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Seventy-Third Congress, Session II
Chapter 345 — 48 Stat. 798 — Public, No. 251 (H.R. 5950)
May 24, 1934

AN ACT *To amend an Act entitled "An Act to establish a uniform system of bankruptcy throughout the United States", approved July 1, 1898, and Acts amendatory thereof and supplementary thereto.*

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That the Act of July 1, 1898, entitled "An Act to establish a uniform system of bankruptcy throughout the United States", as approved July 1, 1898, and Acts amendatory thereof and supplementary thereto be, and they are hereby, amended by adding thereto a new chapter to read as follows:

"CHAPTER IX

"PROVISIONS FOR THE EMERGENCY TEMPORARY AID OF INSOLVENT PUBLIC DEBTORS AND TO PRESERVE THE ASSETS THEREOF AND FOR OTHER RELATED PURPOSES

"SEC. 78. DECLARATION OF POLICY.—There is hereby found, determined, and declared to exist a national emergency caused by increasing financial difficulties of many local governmental units, which renders imperative the further exercise of the bankruptcy powers of the Congress of the United States.

"SEC. 79. ADDITIONAL JURISDICTION.—Until the expiration of two years from the date this chapter takes effect, in addition to the jurisdiction exercised in voluntary and involuntary proceedings to adjudge persons bankrupt, courts of bankruptcy shall exercise original jurisdiction in proceedings for the relief of debtors, as provided in this chapter of this Act.

"SEC. 80. MUNICIPAL-DEBT READJUSTMENTS.—(a) Any municipality or other political subdivision of any State, including (but not hereby limiting the generality of the foregoing) any county, city, borough, village, parish, town, or township, unincorporated tax or special assessment district, and any school, drainage, irrigation, reclamation, levee, sewer, or paving, sanitary, port, improvement or other districts (hereinafter referred to as a 'taxing district'), may file a petition stating that the taxing district is insolvent or unable to meet its debts as they mature, and that it desires to effect a plan of readjustment of its debts. The petition shall be filed with the court in whose territorial jurisdiction the taxing district or the major part thereof is located and for any such district having no officials of its own the petition shall be filed by the municipality or political subdivision, the officials of which have power to contract on behalf of said district or to levy the special assessments within such district. The petition shall be accompanied by payment to the clerk of a filing fee of $100, which shall be in addition to the fees required to be collected by the clerk under other chapters of this Act. The petition shall state that a plan of readjustment has been prepared, is filed and submitted with the petition, and that creditors of the taxing district owning not less than 30 per centum in the case of drainage, irrigation, reclamation, and levee districts and owning not less than 51 per centum in the case of all other taxing districts in amount of the bonds, notes, and certificates of indebtedness of the taxing district affected by the plan, excluding bonds, notes, or certificates of indebtedness owned, held, or controlled by the taxing district in a fund or otherwise, have accepted it in writing. The petition shall be accompanied with such written acceptance and with a list of all known creditors of the taxing district, together with their addresses so far as known to the taxing district, and description of their respective claims showing separately those who have accepted the plan of readjustment, together with their separate addresses, the contents of which list shall not constitute admissions by the taxing districts in a proceeding under this chapter or

otherwise. Upon the filing of such a petition the judge shall enter an order either approving it as properly filed under this chapter, if satisfied that such petition complies with this chapter and has been filed in good faith, or dismissing it, if not so satisfied. If creditors holding 5 per centum in amount of the bonds, notes, or certificates of indebtedness shall, within ninety days after the first publication of the notice provided for in subdivision (c), clause (1), of this chapter, appear and controvert the facts alleged in the petition, the judge shall decide the issues presented, and unless the material allegations of the petition are sustained, shall dismiss the petition.

"(b) A plan of readjustment within the meaning of this chapter (1) shall include provisions modifying or altering the rights of creditors generally, or of any class of them, secured or unsecured, either through the issuance of new securities of any character or otherwise; and (2) may contain such other provisions and agreements, not inconsistent with this chapter, as the parties may desire.

"No creditor shall be deemed to be affected by any plan of readjustment unless the same shall affect his interests materially and adversely, and in case any controversy shall arise as to whether any creditor or class thereof shall or shall not be affected, the issue shall be determined by the judge after hearing upon notice to the parties interested.

"The term 'securities' shall include bonds, notes, and other evidences of indebtedness, either secured or unsecured, and certificates of beneficial interests in property. The term 'creditors' shall include for all purposes of this chapter all holders of claims, debts, securities, liens or other interests of whatever character against the taxing district or its property or revenues, including claims under executory contracts and for future rent, whether or not such claims would otherwise constitute provable claims under this Act, and all holders of judgments rendered against such taxing district but

excepting claims for salaries and wages of officers and employees of the taxing district.

"For all purposes of this chapter any creditor may act in person or by a duly authorized agent or committee. Where any committee, organization, group, or individual shall assume to act for or on behalf of creditors, such committee, organization, group, or individual shall first file with the court in which the proceeding is pending a list of the creditors represented by such committee, organization, group, or individual, together with a statement of the amount, class, and character of the indebtedness held by each such creditor, and shall accompany the same with a copy of the contract or agreement entered into between such committee, organization, group, or individual and the creditors represented by it or them, which contracts shall disclose all compensation to be received directly or indirectly by such agent or committee.

"(c) Upon approving the petition or at any time thereafter the judge (1) shall require the taxing district to give such notice as the order may direct to creditors, and to cause publication, to be made at least once a week for three successive weeks, of a hearing, to be held within ninety days after the approval of the petition for the purpose of considering the plan of readjustment filed with the petition and of any changes therein or modifications thereof which may be proposed; (2) if a plan of readjustment is not accepted and approved within such reasonable period as the judge may fix, or, if accepted and approved, is not confirmed, the judge may, after hearing, either extend such period not exceeding one year from the date of the filing of the petition, or dismiss the proceedings as the interests of the creditors may equitably require: *Provided, however,* That if a plan shall not be accepted and approved within one year from the date of the filing of the petition, the judge, after hearing, may continue the proceeding for not exceeding two years from the date of the filing of the petition,

with the written consent of creditors of the taxing district holding more than one half in amount of all claims affected by the plan; (3) shall require the taxing district at such time or times as the judge may direct, and in lieu of the schedules required by section 7 of this Act, to file such schedules and submit such other information as may be necessary to disclose the conduct of the affairs of the taxing district and the fairness of any proposed plan; (4) shall determine a reasonable time and manner in which the claims and interests of creditors may be filed or evidenced, and, for the purposes of the plan and its acceptance, the division of creditors into classes according to the nature of their respective claims and interests; and may, for the purposes of such classification, classify as an unsecured claim the amount of any secured claim in excess of the value of the security thereof, such value to be determined in accordance with the provisions of chapter 57, clause (h), of this Act; (5) may, with the authorized written approval of the taxing district, direct the rejection of contracts of the taxing district executory in whole or in part; (6) shall cause reasonable notice of such determination and of all hearings for the consideration of the proposed plan, or the dismissal of the proceedings, or the allowances of fees or expenses, to be given creditors by publication or otherwise; (7) may require the taxing district to open its books, records, and files to the inspection of any creditor of the taxing district during reasonable business hours; (8) may allow a reasonable compensation for the services rendered and reimbursement for the actual and necessary expenses incurred in connection with the proceeding and the payment of special masters, readjustment managers and committees or other representatives of creditors of the taxing district, and the attorneys or agents of any of the foregoing; and appeals may be taken, from the orders making such allowances, to the circuit court of appeals for the circuit in which the proceeding under this chapter is pending, independently of other appeals which may be taken in the proceedings, and such appeals shall be heard summarily: *Provided, however,* That no fees, compensation, reimbursement, or other allowances for

attorneys, agents, committees, or other representatives of creditors shall be assessed against the taxing district or paid from any revenues, property, or funds except in the manner and in such sums, if any, as may be provided for in the plan of readjustment; (9) in addition to the provisions of chapter II of this Act for the staying of pending suits, the court may upon notice enjoin or stay until after final decree, the commencement or continuation of suits against the taxing district, or any officer or inhabitant of the taxing district, on account of the indebtedness of such taxing district, or to enforce any lien or to enforce levy of taxes for the payment of any such indebtedness: *Provided, however,* That the judge may enter an interlocutory decree providing that the plan shall be temporarily operative with respect to all indebtedness affected thereby and that the payment of the principal or interest, or both, of such indebtedness shall be temporarily postponed or extended or otherwise readjusted in the same manner and upon the same terms as if such plan had been finally confirmed and put into effect, and upon the entry of such decree the principal or interest, or both, of such indebtedness which has otherwise become due, or which would otherwise become due, shall not be or become due or payable, and the payment of all such indebtedness shall be postponed during the period in which such decree shall remain in force; and (10) may refer any matters to a special master, for consideration and report upon specified issues; but (11) shall not, by any order or decree, in the proceeding or otherwise, interfere with (a) any of the political or governmental powers of the taxing district, or (b) any of the property or revenues of the taxing district necessary in the opinion of the judge for essential governmental purposes, or (c) any income-producing property, unless the plan of readjustment so provides. The taxing district shall be heard on all questions. Any creditor shall be heard on the question of the proposed confirmation of the plan, and, upon filing a petition for leave to intervene, on such other questions arising in the proceeding as the judge shall determine.

"(d) The plan of readjustment shall not be confirmed until it has been accepted in writing, filed in the proceeding, by or on behalf of creditors whose claims have been allowed holding two thirds in amount of the claims of each class whose claims have been allowed and would be affected by the plan, and by creditors holding 66⅔ per centum in the case of drainage, irrigation, reclamation, and levee districts and creditors holding 75 per centum in the case of all other taxing districts in amount of the claims of all classes of the taxing district affected by the plan, but excluding claims owned, held, or controlled by a taxing district, and such plan has been accepted and approved by the taxing district in a writing filed in the proceeding, signed in its name by an authorized authority: *Provided, however,* That it shall not be requisite to the confirmation of the plan that there be such acceptance by any creditor or class of creditors (a) whose claims are not affected by the plan, or (b) if the plan makes provision for the payment of their claims in cash in full, or (c) if provision is made in the plan for the protection of the interests, claims, or liens of such creditors or class of creditors.

"(e) After hearing such objections as may be made to the plan, the judge shall confirm the plan if satisfied that (1) it is fair, equitable, and for the best interests of the creditors, and does not discriminate unfairly in favor of any class of creditors; (2) complies with the provisions of subdivision (b) of this chapter; (3) has been accepted and approved as required by the provisions of subdivision (d) of this chapter; (4) all amounts to be paid by the taxing district for services or expenses incident to the readjustment have been fully disclosed and are reasonable; (5) the offer of the plan and its acceptance are in good faith; and (6) the taxing district is authorized by law, upon confirmation of the plan, to take all action necessary to carry out the plan. Before a plan is confirmed, changes and modifications may be made therein, with the approval of the judge after hearing upon notice to creditors, subject to the right of any creditor who shall previously have accepted the plan to withdraw

his acceptance, within a period to be fixed by the judge and after such notice as the judge may direct, if, in the opinion of the judge, the change or modification will be materially adverse to the interest of such creditor, and if any creditor having such right of withdrawal shall not withdraw within such period, he shall be deemed to have accepted the plan as changed or modified: *Provided, however,* That the plan as changed or modified shall comply with all the provisions of this subdivision.

"(f) Upon such confirmation the provisions of the plan and of the order of confirmation shall be binding upon (1) the taxing district, and (2) all creditors, secured or unsecured, whether or not affected by the plan, and whether or not their claims shall have been filed or evidenced, and if filed or evidenced, whether or not allowed, including creditors who have not, as well as those who have, accepted it.

"(g) In the event the judge shall disapprove the plan he shall file an opinion stating his reasons for such disapproval. If he approve the plan, the final decree shall discharge the taxing district from those debts and liabilities dealt with in the plan except as provided in the plan; and upon the entry of such decree the jurisdiction of the court in such proceeding shall cease.

"(h) A certified copy of the final decree or of an order confirming a plan of readjustment, or of any other decree or order entered in a proceeding under this chapter, shall be evidence of the jurisdiction of the court, the regularity of the proceedings, and the fact that the decree or order was made. A certified copy of an order directing the transfer of any property dealt with by the plan, shall be evidence of the transfer of title accordingly, and if recorded as conveyances are recorded shall impart the same notice that a deed, if recorded, would impart.

"(i) In proceedings under this chapter and consistent with the provisions thereof, the jurisdiction and powers of the court, the duties of the taxing district and the rights and

liabilities of creditors, and of all persons with respect to the taxing district and its property, shall be the same as if a voluntary petition for adjudication had been filed and a decree of adjudication had been entered on the day when the petition of the taxing district was approved.

"(j) This chapter shall take effect and be in force from and after the date of the approval of this amendatory Act and shall apply as fully to taxing districts and their creditors, whose interests or debts have been acquired or incurred prior to such date, as to taxing districts and their creditors, whose interests or debts are acquired or incurred after such date.

"(k) Nothing contained in this chapter shall be construed to limit or impair the power of any State to control, by legislation or otherwise, any political subdivision thereof in the exercise of its political or governmental powers, including expenditures therefor, and including the power to require the approval by any governmental agency of the State of the filing of any petition hereunder and of any plan of readjustment, and whenever there shall exist or shall hereafter be created under the law of any State any agency of such State authorized to exercise supervision or control over the fiscal affairs of all or any political subdivisions thereof, and whenever such agency has assumed such supervision or control over any political subdivision, then no petition of such political subdivision may be received hereunder unless accompanied by the written approval of such agency, and no plan of readjustment shall be put into temporary effect or finally confirmed without the written approval of such agency of such plans.

"(l) If any provision of this chapter, or the application thereof to any person or circumstances, is held invalid, the remainder of the chapter, or the application of such provision to other persons or circumstances, shall not be affected thereby."

APPROVED, May 24, 1934, 12.20 p.m.