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BANKRUPTCY - PENNSYLVANIA

In re City of Chester, Pennsylvania

United States Court of Appeals, Third Circuit - July 17, 2026 - F.4th - 2026 WL 2068294

Chapter 9 debtor, a financially distressed Pennsylvania city, brought adversary proceeding against creditors, namely, indenture trustee, holders of city-issued bonds, and county that executed prepetition contribution agreement with debtor in connection with construction of soccer stadium, seeking, inter alia, turnover of revenues received by indenture trustee and determination that liens on pledged revenues were cut off by debtor's bankruptcy filing.

Parties cross-moved for summary judgment. The United States Bankruptcy Court for the Eastern District of Pennsylvania granted debtor's motion. Following certification of matter for direct appeal, creditors appealed directly to Third Circuit.

The Court of Appeals held that:

- Even if city ordinances were "statutes" from which statutory liens could arise, the liens held by creditors, while authorized by two city ordinances, were not "statutory liens" that survived debtor's bankruptcy filing;
- The pledged slot machine and table game revenues were not "taxes," but were "fees," and so the liens thereon did not survive debtor's bankruptcy filing;
- "Additional city consideration" paid by casino to debtor based on casino's monthly gross revenue from table games and slot machines was not a "special excise tax" that survived debtor's bankruptcy filing; and
- Remand to the Bankruptcy Court was required for consideration of whether creditors' security interests included "proceeds" that could have survived debtor's bankruptcy filing.

Liens held by creditors, namely, holders of city-issued bonds, trustee of indenture into which certain revenues had been pledged in connection with issuance of bonds, and county that had executed prepetition contribution agreement with city for construction of stadium, were not "statutory liens" that, under the Bankruptcy Code, survived city's Chapter 9 filing, even if city ordinances were "statutes" from which statutory liens could arise; although the ordinance allowing city to incur debt and contribute funds to county and the ordinance authorizing additional debt in newly issued bonds contained lien-creating language, so did the contribution agreement in which city pledged and granted to county a security interest in slot-machine revenues and the trust indenture pursuant to which city bonds were issued and secured, and the liens contemplated in the ordinances depended on the subsequent lien-creating language in the contribution agreement and trust indenture.

Slot machine revenues and table game revenues paid by casino to Pennsylvania Department of Revenue, which thereafter sent a quarterly distribution to city, arose not from "taxes," but from "fees," and so, pursuant to the Bankruptcy Code, creditors' liens on those revenues did not survive city's Chapter 9 filing; under Pennsylvania statute, the slot machine revenues, a sum "equal to 20% of the slot machine license fee paid at the time of issuance," constituted payment in exchange for a privilege not shared by others for the operation of slot machines, a separate "slot machine tax" existed elsewhere in the Commonwealth's statutes, and the table game revenues, too, ultimately

related to a benefit not shared by other members of society.

“Additional city consideration” paid by casino to city based on casino’s monthly gross revenue from table games and slot machines was not, under the Bankruptcy Code, a “special excise tax” that survived city’s Chapter 9 filing; the additional city consideration arose from the payment of money founded upon contract, and so was not a tax.

Remand from Court of Appeals was required for Bankruptcy Court to determine whether security interests of creditors, namely, holders of city-issued bonds, indenture trustee, and county, in certain revenues payable to Chapter 9 debtor-city extended to “proceeds” under Pennsylvania law so as to fall within Bankruptcy Code’s “proceeds” exception to general rule against the continued postpetition effect of prepetition security interests; Pennsylvania law required “proceeds” to arise out of collateral, and although some language in trust indenture conveyed city’s interest in all pledged revenues “to be received,” Bankruptcy Court had not considered whether trust indenture’s granting clause, which conveyed more than an interest in pledged revenues “to be received,” conveyed to indenture trustee a right to payment from which proceeds might be derived, and there were material differences between conveyances in trust indenture and in contribution agreement between debtor and county.

Section of trust indenture executed prepetition by Chapter 9 debtor-city in connection with city-issued bonds, directing that excess funds be disbursed to debtor to an “account specified in writing,” was not clearly conditional, and so, under Pennsylvania law, the provision could not be construed as a condition precedent pursuant to which funds could not be sent to debtor until debtor first specified an account.

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