon* prohibits.” *Ibid*.

Just recently, the Supreme Court affirmed yet again the importance of such limitations on standing to sue. In *Arizona Christian School Tuition Organization v. Winn*, \_\_\_ S. Ct. \_\_\_ (Apr. 4, 2011), 2011 WL 1225707, \*14, the Court declared:

Few exercises of the judicial power are more likely to undermine public

confidence in the neutrality and integrity of the Judiciary than one which casts the Court in the role of a Council of Revision, conferring on itself the power to invalidate laws at the behest of anyone who disagrees with them. In an era of frequent litigation, class actions, sweeping injunctions with prospective effect, and continuing jurisdiction to enforce judicial remedies, courts must be more careful to insist on the formal rules of standing, not less so. Making the Article III standing inquiry all the more necessary are the significant implications of constitutional litigation, which can result in rules of wide applicability that are beyond Congress' power to change.

Virginia's elastic theory of standing would cast courts in precisely the role the Supreme Court sought to avoid.

## **II. The Minimum Coverage Provision Is a Valid Exercise of Congress's Commerce Power.**

The Commonwealth repeatedly attacks a theory of constitutional authority of its own invention, a theory that the federal government has not invoked and that bears no relationship to the statute Congress actually enacted. It is common ground in this case that there is no federal police power and that Congress may not exceed the limits of its authority under the Commerce Clause, as articulated by the Supreme Court in *Lopez* and *Morrison*. In those cases, which involved noneconomic stand-alone federal statutes unconnected to any comprehensive regulatory program, the Court "found the effects of those activities on interstate commerce insufficiently robust" and "emphasized the noneconomic nature of the regulated conduct." *Sabri v. United States*, 541 U.S. 600, 607 (2004). This case, in contrast to *Lopez* and

*Morrison*, involves a comprehensive regulation of a quintessentially economic subject matter with an extraordinarily robust impact on interstate commerce: the way in which consumption of services is financed in the massive interstate health care market.

It has been settled since *McCulloch* that the federal government, which is “intrusted with such ample powers, ... must also be intrusted with ample means for their execution.” 17 U.S. at 408. Accordingly, Congress may employ any means that are ““reasonably adapted” to the attainment of a legitimate end under the commerce power’ or under other powers that the Constitution grants Congress the authority to implement.” *United States v. Comstock*, 130 S. Ct. 1949, 1957 (2010) (quoting *Gonzales v. Raich*, 545 U.S. 1, 37 (2005) (Scalia, J., concurring in the judgment) (quoting *United States v. Darby*, 312 U.S. 100, 121 (1941))). Here, the requirement that individuals pay for the goods and services they will inevitably consume in the market in which they already participate is more than “reasonably adapted” to Congress’s legitimate end of regulating the interstate market in health care.

**A. The Minimum Coverage Provision Properly Regulates the Means by Which People Pay for Health Care Services.**

1. Virginia does not take issue with Congress’s findings or the extensive record on which they are based. Virginia does not dispute that people without

insurance actively participate in the market for health care services, or that “the uninsured consume \$100 billion in health care services annually.” Pl. Br. 8. The Commonwealth expressly acknowledges Congress’s finding that “\$43 billion of this amount is not paid to the provider.” *Ibid.*; *see also* 42 U.S.C.A. § 18091(a)(2)(F). Virginia similarly does not dispute that the cost of this uncompensated care is borne not only by providers but also by other consumers: “Congress further found that health care providers pass on a significant portion of these costs to private insurers, which pass on the cost to families.” Pl. Br. 8; *see also* 42 U.S.C.A. § 18091(a)(2)(F) (costs are passed on from providers “to private insurers, which pass on the cost to families,” thereby inflating family health insurance premiums “by on average over \$1,000 a year”).

These figures reflect several unique features of the health services market:

*First*, “the individual need for health care is temporally unpredictable.” Pl. Br. 7. Indeed, “[m]ost medical expenses for people under 65” result “from the ‘bolt-from-the-blue’ event of an accident, a stroke, or a complication of pregnancy that we know will happen on average but whose victim we cannot (and they cannot) predict well in advance.” *Expanding Consumer Choice and Addressing “Adverse Selection” Concerns in Health Insurance: Hearing Before the Joint Economic Comm.* 32 (2004) (Prof. Pauly).

*Second*, medical “procedures are expensive,” Pl. Br. 7, and unexpected medical costs can easily dwarf other personal expenses. Indeed, 62% of all personal bankruptcies are caused in part by medical expenses. 42 U.S.C.A. § 18091(a)(2)(G). “Even routine medical procedures, such as MRIs, CT scans, colonoscopies, mammograms, and childbirth, to name a few, cost more than many Americans can afford.” Amicus Br. of Economic Scholars, at 9 (Doc. 39-1). “Given the extremely high costs of health care for all but the most routine treatments and procedures, the cost of medical care is beyond the means of all but the most wealthy Americans.” *Ibid.* Health insurance is thus the usual means by which Americans pay for health care. *Ibid.*; Def. Br. 8-9.

*Third*, unlike in other markets, consumers are legally entitled to obtain extremely expensive health care services without regard to their ability to pay. Although the Commonwealth describes these requirements — which are grounded in the common law as well as in state and federal statutes — as “market distortions,” Pl. Br. 43, Congress can properly regulate the market as it exists, not as the Commonwealth wishes it to be. The Commonwealth does not dispute that in the real world, the uninsured receive tens of billions of dollars of services each year for which they do not pay.

The Commonwealth thus does not and cannot controvert that health insurance

is a method — in fact, the principal method — of paying for health care services, as opposed to a product that stands alone in its own isolated market. Indeed, the University of Virginia has imposed its own minimum coverage requirement precisely because insurance coverage is necessary to pay medical expenses. The University’s website explains that “[a]ll students are required by the University to have health insurance, either under a parent’s plan or purchased independently.” It further explains that “[this] requirement assures that resources are available to cover inpatient or specialty care or expenses related to accidents or injuries.” Elson Student Health Center at the University of Virginia, <http://www.virginia.edu/studenthealth/insurance.html> (last modified Mar. 21, 2011) (bold omitted). These are, of course, the principal purposes of all health insurance.<sup>1</sup>

The Commonwealth does not dispute that the Affordable Care Act’s minimum coverage provision will substantially reduce levels of uncompensated care and the consequent shifting of costs to other consumers. And it does not dispute the observation of three district courts, quoted in the Commonwealth’s brief, Pl. Br. 46, that “the individuals subject to [the minimum coverage provision] are either present or future participants in the national health care market.” *Mead v. Holder*, \_\_\_ F.

---

<sup>1</sup> As our opening brief explained (Def. Br. 25), Virginia Code § 38.2-3430.1:1 exempts the Commonwealth’s “institution[s] of higher education.”



Supp. 2d \_\_ (D.D.C. 2011), 2011 WL 611139, \*18 (citing *Liberty Univ., Inc. v. Geithner*, \_\_ F. Supp. 2d \_\_ (W.D. Va. 2010), 2010 WL 4860299, \*15; *Thomas More Law Ctr. v. Obama*, 720 F. Supp. 2d 882, 894 (E.D. Mich. 2010)). Accordingly, as each of these courts concluded, the minimum coverage provision is a proper means of regulating payments for services in the health care market.

2. The Commonwealth admits that the individuals subject to the minimum coverage provision are “present or future participants in the national healthcare market,” Pl. Br. 46, but asserts that they “are not being regulated when acting in this capacity.” *Ibid.* Instead, the Commonwealth declares, “[t]hey are being regulated on account of the passive status of being uninsured.” *Ibid.*

This contention — which is the central premise of plaintiff’s commerce power argument — is wrong. The individuals subject to the minimum coverage provision actively participate in the health care market, and the health insurance requirement addresses the risks and costs that they incur and benefits they receive in that market. The insurance requirement regulates how and when individuals will pay for the services they will consume in a market in which they already participate. That some individuals may be “passive” in the insurance market, in the sense of currently “being uninsured,” Pl. Br. 46, has no analytical or constitutional significance. Those individuals have simply chosen to attempt to pay for the services they will consume

in some other way “with a backstop of uncompensated care funded by third parties.” *Thomas More Law Ctr.*, 720 F. Supp. 2d at 894. Insurance requirements are not imposed because of participation in the insurance market; they are imposed to ensure that costs are not externalized in *other* markets. Health insurance “is the means by which we pay for health care,” and the minimum coverage provision “assure[s] that all Americans, to the extent that they can afford it, contribute to the costs of their own health care by maintaining reasonable insurance coverage.” Amicus Br. of Economic Scholars, at 2 (Doc. 39-1).

Virginia’s only answer is to declare that the minimum coverage provision does not “regulate[] the means of payment for services in the interstate healthcare market,” because “it is obvious that it expressly regulates inactivity antecedent to any activity for which payment would be required.” Pl. Br. 23. The Commonwealth does not elaborate on this contention, but it presumably refers to the views of the district courts in this case and in *Florida ex rel. Bondi v. HHS*, \_\_\_ F. Supp. 2d \_\_\_ (N.D. Fla. 2011), 2011 WL 285683, that the health insurance requirement must be linked to a specific purchase of health care services. The *Florida* court recognized that Congress “plainly has the power to regulate” individuals “at the time that they initially seek medical care,” but believed that Congress exceeded its authority by failing to link the insurance requirement to a specific health care purchase. *Id.* at \*26. Similarly, the

district court in this case concluded that Congress cannot require “advance purchase of insurance based upon a future contingency.” JA 1097.

This view fundamentally misunderstands the nature of both health insurance, which is linked to the specific health care purchases that it pays for, and insurance markets generally, which could not function if an individual could delay purchasing coverage until he was about to incur a liability that would be covered. Moreover, the future consumption of health care services is “contingent” only in the sense that “the individual need for health care is temporally unpredictable.” Pl. Br. 7. Virtually all people have already entered the market for health services, and the vast majority consume health care services each year. *E.g.*, Centers for Disease Control and Prevention (“CDC”), National Center for Health Statistics, Health, United States, 2009, table 80 (2010). And it is common ground that even people who have not obtained health care in the recent past may incur massive unforeseen medical costs at any time. Virginia does not identify any principle of Commerce Clause doctrine that requires that future health care purchases be specifically identifiable at the time an insurance requirement takes effect. As our opening brief explained (Def. Br. 44-46), the Supreme Court has repeatedly rejected the contention that the exercise of the commerce power must await specific commercial transactions.

The Commonwealth insists that, if the minimum coverage provision is valid,

it follows that Congress also can require people to buy commodities like “wheat,” Pl. Br. 43, or “broccoli,” Pl. Br. 48 (citing a hypothetical posed to Harvard Law Professor Charles Fried). In a similar vein, the district court in *Florida* suggested that a minimum coverage requirement is no different than a requirement “that everyone above a certain income threshold buy a General Motors automobile.” *Florida*, \_\_ F. Supp. 2d \_\_, 2011 WL 285683, \*24.

This reasoning disregards the fundamental distinctions between the minimum coverage provision and these imaginary schemes. Unlike those schemes, the minimum coverage provision regulates the way people pay for goods and services in a market — the interstate health care market — in which they already participate. The provision is thus not properly viewed as a regulation of “inactivity.” All people risk facing the unforeseen need for expensive health care services; “individual need for health care is temporally unpredictable,” Pl. Br. 7; and health insurance not a commodity whose consumption is an end in itself; it is a financial instrument to pay for health care services when the need arises.

In contrast, people do not confront unexpected life-or-death needs for a Cadillac, and they do not carry insurance to finance future purchases of cars or prohibitively expensive vegetables. And whereas patients are effectively guaranteed expensive health care services in times of need regardless of their means, drivers must

pay for their cars in order to drive them off the lot. In short, there is no logical analogy between a provision that requires people to maintain health insurance to pay for their health care services, and a hypothetical directive to buy broccoli or an automobile. As the 41 economists who are *amici* here explain, the “unique factors” that characterize the health care market “do not obtain in other markets” and, “without them, the predicate for similar legislative mandates is absent.” Amicus Br. of Economic Scholars, at 3 (Doc. 39-1); *see also* Amicus Br. of American Hospital Ass’n, et al., at 21-22 (Doc. 46-1). Upholding the minimum coverage provision does not in any way imply that the Commerce Clause empowers Congress to impose the farfetched laws the Commonwealth describes.

The Heritage Foundation stressed these unique features of the health care market decades ago in urging that the government “[m]andate all households to obtain adequate insurance.” It explained: “If a young man wrecks his Porsche and has not had the foresight to obtain insurance, we may commiserate but society feels no obligation to repair his car.” But, it observed, “health care is different. If a man is struck down by a heart attack in the street, Americans will care for him whether or not he has insurance. If we find that he has spent money on other things rather than insurance, we may be angry but we will not deny him services — even if that means more prudent citizens end up paying the tab.” Stuart M. Butler, *The Heritage*

*Lectures 218: Assuring Affordable Health Care for All Americans*, at 6 (Heritage Foundation 1989).

The Commonwealth’s focus on a purported distinction between “activity” and “inactivity” — not a distinction on which any Commerce Clause decision by the Supreme Court or this Court has ever turned — elides what is the dispositive inquiry, whether the target of Congress’s regulation “substantially affect[s] interstate commerce.” *Raich*, 545 U.S. at 16-17. It has long been settled that Congress can use its commerce power to regulate even wholly *intrastate* conduct, so long as that conduct has a substantial effect on interstate commerce. *See, e.g., Darby*, 312 U.S. at 119-20; *see also id.* at 124-25 (affirming Congress’s commerce authority to compel employers to maintain records of “intrastate transaction[s],” *i.e.*, the wages paid to local employees). The Commonwealth posits that “the mode of regulation must fit the enumerated power by executing it — not by altering its character.” Pl. Br. 39. If regulation of purely intrastate conduct with a substantial effect on interstate commerce satisfies this test (despite the Constitution’s text authorizing Congress only to “regulate Commerce ... among the several States,” U.S. Const. art. I, § 3), then surely so too does regulation of the means of payment in the massive interstate healthcare market.

**B. The Minimum Coverage Provision Is Integral to the Affordable Care Act's Guaranteed-Issue and Community-Rating Requirements.**

1. The Commonwealth also does not contest that the minimum coverage provision is instrumental to broader Affordable Care Act reforms that prevent insurers from denying coverage or charging more because of pre-existing medical conditions. Virginia recognizes that “non-employment based insurance is difficult to obtain because of cost and underwriting for pre-existing conditions,” and acknowledges that the Affordable Care Act directly addresses these serious problems by restricting medical underwriting. Pl. Br. 8.

The Act thus makes everyone insurable, eliminates restrictive underwriting that harms millions of consumers, and provides protection against ruinous medical expenses. These provisions regulate the “practical aspects of the insurance companies’ methods of doing business,” which the Supreme Court long ago found was well within the commerce power. *United States v. South-Eastern Underwriters Ass’n*, 322 U.S. 533, 541 (1944).

The Commonwealth nonetheless denounces the minimum coverage provision as a requirement imposed “solely for the convenience of the government.” Pl. Br. 43. This contention is both wrong and irrelevant. It is wrong because the beneficiaries of the Affordable Care Act include, of course, the millions of Americans who

otherwise would be unable to obtain affordable coverage, as well as the millions of others to whom the costs of uncompensated care would otherwise be shifted. Thus, the district court in *Thomas More Law Center* correctly explained that “[t]he uninsured ... benefit from the ‘guaranteed issue’ provision in the Act, which enables them to become insured even when they are already sick,” and that, even apart from the other goals advanced by the minimum coverage provision, “[t]his benefit makes imposing the minimum coverage provision appropriate.” 720 F. Supp. 2d at 894. Plaintiff’s contention is, in any event, irrelevant, because it has no bearing on the legal test articulated in *Raich*, 545 U.S. at 22, which focuses on whether the provision forms part of a larger scheme of economic regulation.

In a similar vein, the Commonwealth concedes that the minimum coverage provision forms part of a larger scheme of economic regulation, but argues that the minimum coverage provision would not be necessary if not for another part of the federal regulatory framework, the federal Emergency Medical Treatment and Labor Act (“EMTALA”). Virginia contends that EMTALA created “market distortions,” Pl. Br. 43, and argues that “Congress cannot pass a law,” *i.e.*, EMTALA, “and then claim it must have all powers necessary to correct that distortion.” Pl. Br. 44. Again, the argument reflects both factual and legal error.

As an initial matter, the obligation to provide emergency medical care



regardless of ability to pay is reflected not only in EMTALA but in *state* statutes, regulations, and common law duties, which in turn reflect a widely shared societal understanding that it is unconscionable to deny emergency medical care to an individual because of her economic choices. *See* Def. Br. 42-43. Virginia is thus wrong in its apparent belief that, but for EMTALA, people without insurance would be unable to obtain expensive health care; that everyone would have maximum incentive to purchase insurance; and that, if they failed to do so, there would be no uncompensated care and no corresponding cost-shifting.

Plaintiff's argument reduces to the contention that uncompensated care and cost-shifting would not exist in a hypothetical Hobbesian health care market in which emergency rooms closed their doors to individuals in need of medical care. Congress, however, has regulated the market that actually exists. Moreover, the relevant point, for purposes of the Commerce Clause analysis, is that the Affordable Care Act does indeed regulate the market for health care services and the payment for services within that market. No case has ever suggested that Congress lacks Article I authority to regulate a market because earlier regulations — both state and federal — have affected market conditions. In *Raich*, for example, the Court did not invalidate Congress's regulation of homegrown marijuana for personal consumption on the ground that such regulation was only necessary because Congress had decided to

create a “market distortion” by prohibiting interstate commerce in the drug. To the contrary, Congress has particular latitude to enact provisions in aid of its broader regulatory programs. *Raich*, 545 U.S. at 22; *id.* at 37-38 (Scalia, J., concurring in the judgment); *United States v. Gould*, 568 F.3d 459, 475 (4th Cir. 2009). Congress can certainly take into account the assurance of emergency medical care in regulating the health care market under the Commerce Clause.

2. Disregarding the substantial benefits of the Affordable Care Act’s guaranteed-issue and community-rating requirements, Virginia declares that these provisions create “a perverse incentive for young healthy people to purchase insurance only after they fall ill.” Pl. Br. 8. The Commonwealth further suggests, without explanation, that the minimum coverage provision is necessary only because of this “perverse incentive.” *Ibid.*

Here, too, Virginia quarrels with the wisdom of the market regulation, not with the fact that the federal scheme regulates an interstate market. And, notwithstanding its rhetoric, the Commonwealth does not dispute that the minimum coverage provision addresses a problem that already exists and that a number of people “wait to purchase health insurance until they need[] care.” 42 U.S.C.A. § 18091(a)(2)(I); *see also, e.g.*, Blumberg & Holahan, *Do Individual Mandates Matter?*, at 1 (Urban Institute 2008). In making those calculations, many underestimate the impact that

medical changes have on insurability. As the legislative record demonstrates, insurers often deny coverage for conditions as common as high blood pressure, *see* 47 Million and Counting: Hearing Before the S. Comm. on Finance, 110th Cong. 52 (2008) (Prof. Hall), and the four largest for-profit health insurance companies each listed pregnancy as a medical condition that would result in the automatic denial of individual health insurance coverage, *see* Chairman Waxman and Rep. Stupak, Memorandum on Maternity Coverage in the Individual Health Insurance Market to H. Comm. on Energy & Commerce, at 1 (Oct. 12, 2010). Thus, if an expecting mother had not already obtained insurance, she could be financially responsible for the costs of prenatal care as well as the costs of delivery, which, for a Caesarian-section, averages about \$13,016. International Federation of Health Plans, 2010 Comparative Price Report: Medical and Hospital Fees by Country, at 12. Costs that the expecting mother could not pay would be passed along to providers and to other consumers, increasing the barriers to affordable insurance.

Virginia's rhetoric also underscores some of the fundamental paradoxes in its position. The Commonwealth implicitly recognizes that people should not wait to "purchase insurance only after they fall ill." Pl. Br. 8. Insurance requirements, by their nature, take effect before claims are filed, and the Commonwealth does not dispute that a "health insurance market could never survive or even form if people

could buy their insurance on the way to the hospital.” 47 Million and Counting, 110th Cong. 52 (Prof. Hall). By Virginia’s own reasoning, it is thus clear that the minimum coverage provision, and the broader scheme of which it forms a part, constitute economic regulation in furtherance of a plainly legitimate Commerce Clause end.

**C. No Precedent Suggests that the Minimum Coverage Provision Is an Impermissible Means of Regulating Commerce.**

1. The Commonwealth identifies no precedent that casts any doubt on the validity of the minimum coverage provision. Virginia repeatedly invokes “the negative outer limits of the Commerce Clause identified in” *Lopez* and *Morrison*, Pl. Br. 4. Far from expanding the commerce power, our position here embraces both the holdings and the limits imposed by those cases. Although the Commonwealth invokes the specter of limitless federal power, it makes no attempt to address the obvious differences between the statutes at issue in *Lopez* and *Morrison* and the Affordable Care Act. Both decisions would come out exactly the same way, and for the exact same reasons, under defendant’s view.

The *Lopez* statute addressed the possession of a firearm in the vicinity of a school; the *Morrison* statute addressed acts of gender-motivated violence. The “noneconomic, criminal nature of the conduct at issue was central” to the decisions.

*United States v. Morrison*, 529 U.S. 598, 610 (2000). And, as the Court stressed in *Raich*, neither statute formed part of a “larger regulation of economic activity.” *Raich*, 545 U.S. at 24.

In *Lopez* and *Morrison*, the Court sought to preserve “a distinction between what is truly national and what is truly local.” *Morrison*, 529 U.S. at 617-18 (quoting *United States v. Lopez*, 514 U.S. 549, 567-68 (1995)). Accordingly, the Court declined to sustain the regulation of noneconomic, criminal activity on the basis of highly attenuated connections to interstate commerce. By contrast, the minimum coverage provision regulates the way people pay for health care services — which is quintessential economic activity — and forms part of the Affordable Care Act’s broader regulation of interstate commerce.

Moreover, as Virginia does not dispute, health care, insurance, and health insurance in particular have long been subject to federal regulation. Congress has long regulated insurance markets. *South-Eastern Underwriters Ass’n*, 322 U.S. at 552-53. The Supreme Court has observed that most insurance is sold by national or regional companies that operate interstate and that are characterized by “[i]nterrelationship, interdependence, and integration of activities in all the states in which they operate.” *Id.* at 541. Further, “hospitals are regularly engaged in interstate commerce, performing services for out-of-state patients and generating

revenues from out-of-state sources.” *Freilich v. Upper Chesapeake Health, Inc.*, 313 F.3d 205, 213 (4th Cir. 2002). The federal government is pervasively involved in regulating payments for hospital and physician services under the Medicare and Medicaid programs, which consume approximately \$750 billion of federal funds annually. Congressional Budget Office (“CBO”), *The Long-Term Budget Outlook*, at 29-30 (2010). Congress also has for decades regulated the content and availability of group health insurance plans offered by large employers under ERISA, 29 U.S.C. §§ 1001 *et seq.*, and other statutes, and has long used tax incentives to finance employer-based insurance. CBO, *Key Issues In Analyzing Major Health Proposals*, at 30 (2008). Virginia could not and does not argue that a federal health insurance requirement impermissibly blurs “a distinction between what is truly national and what is truly local.” *Lopez*, 514 U.S. at 567-568.

The Commonwealth also does not suggest that the states, rather than the federal government, should resolve the serious problems addressed by the Affordable Care Act. Nor does it urge that the states would be capable of addressing those problems effectively in the absence of a federal solution. Indeed, the uninsured often cross state lines for needed care, *see Amicus Br. of the Governor of Washington*, at 19-21 (Doc. 50-1), and “States’ attempts to reform the healthcare market come at great risk,” as they could lead insurers to move out and needy individuals to move in,

Amicus Br. of California, et al., at 24-25 (Doc. 49-1). Thus, as even the Commonwealth acknowledges, it is “uncontroversial” that the federal government has “the power to regulate aspects of the healthcare system on a national basis.” Pl. Br. 50.

2. Virginia does not advance its position by insisting that the minimum coverage provision is the exercise of a “police power.” It is, of course, “no objection to the assertion of the power to regulate interstate commerce that its exercise is attended by the same incidents which attend the exercise of the police power of the states.” *Darby*, 312 U.S. at 114; *see also Raich*, 545 U.S. at 29 n.38 (rejecting the suggestion that Congress must “cede its constitutional power to regulate commerce whenever a State opts to exercise its ‘traditional police powers to define the criminal law and to protect the health, safety, and welfare of their citizens’”). Indeed, this Court has repeatedly upheld federal statutes against claims that they are only tangentially related to the regulation of commerce and instead represent an assertion of a police power, in decisions that the Commonwealth fails to discuss in its brief.

In *Hoffman v. Hunt*, 126 F.3d 575 (4th Cir. 1997), for example, this Court rejected the contention that the Freedom of Access to Clinic Entrances Act regulates violence rather than commerce. The Court reasoned that obstruction of clinic entrances, “while not itself economic or commercial, is closely and directly connected

with an economic activity,” and explained that the Court “need not ‘pile inference upon inference’ to find a substantial effect on interstate commerce.” *Id.* at 587 (quoting *Lopez*, 514 U.S. at 567). In *Gibbs v. Babbitt*, 214 F.3d 483 (4th Cir. 2000), this Court rejected a claim that a federal statute that barred the taking of a red wolf on private land infringed on state police power, declaring that the statute did not “trespass[] impermissibly upon traditional state functions — either control over wildlife or local land use.” *Id.* at 500. The Court noted that, “[a]lthough the connection to economic or commercial activity plays a central role in whether a regulation will be upheld under the Commerce Clause, economic activity must be understood in broad terms,” lest “a cramped view of commerce ... cripple a foremost federal power and ... eviscerate national authority.” *Id.* at 491. And, in *United States v. Gould*, 568 F.3d 459 (4th Cir. 2009), this Court held that the “comprehensive federal registration system created by” the Sex Offender Registration and Notification Act is valid under the commerce power even though it “may implicate a sex offender who does not cross state lines,” *id.* at 474-75, because “[r]equiring all sex offenders to register is an integral part of Congress’ regulatory effort and ‘the regulatory scheme could be undercut unless the intrastate activity were regulated.’” *Ibid.* (quoting *Raich*, 545 U.S. at 24-25) (other citations omitted); *see also Freilich*, 313 F.3d at 213 (rejecting Tenth Amendment challenge to federal statute regulating



physician peer review process and finding “no doubt concerning the power of Congress to regulate a peer review process”).

The Commonwealth makes no attempt to reconcile its position with these decisions, and its effort to distinguish the federal child pornography statute disregards the holding of *United States v. Forrest*, 429 F.3d 73 (4th Cir. 2005). The federal statute applies even when an individual comes into possession of child pornography passively, and, to avoid criminal liability, the individual must take reasonable steps to destroy the visual depictions or report the matter to law enforcement officials, *i.e.*, engage in “activity.” 18 U.S.C. § 2252(c). In attempting to harmonize these provisions with the district court’s conclusion that Commerce Clause requirements must be triggered by “some type of self-initiated action,” JA 1098, the Commonwealth notes that the child pornography statute has a “jurisdictional hook” that requires use of the mails. Pl. Br. 49. In *Forrest*, however, this Court explicitly held that the validity of the child pornography statute does *not* depend on the jurisdictional element. This Court stressed that “an effective jurisdictional element is certainly not required where, as here, the statute directly regulates economic activity.” *Forrest*, 429 F.3d at 77 n.1 (citing *Raich*). The Court explained that, “[a]s in *Raich*, the general regulatory scheme here governs ‘quintessentially economic’ activities,” and that, because “Congress possessed a rational basis for concluding that

the local production and possession of child pornography substantially affect interstate commerce, ‘the de minimis character of individual instances arising under the statute is of no consequence.’” *Id.* at 79 (quoting *Raich*, 545 U.S. at 17, 25).

3. Unable to locate support for its position in the relevant decisions of the Supreme Court and this Court, the Commonwealth offers a deeply flawed understanding of the Necessary and Proper Clause. The Commonwealth asserts that “any attempt to exercise an unenumerated power like the claimed power to require a citizen to purchase a good or service from another citizen is automatically an invasion of police powers reserved to the States,” and thus cannot be necessary and proper. Pl. Br. 50. There is, of course, no enumerated power “to require a citizen to purchase a good or service from another citizen,” *ibid.*, just as there is no enumerated power to incorporate a bank. *McCulloch*, 17 U.S. at 406. Since *McCulloch*, the Supreme Court has repeatedly made clear that “the relevant inquiry” under the Necessary and Proper Clause is “simply ‘whether the means chosen are “reasonably adapted” to the attainment of a legitimate end under the commerce power’ or under other powers that the Constitution grants Congress the authority to implement.” *Comstock*, 130 S. Ct. at 1957 (quoting *Raich*, 545 U.S. at 37 (Scalia, J., concurring in the judgment) (quoting *Darby*, 312 U.S. at 121)). Accordingly, “in determining whether the Necessary and Proper Clause grants Congress the legislative authority to enact a

particular federal statute,” the Court asks “whether the statute constitutes a means that is rationally related to the implementation of a constitutionally enumerated power.” *Comstock*, 130 S. Ct. at 1956.

As discussed in our opening brief, the scope of the Necessary and Proper clause is illustrated not only by the Supreme Court’s decision involving the Commerce Clause power, but also by its decisions concerning legislation that implements other sources of congressional authority. *See, e.g., Nortz v. United States*, 294 U.S. 317, 328 (1935) (upholding requirement that persons holding gold bullion, coin, or certificates exchange them for paper currency). These decisions, and a range of statutes, underscore plaintiff’s error in seeking to premise its argument on rhetorical notions of “inactivity” or “passivity” in an artificially defined market.

Plaintiff asserts that statutes exercising powers other than the commerce power are irrelevant to the examination of the rationality of the means by which Congress has addressed payment in the health care market. The Supreme Court, however, has not developed a separate Necessary and Proper Clause jurisprudence for each enumerated power. Indeed, in *Comstock*, the Court concluded that a federal civil-commitment statute was “necessary and proper” without tethering that analysis to any particular enumerated power. 130 S. Ct. at 1956. *Comstock* noted that Congress had exercised its authority to establish federal crimes “in furtherance of, for example, its

enumerated powers to regulate interstate and foreign commerce, to enforce civil rights, to spend funds for the general welfare, to establish federal courts, to establish post offices, to regulate bankruptcy, to regulate naturalization, and so forth.” *Id.* at 1957 (citing U.S. Const. art. I, § 8, cls. 1, 3, 4, 7, 9; *id.* amends. XIII-XV). The Court held that the civil commitment statute was “necessary and proper” regardless of which font of authority Congress utilized when enacting a prisoner’s underlying crime and nowhere suggested the analysis would differ on a clause-by-clause basis. *Id.* at 1957-1958.

That approach flows from *McCulloch* itself, which looked to the congressional exercise of authority under its Article IV powers to inform its understanding of whether legislation was necessary and proper to implement the commerce power. *See McCulloch*, 17 U.S. at 422 (explaining that Congress’s creation of corporate bodies in the territories under its Article IV power indicated that creation of a corporation would also be “a convenient, a useful, and essential instrument in the prosecution of its fiscal operations” under Article I). Similarly, in *Sabri v. United States*, 541 U.S. 600, 605 (2004), the Court upheld Congress’s power under the Spending Clause to criminalize bribery of state officials. The Court described its inquiry as “means-ends rationality under the Necessary and Proper Clause,” citing *McCulloch* and *Hodel v. Virginia Surface Mining & Reclamation Assn.*, 452 U.S. 264, 276 (1981), which also

involved a regulatory scheme enacted under the commerce power.<sup>2</sup>

4. As the centerpiece of its presentation, the Commonwealth recalls iconic moments in American history and some of the Nation's most solemn declarations of our commitment to liberty. But the ideals of liberty cannot be invoked to support a purported right to consume health care services without insurance and pass overwhelming costs on to other market participants. The Framers did not specifically include a textual provision about insurance requirements, but, the Supreme Court has repeatedly observed, “[t]he Federal Government undertakes activities today that would have been unimaginable to the Framers.” *Comstock*, 130 S. Ct. at 1965 (quoting *New York*, 505 U.S. at 157). “The Framers demonstrated considerable foresight in drafting a Constitution capable of such resilience through time.” *Ibid.*

### **III. The Minimum Coverage Provision Is Also Independently Authorized by Congress's Taxing Power.**

The minimum coverage provision is also independently authorized by Congress's taxing power. The provision operates as a tax, and it will produce billions

---

<sup>2</sup> The Commonwealth's reliance on *Printz v. United States*, 521 U.S. 898 (1997), for the proposition that “there is also a proper prong to the Necessary and Proper Clause,” Pl. Br. 40, is misplaced. *Printz* held that Congress's exercise of its authority was improper because it “violat[e]d the principle of state sovereignty” by commandeering state officials. *Printz*, 521 U.S. at 923-24. No such interference with state sovereignty is at issue here; the minimum coverage provision imposes no obligation on the Commonwealth or its officers.

of dollars in revenue each year once it takes effect. The Commonwealth's contrary position is a flawed attempt to revive "distinctions between regulatory and revenue-raising taxes" that the Supreme Court has expressly "abandoned." *Bob Jones Univ. v. Simon*, 416 U.S. 725, 741 n.12 (1974).

**A. The Minimum Coverage Provision Operates as a Tax and Will Produce Billions of Dollars in Annual Revenue.**

There is no doubt that the "practical operation" of the minimum coverage provision is as a tax. *Nelson v. Sears, Roebuck & Co.*, 312 U.S. 359, 363 (1941). The provision amends the Internal Revenue Code to provide that a non-exempted individual who fails to maintain a minimum level of insurance shall pay a monthly penalty for so long as he fails to do so. 26 U.S.C.A. § 5000A. The amount of the penalty is calculated as a percentage of household income for federal income tax purposes, above a flat dollar amount and subject to a cap. *Id.* § 5000A(c). It is reported on the individual's federal income tax return for the taxable year, *ibid.*, and is "assessed and collected in the same manner as" other specified federal tax penalties. *Id.* § 5000A(b)(2), (g). Individuals who are not required to file income tax returns for a given year are not required to pay the penalty. *Id.* § 5000A(e)(2). The taxpayer's responsibility for family members depends on their status as dependents under the Internal Revenue Code. *Id.* § 5000A(a), (b)(3). Taxpayers filing a joint tax

return are jointly liable for the penalty. *Id.* § 5000A(b)(3)(B). And the Secretary of the Treasury is empowered to enforce the penalty provision. *Id.* § 5000A(g).

The Commonwealth declares that a “tax” is “an exaction for the support of the Government.” Pl. Br. 54-55 (quoting *Rosenberger v. Rector & Visitors of the Univ. of Va.*, 515 U.S. 819, 841 (1995)); *cf. Williams v. Motley*, 925 F.2d 741, 744 (4th Cir. 1991) (Virginia’s assessment for not having motor vehicle insurance is a tax). The minimum coverage provision easily meets the standard. Assessments made pursuant to the provision will be reported and paid with the taxpayer’s annual return, as part of his annual tax liability. 26 U.S.C.A. § 5000A(b)(2). The revenues derived from the provision will be paid into the general treasury. *Id.* § 7809.

The Commonwealth does not dispute that the minimum coverage provision will be “productive of some revenue.” *Sonzinsky v. United States*, 300 U.S. 506, 514 (1937). The Congressional Budget Office determined that the provision will raise at least \$4 billion a year for general revenues by 2019, *see* Letter from Douglas W. Elmendorf, Director, CBO, to Nancy Pelosi, Speaker, U.S. House of Representatives, table 4 (Mar. 20, 2010), and Congress adopted the CBO’s finding that the Act will reduce the federal deficit, *see* Pub. L. No. 111-148, § 1563(a)(1), 124 Stat. 119, 270. More recent CBO projections indicate that the provision will yield \$5 billion annually by 2021. Letter from Douglas W. Elmendorf to Speaker John Boehner, at 9, table 3

(Feb. 18, 2011). In short, the provision certainly bears at least “some reasonable relation” to the “raising of revenue,” *United States v. Doremus*, 249 U.S. 86, 93-94 (1919), bringing it within the taxing power. *See also Nigro v. United States*, 276 U.S. 332, 353 (1928) (any “doubt as to the character” of a tax was removed because provision raised “substantial” sum of \$1 million per year).

**B. The Minimum Coverage Provision Is Not Punitive.**

The Commonwealth urges that the revenue-producing nature of the provision is immaterial because “the purpose of the penalty is to alter conduct in hopes that the penalty will not be collected at all.” Pl. Br. 55. But it is “beyond serious question that a tax does not cease to be valid merely because it regulates, discourages, or even definitely deters the activities taxed.” *United States v. Sanchez*, 340 U.S. 42, 44 (1950). “Every tax is in some measure regulatory” in that “it interposes an economic impediment to the activity taxed as compared with others not taxed.” *Sonzinsky*, 300 U.S. at 513. Accordingly, “the courts have sustained taxes although imposed with the collateral intent of effecting ulterior ends which, considered apart, were beyond the constitutional power of the lawmakers to realize by legislation directly addressed to their accomplishment.” *Sanchez*, 340 U.S. at 44-45 (quoting *A. Magnano Co. v. Hamilton*, 292 U.S. 40, 47 (1934)).

Thus, in *Sonzinsky*, 300 U.S. at 512, 513-14, the Court rejected the argument



that a tax on firearms dealers “is not a true tax, but a penalty imposed for the purpose of suppressing traffic in a certain noxious type of firearms.” In *Sanchez*, 340 U.S. at 44, the Court upheld a tax on marijuana transfers against an attack that rested “on the regulatory character and prohibitive burden of the section as well as the penal nature of the imposition.” See also *Doremus*, 249 U.S. at 93-94 (a tax “cannot be invalidated because of the supposed motives which induced it”); *Knowlton v. Moore*, 178 U.S. 41, 59-60 (1900) (Congress may tax inheritances with a regulatory purpose); *License Tax Cases*, 72 U.S. 462, 470-71 (1866) (Congress may tax intrastate sales of lottery tickets and liquor with a regulatory purpose).

The Commonwealth’s argument echoes the contention rejected by the Supreme Court in *United States v. Kahriger*, 345 U.S. 22 (1953), where it was urged that “Congress, under the pretense of exercising its power to tax has attempted to penalize illegal intrastate gambling through the regulatory features of the Act.” *Id.* at 24. The Commonwealth does not address the *Kahriger* decision, which the district court mistakenly regarded as authority to second-guess Congress’s judgment and to declare that revenue raised by the minimum coverage provision “is ‘extraneous to any tax need.’” JA 1106-07 (quoting *Kahriger*, 345 U.S. at 31). *Kahriger* makes clear that a provision’s regulatory purpose does not render resulting tax revenue “extraneous.”

The *Lochner*-era cases on which the Commonwealth relies, see Pl. Br. 60, were

anomalous even at the time they were decided. *See, e.g., United States v. One Ford Coupe Auto.*, 272 U.S. 321, 328 (1926) (upholding tax whose “main purpose” was to deter lawbreaking). They “produced a prompt correction in course,” *Bob Jones Univ.*, 416 U.S. at 743, and the Supreme Court has long since “abandoned the view that bright-line distinctions exist between regulatory and revenue-raising taxes,” *id.* at 743 n.17. What remains of those *Lochner*-era cases is not a bar against regulatory taxes, as Virginia suggests, Pl. Br. 60, but the principle that Congress may not rely solely on the taxing power to impose “punishment for an unlawful act.” *United States v. LaFranca*, 282 U.S. 568, 572 (1931); *see also Dep’t of Revenue of Mont. v. Kurth Ranch*, 511 U.S. 767, 781 (1994).

The minimum coverage provision has none of the hallmarks of a “punitive” sanction. *Kurth Ranch*, 511 U.S. at 778-79. It does not turn on the taxpayer’s scienter. *Cf. The Child Labor Tax Case*, 259 U.S. 20, 36-37 (1922). And, unlike in cases where a “highly exorbitant” tax rate showed an intent to “punish rather than to tax,” *United States v. Constantine*, 296 U.S. 287, 294, 295 (1935), the penalty under the minimum coverage provision can be no greater than the cost of qualifying insurance, 26 U.S.C. § 5000A(c)(1)(B). *Cf. Sanchez*, 340 U.S. at 45 (“rational foundation” for rate of tax showed it was not punitive sanction in disguise). Moreover, the penalty is imposed on a month-by-month basis, 26 U.S.C.

§ 5000A(b)(1), confirming that it does not impose punishment for past unlawful acts. *Cf. The Child Labor Tax Case*, 259 U.S. at 36 (assessment was punitive where “amount is not to be proportioned in any degree to the extent or frequency of the departures”). In sum, the minimum coverage provision has none of the indicia of a “punishment” that have been cited by the Supreme Court.

### **C. The Validity of a Tax Does Not Depend on Its Label.**

At bottom, the Commonwealth’s claim is that the minimum coverage provision cannot be an exercise of the taxing power because the assessment is denominated as a “penalty” rather than as a “tax.” Pl. Br. 54. But “it has been clearly established that the labels used do not determine the extent of the taxing power.” *Simmons v. United States*, 308 F.2d 160, 166 n.21 (4th Cir. 1962). Thus, Congress may use its taxing power to impose assessments that it labels as “licenses,” *License Tax Cases*, 72 U.S. at 474-75, “premiums,” *Adventure Res., Inc. v. Holland*, 137 F.3d 786, 793-94 (4th Cir. 1998), or, as here, “penalties,” *United States v. Sotelo*, 436 U.S. 268, 275 (1978).

Nor was Congress required to invoke its taxing power in the Act itself. “[T]he constitutionality of action taken by Congress does not depend on recitals of the power which it undertakes to exercise.” *Woods v. Cloyd W. Miller Co.*, 333 U.S. 138, 144 (1948); *see also CSX Transp. v. Bd. of Pub. Works of W. Va.*, 138 F.3d 537, 540 (4th Cir. 1998) (“wealth of precedent” shows that Congress need not recite its source of

power); *Usery v. Charleston Cnty. Sch. Dist.*, 558 F.2d 1169, 1171 (4th Cir. 1977) (“Our duty in passing on the constitutionality of legislation is to determine whether Congress had the authority to adopt the legislation, not whether” it correctly identified “the source of that power”).

There can be no plausible contention that Congress intended to *disclaim* the exercise of its taxing power. The taxing power was expressly invoked in the Senate to defeat constitutional points of order against the minimum coverage provision. 155 Cong. Rec. S13,830, S13,832 (Dec. 23, 2009). And during the legislative debates, congressional leaders defended the provision as an exercise of the taxing power. *E.g.*, 156 Cong. Rec. H1854, H1882 (Mar. 21, 2010) (Rep. Miller); *id.* at H1824, H1826 (Mar. 21, 2010) (Rep. Slaughter); 155 Cong. Rec. S13,751, S13,753 (Dec. 22, 2009) (Sen. Leahy); *id.* at S13,558, S13,581-82 (Dec. 20, 2009) (Sen. Baucus).

Virginia notes that certain other provisions in the Affordable Care Act are explicitly labeled as taxes. Pl. Br. 54. But Congress used the terms “tax” and “assessable penalty” interchangeably in the Act’s employer responsibility provision, in describing the payments owed under specified circumstances by a large employer that does not offer full-time employees adequate insurance coverage. 26 U.S.C.A. § 4980H(b)(2), (c)(2)(D). Similarly, at a time when the Senate bill used the term “excise tax” to describe the payment owed under the minimum coverage provision,

the accompanying Senate Report described it as a “penalty ... accounted for as an additional amount of Federal tax owed.” *Compare* S. 1796 (Oct. 19, 2009), *with* S. Rep. No. 111-89, at 52 (Oct. 19, 2009). Nothing in the Act suggests that Congress intended this terminology to have constitutional significance. If, however, there were any doubt as to the meaning of the terms in the Affordable Care Act, the Court properly would resolve that doubt in favor of the statute’s constitutionality. *Northwest Austin Mun. Utility Dist. No. One v. Holder*, 129 S. Ct. 2504, 2513 (2009); *Ashwander v. TVA*, 297 U.S. 288, 347 (1936) (Brandeis, J., concurring).

## **PART II: BRIEF AS CROSS-APPELLEE**

### **SUMMARY OF ARGUMENT**

For the reasons set out above and in our opening brief, Virginia lacks standing, and its challenge to the minimum coverage provision fails on the merits. If the Court were to conclude otherwise, however, it should reject the Commonwealth’s invitation to expand the scope of the district court’s judgment and set aside hundreds of Affordable Care Act provisions of unchallenged validity.

Plaintiff confuses the importance of the minimum coverage provision with the standards for determining whether valid provisions of a federal statute may be severed from a section of the statute that is held unconstitutional. If provisions are “fully operative as a law,” they must be sustained “[u]nless it is evident that the

Legislature would not have enacted those provisions ... independently of that which is [invalid].” *Free Enterprise Fund v. Pub. Co. Accounting Oversight Bd.*, 130 S. Ct. 3138, 3161 (2010) (internal quotation marks omitted). The Affordable Care Act comprises hundreds of provisions, many of which are already in effect, and most of which have no relationship whatsoever to the minimum coverage provision. Many provisions implicate the rights and obligations of non-parties. The district court properly adhered to Supreme Court dictates and “refrain[ed] from invalidating more of the statute than is necessary.” *Regan v. Time, Inc.*, 468 U.S. 641, 652 (1984).

## ARGUMENT

### **The District Court Properly Rejected the Commonwealth’s Request to Set Aside Affordable Care Act Provisions of Unquestioned Validity.**

A. In *NLRB v. Jones & Laughlin Steel Corp.*, 301 U.S. 1, 30 (1937), Justice Jackson reiterated that, “[t]he cardinal principle of statutory construction is to save and not to destroy.” To that end, the Supreme Court has repeatedly held that, “when confronting a constitutional flaw in a statute,” courts must “try to limit the solution to the problem, severing any problematic portions while leaving the remainder intact.” *Free Enterprise Fund*, 130 S. Ct. at 3161 (internal quotation marks omitted). “[T]he ‘normal rule,’” therefore, “is that ‘partial, rather than facial, invalidation is the required course,’ such that a ‘statute may ... be declared invalid to the extent that it

reaches too far, but otherwise left intact.” *Ayotte v. Planned Parenthood of N. New England*, 546 U.S. 320, 329 (2006) (quoting *Brockett v. Spokane Arcades, Inc.*, 472 U.S. 491 (1985)). If provisions are “fully operative as a law,” they must be sustained “[u]nless it is evident that the Legislature would not have enacted those provisions ... independently of that which is [invalid].” *Free Enterprise Fund*, 130 S. Ct. at 3161 (quoting *New York*, 505 U.S. at 186 (quoting *Alaska Airlines, Inc. v. Brock*, 480 U.S. 678, 684 (1987))).

The Affordable Care Act includes hundreds of provisions that are “fully operative as a law” and can function independently of the minimum coverage provision. *Ibid.* Indeed, many of the Act’s provisions have already taken effect, years in advance of the minimum coverage provision’s 2014 effective date. For example, more than twenty sections of the Act made changes to Medicare payment rates for 2011. These revisions have already been incorporated through notice and comment rulemaking into Medicare payment regulations and implemented through changes to nearly every major Medicare claims processing system, including those for inpatient services, outpatient services, and physician services. *See* 75 Fed. Reg. 73170 (Nov. 29, 2010) (changes to physician fee schedule and other revisions to Medicare Part B for calendar year 2011); 75 Fed. Reg. 71800 (Nov. 24, 2010) (changes to hospital outpatient prospective payment system effective January 1,

2011); 75 Fed. Reg. 50042 (Aug. 16, 2010) (revising hospital inpatient prospective payment system for federal fiscal year 2011).

There is likewise no doubt that other Affordable Care Act provisions can function independently. For example, the Act includes provisions, recently noted by the Supreme Court, that “provide[] for more rigorous enforcement” of drug pricing requirements. *Astra USA, Inc. v. Santa Clara Cnty.*, \_\_ S. Ct. \_\_ (Mar. 29, 2011), 2011 WL 1119021, \*4. The Act includes provisions that re-authorized programs already on the books, *e.g.*, ACA §§ 4204(c), 5603; provisions that amended the False Claims Act, ACA § 10104(j)(2); and provisions designed to eliminate Medicaid waste and fraud, ACA §§ 6402(h)(2), 6411. Still other provisions include: “the prohibition on discrimination against providers who will not furnish assisted suicide services; an ‘Independence at Home’ project for chronically ill seniors; a special Medicare enrollment period for disabled veterans; Medicare reimbursement for bone-marrow density tests; and provisions devised to improve women’s health, prevent abuse, and ameliorate dementia, as well as abstinence education and disease prevention.” *Florida*, \_\_ F. Supp. 2d \_\_, 2011 WL 285683, \*34.

The Commonwealth offers no grounds for setting aside these provisions. Because “[a] ruling of unconstitutionality frustrates the intent of the elected representatives of the people,” a court must “refrain from invalidating more of the



statute than is necessary.” *Regan*, 468 U.S. at 652. Thus, “whenever an act of Congress contains unobjectionable provisions separable from those found to be unconstitutional, it is the duty of [the] court to so declare, and to maintain the act in so far as it is valid.” *Alaska Airlines*, 480 U.S. at 684 (quoting *Regan*, 468 U.S. at 652). Virginia cites no support for the implausible assertion that severability analysis turns on “the margin necessary to invoke cloture in the Senate.” Pl. Br. 66. And it does not defend the reasoning of the *Florida* court, which invalidated the Affordable Care Act in its entirety because the court attached unwarranted significance to the absence of a severability clause. *Florida*, \_\_\_ F. Supp. 2d \_\_\_, 2011 WL 285683, \*36.

The Supreme Court has long held that the “ultimate determination of severability will rarely turn on the presence or absence of such a clause.” *United States v. Jackson*, 390 U.S. 570, 585 n.27 (1968). ““In the absence of a severability clause, ... Congress’ silence is just that — silence — and does not raise a presumption against severability.”” *New York*, 505 U.S. at 186 (quoting *Alaska Airlines*, 480 U.S. at 686). Reflecting this established precedent, both the Senate Legislative Drafting Manual and the House Legislative Counsel’s Manual on Drafting Style “advise drafters that a ‘severability clause is unnecessary’ unless Congress intends to make certain portions of a statute unseverable.” *Interpreting by the Book: Legislative Drafting Manuals and Statutory Interpretation*, 120 Yale L.J. 185, 190 (2010).

**B.** Virginia notes defendant's recognition that the minimum coverage provision is integral to the Act's guaranteed-issue and community-rating provisions. Pl. Br. 66. That recognition would provide no basis for invalidation of any other provision, much less the wholesale invalidation of hundreds of provisions sought by the Commonwealth.

Moreover, even when particular provisions are integrally related, a court may not address provisions that impose no burden on a plaintiff and that concern, instead, the rights and obligations of parties not before the Court. Like the plaintiff in *Printz v. United States*, 521 U.S. 898 (1997), the Commonwealth invokes principles of severability to invalidate provisions to which it is not subject and which cause it no harm. The Commonwealth does not claim to be injured by the guaranteed-issue and community-rating requirements. Indeed, it is unclear why Virginia is intent on obtaining an order that would invalidate requirements that allow its citizens to obtain insurance regardless of their medical condition or history. Similarly, in *Printz*, sheriffs challenged a scheme in which firearms dealers were required to notify local law enforcement officers of proposed gun purchases, and to delay sales for a five-day waiting period pending a background check. The Court held that the sheriffs could not be required to conduct background checks, but declined to consider the claim that the related waiting period provisions were not severable. The Court explained that

“[t]hese provisions burden only firearms dealers and purchasers, and no plaintiff in either of those categories is before us here.” *Id.* at 935. Although the severability claims presented “important questions,” the Court had “no business answering them in these cases” and “decline[d] to speculate regarding the rights and obligations of parties not before the Court.” *Ibid.*

The Commonwealth also provides no support for its contention that the Act’s “changes to Medicare and changes to Medicaid” should be declared invalid. Pl. Br. 68. As discussed, many of the Act’s changes to the Medicare program — which is the federal program that provides health benefits to the elderly and certain disabled persons — have already taken effect. Many Medicare participants, for example, have already received increased benefits for prescription drugs. *E.g.*, 42 U.S.C.A. § 1395w–152. The Commonwealth does not and could not contest Congress’s power to enact those Medicare changes, and, in any event, challenges to Medicare payment rates are governed by special review procedures that constrain the subject matter jurisdiction of the federal courts. *See Shalala v. Illinois Council on Long Term Care, Inc.*, 529 U.S. 1 (2000).

The Act’s changes to the Medicaid program — which is the cooperative federal-state program that provides health benefits for low-income persons — are an unremarkable exercise of Congress’s power to “attach conditions on the receipt of

federal funds.”” *New York*, 505 U.S. at 167 (quoting *South Dakota v. Dole*, 483 U.S. 203, 206 (1987)); *see also id.* at 171. The Commonwealth does not challenge Congress’s power to make those changes, which are plainly “operative” on their own and which will “serve[] Congress’ objective of encouraging the States” to provide health benefits for low-income individuals. *Id.* at 187 (severing federal funding conditions from the “take title” provision of the Low-Level Radioactive Waste Policy Act).

In short, although the district court erred in declaring the minimum coverage provision invalid, it properly followed the “time-honored rule to sever with circumspection, severing any ‘problematic portions while leaving the remainder intact.’” JA 1114 (quoting *Ayotte*, 546 U.S. at 329).

## CONCLUSION

The judgment in plaintiff's favor should be reversed.

Respectfully submitted,

NEAL KUMAR KATYAL  
Acting Solicitor General

TONY WEST  
Assistant Attorney General

BETH S. BRINKMANN  
Deputy Assistant Attorney General

NEIL H. MacBRIDE  
United States Attorney

MARK B. STERN

ALISA B. KLEIN

ANISHA DASGUPTA /s/Anisha Dasgupta

(202) 514-5089

Attorneys, Appellate Staff

Civil Division, Room 7531

Department of Justice

950 Pennsylvania Ave., N.W.

Washington, D.C. 20530-0001

APRIL 2011

## CERTIFICATE OF COMPLIANCE

Pursuant to Rule 32(a)(7)(C) of the Federal Rules of Appellate Procedure, I hereby certify that, according to the word count provided in Corel WordPerfect 12, the foregoing brief contains 11,234 words. The text of the brief is composed in 14-point Times New Roman typeface.

/s/Anisha S. Dasgupta  
Anisha S. Dasgupta

### CERTIFICATE OF SERVICE

I hereby certify that on April 8, 2011, I filed and served the foregoing brief by causing a copy to be electronically filed and served on all counsel of record via the appellate CM/ECF system. I also hereby certify that I have caused copies to be delivered to the Court by Federal Express.

/s/Anisha S. Dasgupta  
Anisha S. Dasgupta