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UNITED STATES BANKRUPTCY COURT
NORTHERN DISTRICT OF CALIFORNIA
OAKLAND DIVISION

In re:

THE ROMAN CATHOLIC BISHOP OF OAKLAND, a California corporation sole,

Debtor.

Case No. 23-40523 WJL

Chapter 11

THE OFFICIAL COMMITTEE OF UNSECURED CREDITORS' OBJECTION TO CONFIRMATION OF THE DEBTOR'S MODIFIED FOURTH AMENDED PLAN OF REORGANIZATION

Judge:	Hon. William J. Lafferty
Date:	June 15, 2026
Time:	10:30 a.m. (Pacific Time)
Place:	United States Bankruptcy Court 1300 Clay Street, Courtroom 220 Oakland, CA 94612

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The Official Committee of Unsecured Creditors (the "**Committee**") of The Roman Catholic Bishop of Oakland (the "**Debtor**" or the "**Diocese**") files this objection (this "**Objection**") to confirmation of the *Debtor's Modified Fourth Amended Plan of Reorganization* [Dkt. No. 2758] (the "**Diocese Plan**").[1] In support of this Objection, the Committee states as follows:

I.

PRELIMINARY STATEMENT

The Diocese bears the burden of proving at trial that the Diocese Plan satisfies the requirements of section 1129 of the Bankruptcy Code. *See In re Arnold & Baker Farms*, 177 B.R. 648, 654 (B.A.P. 9th Cir. 1994), *aff'd*, 85 F.3d 1415 (9th Cir. 1996) (debtor bears burden of proof that its plan complies with sections 1129(a) and (b) of the Bankruptcy Code). The evidence (or lack thereof) will demonstrate that the Diocese Plan cannot be confirmed for three principal reasons.

First, the Diocese Plan does not satisfy section 1129(a)(3). The evidence will show that the Diocese Plan is not a good-faith proposal. The evidence to be adduced at trial will establish that the Debtor owns, controls or has ready access to hundreds of millions of dollars in assets that it has unilaterally declared off-limits to Abuse Claimants ("**Survivors**") or simply refuses to part with. Indeed, in exchange for walking away from the $40 million CCCEB Note, the Debtor proposes to *acquire* the Cathedral Property—an asset that adds nothing to Survivor distributions. Beyond the assets the Debtor refuses to touch, the Committee will also identify value-maximizing actions the Diocese could take but has not. A plan that walls off the bulk of estate assets from the very creditors it was filed to address is not proposed in good faith.

Second, the Diocese Plan does not satisfy section 1129(a)(7). The Debtor systematically understates estate assets and inflates hypothetical chapter 7 administrative expenses to manufacture compliance with the best interests test. Once the liquidation analysis is corrected, the

[1] Capitalized terms not defined below have the meaning ascribed to them in the Diocese Plan or the *First Amended Disclosure Statement in Support of Debtor's Modified Fourth Amended Plan of Reorganization* [Dkt. No. 2880-1] (the "**Disclosure Statement**").

math is unmistakable: Survivors would receive materially more in a hypothetical chapter 7 liquidation than under the Diocese Plan.

Third, the Diocese Plan does not satisfy section 1129(b). Each defect described below—manufactured impairment, the Debtor's retention of hundreds of millions of dollars in assets, the Debtor's failure to take any number of actions to maximize the value of its estate, including the Debtor's failure to pursue amounts undisputedly owed to its estate, while Survivors are paid pennies on the dollar—independently establishes that the Diocese Plan is neither fair nor equitable. Together, they make that conclusion inescapable.

In addition to these reasons, the Diocese will be unable to prove at trial that the Diocese Plan satisfies several other provisions of section 1129:

(i) Section 1129(a)(1) because the Diocese Plan provides for unlawful third-party releases;

(ii) Section 1129(a)(3) because the Debtor's claims allowance process violates applicable law;

(iii) Section 1129(a)(10)'s requirement that at least one impaired class of creditors accepts the Diocese Plan before the Debtor may seek cramdown; and

(iv) Section 1129(b)(2)'s absolute priority rule.

II.

THE DIOCESE PLAN DOES NOT SATISFY SECTION 1129(A)(3) OF THE BANKRUPTCY CODE

The Diocese cannot carry its burden of showing that its plan was proposed in good faith because the evidence will establish that the Diocese Plan fails to maximize estate value for the benefit of Survivors.[2] Rather, the Debtor itself seeks to choose which assets are available to its creditors. A debtor cannot, consistent with section 1129(a)(3), unilaterally decide which assets will be treated as estate property available for creditor recoveries and which will be off-limits.

To confirm a chapter 11 plan, the court must find that the plan was "proposed in good faith . . . ." 11 U.S.C. § 1129(a)(3). "Good faith" is not defined by statute but courts find that a plan is

[2] Failing to propose a plan of reorganization in good faith does not require a finding by the Court that a debtor is acting in bad faith. Rather, the inquiry is whether the plan of reorganization is intended to achieve results consistent with the objectives of the Bankruptcy Code. *See infra.*

proposed in good faith where it will "fairly achieve a result consistent with the objectives and purposes of the Bankruptcy Code." *See In re Rand,* No. AZ-10-1160-BAPAJU, 2010 WL 6259960, at *8 (B.A.P. 9th Cir. Dec. 7, 2010) (citations omitted); *In re Hawaiian Telcom Commc'ns, Inc.*, 430 B.R. 564, 605 (Bankr. D. Haw. 2009) (citing in part *In re Sylmar Plaza, L.P.,* 314 F.3d 1070, 1074 (9th Cir. 2002) (additional citations omitted)).

The two "recognized" objectives underlying Chapter 11 of the Bankruptcy Code are "preserving going concerns and maximizing property available to satisfy creditors." *See Bank of Am. Nat'l Tr. & Sav. Ass'n v. 203 N. LaSalle St. P'ship,* 526 U.S. 434, 453 (1999) (citation omitted)); *Rand,* 2010 WL 6259960, at *8 (good faith analysis involves a "sense that the debtor is trying to maximize the return to the creditors within the confines of the rules.") (citations omitted). In analyzing whether a plan has been filed in good faith, "[a] bankruptcy judge is more than a pair of ears to hear the argument and a pair of eyes to read the law. . . . Sometimes a bankruptcy judge's nose tells him/her that something doesn't smell right and further inquiry is warranted." *In re Dow Corning Corp.*, 244 B.R. 673, 676 (Bankr. E.D. Mich. 1999) (citation omitted).

Maximizing estate value for creditor recoveries is the bedrock of the good-faith inquiry, evaluated under the totality of the circumstances. *Rand,* 2010 WL 6259960, at *8. A plan that fails to marshal the debtor's assets for creditors cannot, as a matter of law, satisfy the good-faith requirement. *Id.* at *8–*9. A debtor's failure to properly allocate assets to creditors is itself bad faith. *Id.* at *9 (affirming bad-faith finding where the debtors were "not dealing with the creditors in a fundamentally fair manner").

This Court has long acknowledged that this Chapter 11 Case does not fit neatly into the Chapter 11 paradigm, which is largely designed to rehabilitate commercial debtors. Given the Court's observations, in considering good faith and fairness to creditors in this case, Chapter 9 municipal bankruptcy case law may be a helpful guide in the Court's evaluation as to whether the Diocese Plan has been proposed in good faith. Municipal debtors, like non-profit religious institutions, provide services to their constituents; they do not earn a profit. And so, in both municipal and diocesan bankruptcy cases, a tension exists between maximizing creditor recoveries

and maintaining adequate services (in the context of municipalities), or like here, continuing the Debtor's religious mission.

That a bankrupt municipality needs sufficient assets to provide future services does not allow a municipal debtor to unilaterally determine what it may need, and thus, what it can withhold from paying to claimants in the context of Chapter 9 plan confirmation. Just like courts overseeing chapter 11 cases, courts in the municipal bankruptcy context evaluate whether a Chapter 9 plan is proposed in good faith and have denied confirmation where such plan fails to maximize creditor recoveries. *See In re Pierce Cnty. Hous. Auth.,* 414 B.R. 702, 719–21 (Bankr. W.D. Wash. 2009) (plan was not proposed in good faith because "the Debtor's attempts to forestall the ability of the Post-Confirmation Committee to investigate potential sources of recovery does not indicate a sincere attempt by the Debtor to readjust its debts by maximizing the creditors' recovery" and limitation placed on the ability of the "Post-Confirmation Committee to evaluate and possibly pursue all legitimate claims that may result in increased distribution to the unsecured creditors" represented an impermissible "attempt to cut-off potential sources of funds for payment of claims") (citing *Fano v. Newport Heights Irrigation Dist.*, 114 F.2d 563 (9th Cir. 1940)); *Cf. In re Sullivan Cnty. Reg'l Refuse Disposal Dist.,* 165 B.R. 60, 78 (Bankr. D.N.H. 1994) (in the context of chapter 9 eligibility, "[a] commercial party can hardly 'negotiate in good faith' regarding unpaid obligations if it . . . refuses to acknowledge or throw into the negotiating equations a large and significant asset that it holds").

In contrast, Chapter 9 plans have been found to be proposed in good faith where the proposed plan "maximizes the economic return to the Debtor's creditors of available funds in the most practicable way given the unusual and complex nature of this Case" and "allows the Debtor to realize that value and to distribute it to its creditors." *In re Barnwell Cnty. Hosp.,* 471 B.R. 849, 866, 869 (Bankr. D.S.C. 2012); *In re Bamberg Cnty. Mem'l Hosp.,* Case No. 11-03877, 2012 WL 1890259, at *5–6 (Bankr. D.S.C. May 23, 2012) (similar); *see also In re Connector 2000 Ass'n, Inc.,* 447 B.R. 752, 763 (Bankr. D.S.C. 2011) (chapter 9 plan proposed in good faith where "the Plan affords all creditors the potential for the greatest economic return from Debtor's assets.").

Like a municipality shielding assets it subjectively deems necessary to its public duties, the Debtor has declared its preferred assets "mission critical" and seeks to place them beyond Survivors' reach. The Debtor has offered no legal authority or evidence showing that designation is anything other than self-serving. Nor can it, and so it cannot meet its burden. The Debtor's position—that it may unilaterally exempt assets from section 1129—finds no basis in the Bankruptcy Code, its legislative history, or any decisional authority. Adopting it would judicially rewrite section 1129(a)(3) in a way Congress never intended. If the Debtor wants that right, it must lobby Congress, not this Court.

The evidence at confirmation will show that the Debtor's refusal to take value-maximizing actions it is duty-bound to pursue compels the conclusion that the Diocese Plan is not proposed in good faith. The following examples are illustrative, not exhaustive.

As an initial matter, the Diocese Plan will not provide for a $180 million payment to Survivors as the Debtor suggests it will. If past is prologue, RCWC will not receive releases from Abuse Claimants, and thus RCWC will not contribute its $30 million. *See Declaration of Andres A. Estrada with Respect to Solicitation and the Tabulation of Votes on the Debtor's Third Amended Plan of Reorganization* [Dkt. No. 2040] (the "**Voting Declaration**") (indicating that not a single Survivor out of 343 elected to grant RCWC a release under the Debtor's prior plan).

The remaining $150 million contribution to be paid to the Survivors' Trust will be paid over 3.5 years, with the lion's share of that amount paid at the tail end of the payment period. The reason: the Debtor is endeavoring to fund its required contributions (the "**Diocese Contribution**") under the Diocese Plan through the sale of vacant land, the Livermore Property, purportedly owned by non-debtor, Adventus. If the Livermore Property is sold for $100 million, as projected by the Debtor, the Debtor will contribute approximately $50 million in cash over 3.5 years in exchange for a discharge of more than 375 known Abuse Claims and an unknown universe of future claims.[3] In that case, the present value of the total Diocese Contribution funded with Debtor assets only is

[3] *See* Disclosure Statement at 10:19-20 (stating that the Livermore Property could be worth "approximately $100 million, possibly more"). Left unexplained is how the Debtor will pay timely pay the Debtor Contribution if the Livermore Property is not timely sold. The Debtor will need to establish that it can do so at plan confirmation.

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roughly ***$43.1 million*** (assuming an August 1, 2026 Effective Date and payments being made in the same proportion as the amounts being paid under the Diocese Plan). But the Effective Date will likely be delayed for an indeterminate period of time while appeals from any Order confirming the Diocese Plan remain pending, which will substantially reduce the present value of the Debtor Contribution.

The Debtor cannot carry its burden of showing good faith for the following additional reasons:

Example One. The evidence at trial will establish that the Diocese owns, controls or has access to hundreds of millions of dollars in additional assets that the Diocese Plan does not commit to use to pay Survivors.

Example Two. The Diocese has failed to pursue collection of a $40 million loan it made to CCCEB that remains unpaid and is in default. Rather, under the Diocese Plan, the Diocese is poised to deprive its estate of $40 million in return for taking ownership of the Cathedral Property, a property which has no value to creditors given the Debtor's position that its hand-picked assets cannot be used to satisfy its debts. Relatedly, although section 1123(b)(3) of the Bankruptcy Code provides that a plan may provide for the settlement or adjustment of any claim belonging to the debtor or the estate, the Bankruptcy Court is to approve such settlements under the Bankruptcy Rule 9019 standard. *See, e.g., In re PG&E Co.*, 304 B.R. 395, 416 (Bankr. N.D. Cal. 2004) (holding that, with respect to settlements in a debtor's plan of reorganization, "the standards under Rule 9019 will be applied."). Heightened scrutiny is warranted "when an insider benefits from a compromise or release that a debtor in possession proposes on behalf of its bankruptcy estate." *In re Astria Health*, 623 B.R. 793, 801 (Bankr. E.D. Wash. 2021) (citation omitted). The Diocese provided no evidence to date that it can satisfy the heightened Bankruptcy 9019 standard for approval of insider transactions.

Example Three. Although this Court has held that substantive consolidation is not a viable cause of action in this case (a ruling the Committee is appealing), the Bishop's demonstrated ability

to direct his non-Debtor affiliates remains highly relevant to the good faith analysis.[4] When the Diocese needed money in the past, the Bishop had no difficulty wielding his power. He cannot now—when Survivors are the intended beneficiaries—feign powerlessness. The Committee will introduce evidence at trial establishing the wide array of assets available to the Bishop and his use of them when he needed to complete the construction of the Cathedral. In that case, the Bishop wanted the funds and so, he informed his prospective creditors that he could take any number of actions within his Diocese to raise funds to repay debt. Now, the Bishop takes an about-face, insisting he cannot and will not take any similar action. Notably, however, non-Debtor Catholic Entities Adventus and Furrer Inc. are both donating assets to the Survivors' Trust, reinforcing the Committee's view that non-Debtor affiliates have assets available to contribute to fund the Debtor's reorganization if the Bishop wants access to them.

Example Four. The evidence at trial will show that the Debtor has used non-restricted funds to pay for the expenses that restricted funds were intended to pay, and thus, shielded assets from Survivors. For example, while the Debtor could have paid expenses such as "Clergy Retirement," "Program, Ministry & Other" and "Other Mission Related" expenses set forth in its budgets filed with this Court using restricted funds, it did not do so. Every restricted dollar used for such expenses would have freed up unrestricted cash for additional creditor recoveries. Moreover, rather than agree to increase the distribution to Survivors on account of any assets found unrestricted in the "Restricted Assets" adversary proceeding, the Debtor will merely use those dollars to accelerate payment to Survivors. In other words, this Debtor may have $30 million or so in additional available assets for Survivors yet concludes that Survivors should not, and need not, receive $1 more.

Example Five. The Debtor's course of conduct over four successive plans filed in three years is itself powerful evidence that the Diocese Plan is not proposed in good faith. In each plan iteration, the Diocese insisted that its proposed contribution represented the absolute "maximum" it could afford to pay, only to increase that supposed contribution ceiling in the next plan. *See The*

[4] The Committee's appeal has not progressed because counsel to the Non-Debtor Entities has not yet circulated a proposed order denying the Committee's Motion for Reconsideration.

Official Committee of Unsecured Creditors' Objection to Approval of the Debtor's Disclosure Statement in Support of the Debtor's Modified Fourth Amended Plan of Reorganization [Dkt. No. 2800] (the "**Committee DS Objection**"), 7:11-8:8. At the same time, the Diocese, paradoxically, has consistently complained that its financial position was deteriorating.[5] Thus, the Debtor's insistence that the Diocese Plan is the best it can do rings hollow.

Compounding the problem, the Debtor hides behind a distorted reading of the First Amendment, asserting that religious freedom permits it to selectively shield assets from Survivors. Carried to its logical conclusion, that theory would render every religious nonprofit effectively judgment proof—a result no court has endorsed.[6]

Example Six. The evidence will show that the Debtor artificially impairs creditors in Classes 1 and 3 and created Class 6 (Non-Abuse Claims) out of whole cloth, illustrating the Debtor's gamesmanship to unfairly seek to cramdown the Diocese Plan on the fulcrum group of creditors, Abuse Claimants. Although "a plan proponent's motivations will not be questioned in determining whether a class is impaired under section 1129(a)(10), [it] will be examined in deciding whether a plan was proposed in bad faith." *In re Hotel Assocs. of Tucson*, 165 B.R. 470,

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[5] *See, e.g.,* **(i)** Oct. 15, 2024 Hr'g Tr. 37:22–24, *In re The Roman Cath. Bishop of Oakland*, No. 23-40523 (Bankr. N.D. Cal. Oct. 15, 2024), Dkt. No. 1411 (In October 2024, Debtor, through its counsel, expressed an imminent need to resolve the Chapter 11 Case through a soon-to-be filed plan of reorganization, stating: "[w]e have, as the Debtor, a practical liquidity shortfall forecast for the end of December 2024."); **(ii)** *Declaration of Attila Bardos in Support of Debtor's Motion to Amend Order Establishing Procedures for Interim Compensation and Reimbursement of Expenses of Professionals* at 2:10–13, *In re The Roman Cath. Bishop of Oakland*, No. 23-40523 (Bankr. N.D. Cal.), Dkt. No. 1909 (In April 2025, Debtor asserted that "if the current rate of administrative expenses continues . . . the Debtor believes that it will essentially have zero practical liquidity in September 2025 unless additional measures are undertaken."); **(iii)** *Debtor's Motion to Dismiss Chapter 11 Case Pursuant to 11 U.S.C. § 1112(b)* at v:9–11, vi:1–2, *In re The Roman Cath. Bishop of Oakland*, No. 23-40523 (Bankr. N.D. Cal.), Dkt. No. 2293 (In September 2025, Debtor lamented that "it has experienced substantial and continuing losses . . . and it therefore no longer has sufficient cash to seek confirmation of its pending plan through a contested confirmation process," and that it would "not likely be able to rehabilitate its operations before it becomes administratively insolvent.") and **(iv)** *Declaration of Daniel Flanagan in Support of Debtor's Motion to Amend Order Establishing Procedures for Interim Compensation and Reimbursement of Expenses of Professionals* at 2:9–10, 3:9–10, *In re The Roman Cath. Bishop of Oakland*, No. 23-40523 (Bankr. N.D. Cal.), Dkt. No. 2561 (In January 2026, Debtor again asserted administrative insolvency, claiming that it "historically operates at approximately a break-even point excluding bankruptcy-related professional fees and expenses," and that continued payment of professional fees under the interim compensation procedures would cause it to "run out of cash to pay its operating expenses.")

[6] The Debtor's arguments are wrong because, as detailed below, extensive caselaw establishes that the First Amendment does not shield nonprofit religious entities' property from attachment to satisfy creditors' claims.

475 (B.A.P. 9th Cir. 1994); *see also In re L & J Anaheim Assocs.*, 995 F.2d 940, 943 n.2 (9th Cir. 1993) ("The bankruptcy court can and should address such abuses by denying confirmation on the grounds that the plan has not been 'proposed in good faith.'").

The *Hotel Associates* case is instructive. There, the debtor's plan impaired general unsecured creditors by delaying payment by 30 days but otherwise paying such creditors in full in cash with interest. *See Hotel Assocs. of Tucson,* 165 B.R. at 473, 475. While the Ninth Circuit Bankruptcy Appellate Panel determined that the bankruptcy court correctly held that the class was impaired under section 1129(a)(10) based on the delayed payment, the panel remanded the case because the bankruptcy court failed to make findings on good faith, stating: "[o]n remand the [bankruptcy] court should recognize that the act of impairment in an attempt to gerrymander a voting class of creditors is indicative of bad faith." *Id.* at 475 (citations omitted).

Here, as explained below, the Diocese Plan artificially impairs Classes 1 and 3 and there are no valid claims in Class 6 (or if there are any, they can be paid in full) such that Class 6 cannot serve as the impaired consenting class:

Class 1. Under the Diocese Plan, the Diocese will pay Class 1 (the RCC Secured Claim)—a class that was unimpaired under the Debtor's Third Amended Plan [Dkt. No. 1830]—in full, but without paying such claim default interest and late payment fees. The Debtor will need to establish at trial that it lacks the financial wherewithal to pay the RCC Secured Claim in full. Apparently, the amount not being paid to RCC is so insignificant that RCC's 30(b)(6) witness, Ronald Gies, has not even computed the amount owed. Rather, RCC is willing to waive the outstanding amounts because doing so is contributing to the "ultimate solution" of the case. *See* Apr. 30, 2026 Dep. Tr. of Ronald Gies, at pp. 23–29.

Class 3. Evidence at trial will show that Class 3 (General Unsecured Creditors) can be paid in full because the Debtor has granted itself one year to pay these claims in a transparent effort to create impairment. Although the total dollar amount of Class 3 claims is unclear, the amount owed to creditors in this class is *de minimis*. For example, the liquidation analysis filed with the *Third Amended Disclosure Statement for Debtor's Third Amended Plan of Reorganization* [Dkt. No. 1874] (the "**Third Amended DS**") lists roughly $104,000 in trade payables. *See*

Liquidation Analysis [Dkt. No. 1874-2], at 13. Holders of roughly $282,000 in Class 3 claims voted on the prior plan. *See* Voting Declaration. The proceeds of the anticipated $40 million new-money loan from RCC provides more than sufficient liquidity to pay any non-insider Class 3 claims in full on the Effective Date.

Class 6. At present, there are no claims in Class 6. Although the Debtor argues there are three members of this class, the facts will show the following:

(i) Claim No. 542 (Emma Macias) is a claim for alleged personal injury damages, but Ms. Macias's claim is subject to objection by the Committee because it was filed after the claims bar date. *See* Dkt. No. 2829. In any event, the claim is disallowed under this Court's claims bar date order [Dkt. No. 293].

(ii) Claim No. 247 (Nick Chavez) is a claim for alleged personal injury damages. Mr. Chavez asserts priority treatment under section 507(a) for his entire claim, making it a Class 2 claim instead of a Class 6 Claim.

(iii) Claim 544 (Lila Sterling) is a claim for alleged personal injury damages, but Ms. Sterling's claim is subject to objection by the Committee because it was filed after the claims bar date. *See* Dkt. No. 2829. In any event, the claim is disallowed under this Court's claims bar date order [Dkt. No. 293]. In addition, (i) Ms. Sterling asserts her claim is entitled to priority status under section 507(a), making her claim, at best, a priority claim under Class 2 and (ii) Ms. Sterling was a teacher employed by RCWC, not the Debtor, injured on the job, and now receives workers' compensation, meaning she holds no valid claim against the Debtor. *See* Apr. 30, 2026 Dep. Tr. of Andrew Currier, at pp. 51–54

Even if there is a valid claim in Class 6 not subject to disallowance, the Debtor will need to come forward with facts to establish that such claim(s) cannot be paid in full.

Example Seven. The Debtor has refused to deploy any combination of readily available levers to improve Survivor recoveries. The Committee will establish at trial that the Diocese could, singularly or collectively:

(i) choose to sell the real property it has agreed to sell under the Diocese Plan even if the Livermore Property is sold and its proceeds paid to Survivors;

(ii) sell certain real estate it previously indicated it would sell to generate additional cash;[7]

[7] While the Bishop recently announced his intention to close approximately 13 Churches, this number is substantially lower than the 30 or more Churches the Bishop was exploring for closure, clustering, merging or selling before the bankruptcy case was commenced. *See* https://www.oakdiocese.org/mission-alignment-process/. Moreover, the Debtor has stated that if the Livermore Property is sold, it will not need to liquidate

(iii) meaningfully reduce its operating reserves for a period of time to free up additional cash;

(iv) borrow funds from its affiliates on an unsecured basis and/ or, in doing so, not pay interest when it is requiring Survivors to provide an unsecured loan over 3.5 years with no interest;

(v) obtain a traditional commercial loan;

(vi) restructure its operations to achieve cost savings that would inure to the benefit of Survivors; and/or

(vii) request that its affiliate, the Roman Catholic Communications Corporation of the Bay Area dba Catholic Telemedia Network, increase the historical grants it provides the Debtor.

In refusing to take these steps, the Diocese stands alone. Selling real estate, restructuring operations, obtaining financing, and reducing reserves for the benefit of Survivors are now the norm in diocesan bankruptcies—not the exception. *See* Committee DS Objection, 8:19-28; 9:1-12.

III.

THE DIOCESE PLAN DOES NOT SATISFY SECTION 1129(A)(7) OF THE BANKRUPTCY CODE

The Bankruptcy Code's "best interests" test permits a Chapter 11 plan to be confirmed without acceptance by each holder of a claim in an impaired class if each such impaired claimant that votes to reject the plan receives at least as much under the plan as it would in a hypothetical liquidation. *In re Tenderloin Health*, 849 F.3d 1231, 1237 (9th Cir. 2017) (citing 11 U.S.C. § 1129(a)(7)(A)(ii)). The "best interests" test is a "cornerstone of the theoretical underpinnings of chapter 11. It stands as an 'individual guaranty to each creditor or interest holder that it will receive at least as much in reorganization as it would in liquidation.'" *In re Sierra-Cal*, 210 B.R. 168, 172 (Bankr. E.D. Cal. 1997) (citations omitted).

In evaluating whether the best interests of creditors test is satisfied, the Court "must make specific findings to determine whether each non-accepting claimant in the [i]mpaired classes would receive at least as much under the plan as it would receive in a hypothetical chapter 7 liquidation." *In re Boteilho Haw. Enters., Inc.*, No. HI-23-1186-BSG, 2024 WL 4143933, at *5

as much of its real property and "Churches slated for sale and closure can remain open and available to worship and ministry." Disclosure Statement at 11:19-21.

(B.A.P. 9th Cir. Sep. 11, 2024) (citation omitted). The burden is on the debtor "to establish by a preponderance of the evidence that its Plan satisfied the best interests of creditors test." *Id.* (citation omitted).

A. The Best Interests Test Applies to Non-Profit Debtors

In an attempt to avoid having to satisfy the best interests test—as all debtors must—the Debtor asserts that its First Amendment right to religious freedom justifies its refusal to include hundreds of millions of dollars of its assets in its liquidation analysis.[8] The Debtor's position ignores the plain language of the Bankruptcy Code, decisions in other diocesan bankruptcy cases requiring non-profit religious organizations to comply with the hypothetical liquidation test and extensive case law holding that a religious entity is not exempt from complying with civil law.[9]

First, the Debtor is not being compelled to sell property. Section 1129(a)(7) of the Bankruptcy Code is a ***hypothetical*** test designed to ensure that creditors receive at least as much under the Diocese Plan as they would if the Debtor's assets were liquidated. The test is a hypothetical measuring device; it does not rest on whether the Debtor's assets could be involuntarily liquidated under Chapter 7.

In the *Boy Scouts of America* case, the debtor argued that a nonprofit need not meet the best interests test. *See In re Boy Scouts of Am.*, 642 B.R. 504, 661–62 (Bankr. D. Del. 2022), *aff'd*, 650 B.R. 87 (D. Del. 2023). But the *BSA* court found section 1129(a)(7) is a confirmation requirement and there is no exception for nonprofits, explaining that:

> Even if one could look beyond the plain language of the statute, there is nothing illogical about requiring a nonprofit to show that it can meet this requirement in order to obtain the benefits of a confirmed plan. A nonprofit has options if it is in financial distress.

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[8] *See* Disclosure Statement at 10:13-16 ("The sale of real property on which a Church currently sits and operates, or which is used in its ministry, could not happen in a forced liquidation under chapter 7 of the Bankruptcy Code" and that "[u]nder applicable U.S. Supreme Court and Ninth Circuit case law, the Debtor cannot be forced to sell real estate on which it operates one of the Churches.").

[9] *See, e.g.*, *In re Diocese of Camden*, 653 B.R. 309, 341 (Bankr. D.N.J. 2023) (despite the debtor arguing that section 1129(a)(7) does not apply to non-profits, "the Court disagrees" and required the diocese debtor to satisfy the Liquidation Analysis requirements); *In re Roman Cath. Archbishop of Portland*, 339 B.R. 215, 227 (Bankr. D. Or. 2006) ("[I]n order to meet the best interests test for confirmation set out in § 1129(a)(7), the plan must provide that an impaired class receive at least as much as the class would receive in a chapter 7 liquidation.").

> It can voluntarily file a bankruptcy case under either chapter 11 or chapter 7 or it can look to its state law alternatives. ***But, to obtain a discharge in bankruptcy, it must meet all applicable requirements of § 1129***.

642 B.R. at 662; *see also Sec. Farms v. Gen. Teamsters, Warehousemen & Helpers Union, Local 890 (In re Gen. Teamsters, Warehousemen & Helpers Union, Local 890), 265 F.3d 869, 877 (9th Cir. 2001)* (applying best interests test to non-profit debtor).

Congress did not exempt nonprofit organizations from having to satisfy the best interests test. Congress knows how to include/exclude nonprofit organizations from compliance with Bankruptcy Code provisions when it so desires. *See* 11 U.S.C. § 1129(a)(16) (in confirming a plan, a court must find that all transfers of property under the plan are made in accordance with applicable nonbankruptcy law that governs the transfer of property *by a nonprofit entity*). But there is no "nonprofit exception" to the best interests test. The Debtor must therefore prove that it has satisfied the best interests test, regardless of its religious nonprofit nature.

The Debtor's reliance on *Sec. Farms v. Gen. Teamsters* for the proposition that its liquidation analysis need only be predicated on a possible liquidation of assets is misplaced. *See Sec. Farms v. Gen. Teamsters, Warehousemen & Helpers Union, Local 890 (In re Gen. Teamsters, Warehousemen & Helpers Union, Local 890)*, 265 F.3d 869 (9th Cir. 2001). In *Security Farms*, the Ninth Circuit found that the debtor-union could not monetize its collective bargaining agreement because the National Labor Relations Act forbade such a sale, whether in bankruptcy or not, and so the court held that this putative asset was correctly omitted from the union's liquidation analysis. *Sec. Farms,* 265 F.3d at 877. The Debtor tries to equate an asset that ***cannot*** be sold under non-bankruptcy law with real property that ***can*** be sold under non-bankruptcy and bankruptcy law alike. No law forbids the Debtor from selling its real estate. In fact, it has chosen to voluntarily sell select parcels to fund the Diocese Plan. But, to avoid paying Abuse Claimants an objectively fair and equitable payment, the Debtor seeks to ignore hundreds of millions of dollars in real property. How the Debtor monetizes its assets to pay its debts is for the Debtor to decide. What constitutes a fair and equitable payment is for the Court to decide and in doing so, the Bankruptcy Code requires such determination to be made using an objective test.

B. The Diocese Fails to Satisfy the Best Interests Test Because Its Assets Cannot Be Shielded from Enforcement of a Judgement

The Debtor's First Amendment arguments for excluding assets from the best interests analysis (and other confirmation standards) should be rejected for the reasons below.

1. The Debtor Is Not Judgment Proof

In the civil justice system, when courts adjudicate secular issues, churches stand before the law like other entities; they have no privileged status, are not judgment proof and church property may be sold to satisfy debts. *See Jones v. Wolf*, 443 U.S. 595, 602–04 (1979) (finding that "[t]here can be little doubt about the general authority of civil courts to resolve" disputes concerning church property); *see also Beyla v. Kapral*, 45 F.4th 621, 630 (2d Cir. 2022) (noting a court should use the "common-sense" "neutral principles of law approach" to resolve "secular components of a dispute involving religious [institutions]"); *O'Connell v. U.S. Conf. of Cath. Bishops*, 134 F.4th 1243, 1249, 1257–58 (D.C. Cir. 2025) (finding church autonomy doctrine "does not immunize religious organizations from civil actions" (collecting cases)). Likewise, when the Church is a debtor, it stands like any other nonprofit: it is liable for its debts, and its property may be sold to satisfy those debts. *See Watson v. Jones*, 80 U.S. 679, 714 (1872).

The Debtor's contention that it "cannot be forced to sell real estate on which it operates one of the churches" finds no support in the case law. *See* Disclosure Statement, pp. 10; 14-16. Courts have repeatedly held that real property owned by religious institutions—even property used for core religious purposes—is subject to a civil judgment. *See, e.g.*, *Floyd S. Pike Elec. Contractor, Inc. v. Goodwill Missionary Baptist Church*, 214 S.E.2d 276, 278 (N.C. Ct. App. 1975) (finding no state constitutional provision exempting church property from execution, unless exempted by statute); *Rector, Churchwardens & Vestrymen of Church of the Nativity v. Fleming*, 20 N.Y.S.2d 597, 599 (1940), *aff'd*, 23 N.Y.S.2d 46 (N.Y. App. Div. 1940), *aff'd sub nom.*, 34 N.E.2d 485 (N.Y. 1941) (*per curiam*) (observing "real property of a religious corporation may be sold to satisfy a judgment against it" and noting "innumerable such sales have been made"); *Holsey v. Hynes*, 113 A.3d 1080, No. 537-2014, 2015 WL 2260114, at *1–4 (Del. May 11, 2015) (table) (affirming sheriff's sale of church property); *Monroe v. Krause & Managan Lumber Co.*, 24 So.

2d 501, 503 (La. Ct. App. 1946) (finding church property sold subject to civil judgment divested parishioners of any interest in property).

In fact, this Court recently recognized the same point: outside of chapter 11, judgment creditors may enforce judgments against the Diocese like any other defendant. *See* April 17, 2026 Hr'g Tr. at 36:14–18 [Dkt. No. 2850] ("if we end up in a situation where we simply have 375 judgment creditors, at some point everything gets sold. It just does.").

2. The First Amendment Does Not Provide the Debtor Special Protections in a Bankruptcy Case

The First Amendment requires application of neutral principles of law when a religious institution seeks the Bankruptcy Code's benefits. *See, e.g.*, *In re Roman Cath. Archbishop of Portland Or. (In re Archbishop of Portland, Or.)*, 335 B.R. 842, 853–58, 865–68 (Bankr. D. Or. 2005). The Free Exercise Clause prohibits laws that discriminate against religion or target religious practice. *See Church of Lukumi Babalu Aye, Inc. v. City of Hialeah*, 508 U.S. 520, 532 (1993). Section 1129(a)(7) is neutral and generally applicable and the Debtor is not entitled to a special exemption because the Debtor is a religious institution.

The Debtor contends that the Bishop, not the Bankruptcy Court, can and should determine which parcels of its real property are subject to this Court's jurisdiction, claiming that under Canon Law, "the decision on whether to operate a church at a particular location, or the decision whether to sell real estate on which a church sits, is inherently an ecclesiastical decision which affects the faith and mission of the Catholic Church" and that "these decisions are reserved for the Bishop alone and the government may not interfere with or dictate those decisions."[10] But the Debtor exercises no ecclesiastical prerogative in a civil or bankruptcy court to peremptorily exempt certain church properties from satisfaction of a civil judgment or inclusion in an analysis under the hypothetical liquidation test under section 1129(a)(7). A church debtor is not exempt from the requirements of section 1129(a)(7) because of its status as a religious institution or because its own organizing principles under Canon Law may conflict with civil law. *Zinski v. Liberty Univ., Inc.*,

[10] *See* Third Amended DS, at 16:20-21; *see also* Disclosure Statement, at 10:13–16; *see also Debtor's Response to Committee's Objection to Motion to Dismiss* [Dkt. No. 2413], at p. 10 (citing, inter alia, *Hosanna-Tabor Evangelical Lutheran Church & Sch. v. EEOC,* 565 U.S. 171, 181–90 (2012)).

777 F. Supp. 3d 601, 649 (W.D. Va. 2025) (explaining that the church autonomy doctrine does not insulate churches from civil controversies "merely because the controversies involve religious parties or spring incidentally from religious law"). Under the First Amendment, "neutral principles of law require application of secular neutral principles, not sacred ones." *In re Archbishop of Portland, Or.*, 335 B.R. at 853–54. "There is no constitutional requirement that internal church law be considered in determining a purely secular dispute" concerning adjudication of property issues in a bankruptcy context. *Id.* Indeed, the Establishment Clause forbids the use of Canon Law in construing the neutral principles of the Bankruptcy Code. *See Listecki v. Off. Comm. of Unsecured Creditors*, 780 F.3d 731, 734, 742–44 (7th Cir. 2015) (finding the First Amendment did not prevent funds set aside under Canon Law for care of church cemeteries from being included in bankruptcy estate). Whether certain Church property is subject to valuation and inclusion in the hypothetical liquidation test is a matter to be decided by this Court, not by an ecclesiastical authority.

The Debtor's reliance on *Hosanna-Tabor Evangelical Lutheran Church & Sch. v. EEOC* falls flat. *Hosanna-Tabor* involved a distinct exception to the First Amendment—the ministerial exception—which counsels that courts should not interfere with the internal affairs of a religious organization, such as the selection of its ministers. *Hosanna-Tabor*, 565 U.S. 171, 188 (2012). The Court did not remotely suggest that the "ministerial exception" would protect a religious employer from a lawsuit resulting from the predatory conduct of its employees, much less enunciate a broader principle that would protect churches from liquidation of assets to satisfy civil judgments. *See id.* at 196; *Listecki*, 780 F.3d at 742 (declining to apply *Hosanna-Tabor* to whether a transfer of funds from the debtor to a related entity was a fraudulent transfer under state law). Deciding which pastor leads a church is an intra-church matter; deciding whether church properties are included in a Chapter 11 bankruptcy estate—in a voluntary bankruptcy proceeding commenced by the Debtor—is a matter governed by the Bankruptcy Code and is to be determined by secular authorities such as Congress and this Court.

Congress did not exempt religious organizations from having to comply with section 1129(a)(7) of the Bankruptcy Code. Yet the Debtor asks this Court to do what Congress has not

done: allow a religious entity debtor to exclude assets of its own choosing from its bankruptcy estate and from the hypothetical liquidation test in the name of religious freedom. Such an approach would violate not only the Bankruptcy Code, but also the First Amendment. *See Estate of Thornton v. Caldor, Inc.,* 472 U.S. 703, 708–11 (1985) (holding that a statute granting religious followers a benefit unavailable to secular parties violated the Establishment Clause). Following the Debtor's proposed course would lead to incongruous and unconstitutional results—it would provide a benefit to religious-organization debtors unavailable to secular, nonprofit and for-profit debtors, in violation of the Establishment Clause's requirement that neutral principles of law apply equally to religious and secular parties.

In recognition of this fact, the United States Bankruptcy Court for the District of Maryland recently held in the Archdiocese of Baltimore bankruptcy case that a debtor in chapter 11—even a religious institution—"cannot accept all the benefits of chapter 11 while rejecting its burdens." *See Order Granting Preliminary Injunction*, *Off. Comm. of Unsecured Creditors v. Roman Cath. Archbishop of Baltimore*, Adv. No. 26-00041-MMH (Bankr. D. Md. Apr. 3, 2026), Dkt. No. 22. The Baltimore court emphasized that the court "must ensure that the provisions of the Code are consistently used throughout this case[.]" *Id.* The Baltimore court's reasoning applies with equal force here. The Diocese cannot selectively invoke the protections of chapter 11 while simultaneously claiming that the First Amendment exempts it from the Bankruptcy Code's confirmation requirements.

3. The Debtor Cannot Establish that the Diocese Plan Satisfies the Best Interests Test

The Disclosure Statement does not contain any substantive liquidation analysis.[11] Rather, the Debtor makes generalized, unsupported, statements as to why a chapter 7 liquidation would result in less proceeds and more expenses to its estate. *See* Disclosure Statement at 33:15-20. Given the lack of specificity in the liquidation analysis in the current Disclosure Statement, this Objection is informed, at present, by the Liquidation Analysis and Supplemental Liquidation

[11] The Committee is informed that the Debtor will be filing an updated liquidation analysis. The Committee reserves its rights to supplement this Objection once it has the opportunity to review the updated analysis.

Analysis in the Third Amended DS. At trial, the Debtor's liquidation analysis will be shown as fundamentally flawed because, among other things:

(i) The Debtor grossly undervalues its real estate portfolio;

(ii) The liquidation analysis fails to recognize that under a hypothetical liquidation, Abuse Claimants would retain their claims against RCWC and RCWC's insurers;

(iii) The Debtor has not valued Abuse Claims and provides zero support for the value it selected for all Abuse Claims; and

(iv) The Debtor cannot provide any credible evidence that incremental Litigation Costs will be between $71.2 to $87.1 million in a hypothetical liquidation.[12]

IV.

THE DIOCESE PLAN DOES NOT SATISFY SECTION 1129(B) OF THE BANKRUPTCY CODE

Section 1129(b) requires that, before a plan may be crammed down on a non-accepting impaired class, the plan must be "fair and equitable" in substance. *See* 11 U.S.C. § 1129(b)(1). Section 1129(b) requires a credible maximization of estate value and an honest effort to provide such value to classes of unsecured creditors that vote to reject a Chapter 11 plan. *See Gen. Teamsters*, 265 F.3d at 877 ("[T]he plan represented the [union]'s honest effort to satisfy the demands of its creditors[.]"); *In re Wabash Valley Power Ass'n*, No. 85-2238-RWV-11, 1991 WL 11004220, at *60 (Bankr. S.D. Ind. Aug. 7, 1991) ("Wabash's Plan satisfies the economic underpinnings of the absolute priority rule because it converts every piece of economic property in Wabash into cash to be paid to its creditors.")

The Diocese Plan fails this standard. The defects identified above—failure to maximize estate value, understated assets, inflated liquidation expenses, and the Bishop's retention of hundreds of millions of dollars in property while Survivors receive pennies on the dollar—are not isolated. They reflect a single reality: the Diocese Plan is neither fair nor equitable.

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[12] As often occurs with trusts established in mass tort chapter 11 cases, a chapter 7 trustee would most likely propose summary procedures for resolution of Abuse Claimants' claims. *See, e.g.*, https://nsi.ch7trusteeservices.com (describing procedures which the chapter 7 trustee appointed in *In re National Service Indus., Inc.* (Case No. 12-12057, Bankr. D. Del. 2012) obtained approval from the bankruptcy court to enable the chapter 7 trustee to "evaluate the asbestos injury claims on an impartial basis to establish an allowed amount for each claim").

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The Debtor will argue that its treatment of Survivors is fair and equitable by comparing the propose distribution under the Diocese Plan to distributions made by other diocesan debtors in other diocesan cases. That comparison is wrong as a matter of law and, at best, misleading.

First, the Debtor is obligated, but has failed, to value Abuse Claims under state law. *See Butner v. U.S.*, 440 U.S. 48, 55 (1979) ("Property interests are created and defined by state law. Unless some federal interest requires a different result, there is no reason why such interests should be analyzed differently simply because an interested party is involved in a bankruptcy proceeding."). Only by doing so can a Survivor have any sense of whether the Debtor's treatment of its Abuse Claim is fair and equitable.

Second, the Debtor's comparisons (i) select only precedents that support its preferred narrative and (ii) omit key context necessary for any meaningful comparison—governing law and limitations periods, the relevant diocesan debtor's asset base, insurance availability, claim severity, and historical settlement amounts in California when the limitations window previously opened. What survivors received elsewhere does not establish what is fair and equitable here. By that logic, this Court would measure recoveries in the Sears bankruptcy by reference to the Lord & Taylor bankruptcy.

Whether distributions to Survivors are fair and equitable must be determined on the facts of *this* case, not a handpicked set of diocesan cases used to depress recoveries. Those comparisons ignore, among other things, the Debtor's extensive real estate holdings and the value of Abuse Claims under California law. Judge Glenn criticized similar comparisons in *In re The Roman Catholic Diocese of Rockville Centre* as "misleading" and directed that they not be used.[13] In any event, the Committee will adduce evidence at trial showing that the Debtor's proposed treatment of Abuse Claims is inferior to the treatment in similar cases.

[13] *In re The Roman Cath. Diocese of Rockville Centre*, No. 20-12345-mg, Hr'g Tr. of Feb. 8, 2024 at 84-88 (Bankr. S.D.N.Y. Feb. 21, 2024), attached as Exhibit F to the *Declaration of Brent Weisenberg in Support of the Official Committee of Unsecured Creditors' Objection to Debtor's Disclosure Statement* [Dkt. No. 1520].

A. The Diocese Plan Fails to Maximize the Value of Estate Assets

A plan cannot be "fair and equitable" when the proponent withholds, conceals, or unilaterally exempts assets that would otherwise be available to creditors. As stated above, the Diocese owns, controls or otherwise has access to hundreds of millions of dollars in assets that the Diocese Plan does not commit to Survivors. At plan confirmation, the Debtor will need to establish, among other things, why it alone can choose which assets it may liquidate to pay Survivors, why it is waiving its $40 million claim against CCCEB and shouldering the future financial burden of operating the Cathedral Property when Survivors are receiving pennies on the dollar, whether it has materially reduced its reserves and/or used restricted funds for their intended purposes (which would free unrestricted cash for Survivors), whether it has, in good faith, explored obtaining commercial financing, or financing from affiliates on more advantageous terms and whether it has used this Chapter 11 Case to restructure its operations to reduce costs. Absent sufficient evidence for the Debtor's actions, or inactions in this case, the Debtor cannot carry its burden of showing it has sought to maximize the value of its estate for creditors.

B. The Liquidation Analysis Confirms That Survivors Would Fare Better Outside This Plan

A plan that pays Survivors less than they would receive in a hypothetical chapter 7 liquidation cannot be fair or equitable. As shown above, the Debtor's liquidation analysis rests on understated asset values, inflated chapter 7 administrative expenses and the baseless exclusion of property the Debtor unilaterally labels "mission critical." Once corrected to include all estate assets and apply realistic chapter 7 expenses, Survivors would recover materially more in liquidation than under the Diocese Plan. A reorganization that leaves the principal creditor class worse off than chapter 7 is, by definition, neither fair nor equitable.

C. The Diocese Plan Manufactures Cramdown Through Artificial Impairment

As explained above, the evidence will show that the Diocese engineered the impaired accepting classes on which it will rely to attempt to cramdown the Diocese Plan on Survivors. A plan that creates an impaired consenting class by impairing classes that need not be impaired is neither fair nor equitable.

D. The Debtor Retains Hundreds of Millions in Assets While Survivors Receive Pennies

Even setting aside the absolute priority rule—which, as shown below, the Diocese Plan violates—no plan can be fair and equitable when it permits the entity whose conduct created the claims to retain the bulk of its prepetition wealth while injured creditors receive a small fraction of what they are owed. If confirmed, the Diocese Plan will give the Debtor a permanent discharge of every claim against it—known and unknown—in exchange for a $50 million payment over 3.5 years and the assignment of sale proceeds from a vacant parcel, the Livermore Property, that the Debtor asserts it does not own. The Debtor will retain substantially all of its real property, investment accounts, and cash reserves. Survivors will receive pennies on the dollar. That is not a fair allocation of estate value; it is a reallocation of loss from the institution that caused the harm to the individuals who suffered it.

E. The Totality of the Circumstances Confirms That the Diocese Plan Is Neither Fair Nor Equitable

The section 1129(b) fairness inquiry is holistic; the Court need not, and should not, examine each defect in isolation. Viewed together, the picture is unmistakable. The Debtor (i) refuses to maximize estate value; (ii) understates its assets and inflates its chapter 7 expenses without support; (iii) has manufactured impaired consenting classes; (iv) seeks to retain hundreds of millions of dollars in property while obtaining a discharge of more than 375 known Abuse Claims and an unknown universe of future claims; and (v) hides behind a distorted reading of the First Amendment to insulate its assets from the Survivors it claims to want to compensate fairly. No reasonable application of section 1129(b) can deem this combination of facts fair or equitable.

V.

THE DIOCESE PLAN DOES NOT SATISFY SEVERAL OTHER SECTIONS OF SECTION 1129 OF THE BANKRUPTCY CODE

A. The Diocese Plan Does Not Satisfy Section 1129(a)(1) of the Bankruptcy Code

Section 1129(a)(1) requires that a Chapter 11 plan comply with the applicable provisions of the Bankruptcy Code. In *Harrington v. Purdue Pharma L.P.,* the Supreme Court held that the Bankruptcy Code "does not authorize a release and injunction that, as part of a plan of

reorganization under Chapter 11, effectively seeks to discharge claims against a non-debtor without the consent of affected claimants." 603 U.S. 204, 227 (2024).

The Diocese Plan—at Sections 13.9 (Injunction Related to Discharge) and 13.11, 13.12, and 13.13 (Channeling Injunction related provisions)—plainly, unlawfully and non-consensually seeks to discharge and enjoin all Creditors, including Survivors from asserting any claims against "Released Parties." "Released Parties" is defined in the Diocese Plan to include numerous non-debtor parties, specifically the Debtor's "current and former directors, managers, officers, employees, predecessors, successors, assigns, managed accounts or funds, agents, advisory board members, financial advisors, partners, attorneys, accountants, investment bankers, consultants, and other professionals." Diocese Plan § 1.1.141. While the Debtor may be entitled enjoy the benefits of a discharge and injunction, the other non-debtor Released Parties are not. Thus, the Diocese Plan facially violates the provisions of the Bankruptcy Code itself.

B. The Diocese Plan Does Not Satisfy Section 1129(a)(3) of the Bankruptcy Code

Section 1129(a)(3) of the Bankruptcy Code provides that a court may only confirm a plan if "[t]he plan has been proposed in good faith and not by any means forbidden by law." But the Diocese Plan provides for an allowance process for Abuse Claims which violates applicable law. Under the Diocese Plan, the Survivors' Trust assumes all liability for Abuse Claims. In turn, the allowance and liquidation of Abuse Claims for purposes of determining an Abuse Claimant's share of the Survivors' Trust Assets is administered by the Survivors' Trustee. *See* Diocese Plan § 9.1.1 ("The Survivors' Trust will, upon its creation . . . assume liability for all Abuse Claims . . . . The Survivors' Trust shall administer, process, settle, resolve, liquidate, satisfy, and make Trust Distributions in such a way that Abuse Claimants are treated equitably and in a substantially similar manner . . . ."). At the same time, the Debtor, and all other Released Parties, are released from liability. *Id. § 9.*6 ("[F]rom and after the Effective Date, the Released Parties shall not have any obligation with respect to any liability of any nature or description arising out of, relating to, or in connection with any Abuse Claims.").

Notwithstanding the foregoing, the Diocese Plan permits all parties in interest, including the Reorganized Debtor and Non-Settling Insurers, to object to Abuse Claims. *See id. §* 5.2.2 ("All

parties in interest reserve the right to object, in the Bankruptcy Court, to Abuse Claims pursuant to Section 502(a) of the Bankruptcy Code . . . ."). From and after the Effective Date, the Debtor and parties in interest, including Non-Settling Insurers, may object to Abuse Claims in the Bankruptcy Court "only based on any applicable defense arising under the Bankruptcy Code (including untimeliness and any injunction barring late or unfiled claims) . . . ." *Id.*[14] Under Section 1.1.14 of the Diocese Plan, a Claim is Allowed only if no objection to its allowance is made before the applicable Claims Objection Deadline (and it is unclear whether the deadline to object to Abuse Claims is one year from the Effective Date or the closing of the Chapter 11 Case).

The Debtor's Abuse Claim allowance process runs afoul of applicable law and creates two other issues. ***First,*** the Abuse Claim allowance process improperly expands and grants rights to parties like Non-Settling Insurers that lack standing to object to claims under applicable law.

Standing is a threshold question in every case such that "[a] federal court's jurisdiction therefore can be invoked only when the plaintiff has suffered 'some threatened or actual injury. . . .'" *See Warth v. Seldin*, 422 U.S. 490, 499 (1975) (citation omitted). To have standing in bankruptcy court, a party "must meet three requirements: (1) they must meet statutory 'party in interest' requirements under § 1109(b) of the bankruptcy code; (2) they must satisfy Article III constitutional standing requirements; and (3) they must meet federal court prudential standing requirements." *In re Thorpe Insulation Co.*, 677 F.3d 869, 884 (9th Cir. 2012). Any party in interest, including the Reorganized Debtor and Non-Settling Insurers, bears the burden of proving they meet all three requirements before they may be heard on an issue. *See Lujan v. Defs. of Wildlife*, 504 U.S. 555, 561 (1992).

In *Truck Insurance Exchange v. Kaiser Gypsum Co.* the Supreme Court held that an insurer with ***financial responsibility*** for bankruptcy claims is a "party in interest" under § 1109(b). 602 U.S. 268, 280–81 (2024). The factual underpinnings of *Truck* are critical to understanding its limited scope. In *Truck*, the insurer had expressly acknowledged its financial responsibility. It was this acknowledged financial responsibility—not the mere existence of insurance policies—

[14] Because Bankruptcy Code § 502(b)(1) permits objections to claims that are otherwise unenforceable against the debtor and property of the debtor under any agreement or applicable law, the perceived attempt to narrow the grounds on which an Abuse Claim may be objected to fails.

that gave rise to party-in-interest status. Courts have since focused on this critical issue when deciding whether certain insurers to a diocesan debtor have standing to object to abuse claims. *See, e.g.*, *In re Roman Cath. Diocese of Albany,* No. 23-10244, 2025 WL 2536165, at *6–7 (Bankr. N.D.N.Y. Sep. 3, 2025) (holding insurers cannot claim party-in-interest status based solely on the existence of insurance policies or the theoretical possibility that they may eventually be called upon to fund claims).

Truck requires that insurers demonstrate actual, present financial responsibility before they may participate as parties in interest. *See In re Roman Cath. Church of the Archdiocese of New Orleans*, Case No. 20-10846, 2025 WL 3545484, at *2 (Bankr. E.D. La. Dec. 9, 2025) (striking sections of plan that would have granted insurer the right to object to proofs of claim—finding these provisions contrary to applicable law—because unlike the insurer in *Truck,* the objecting insurer's "liability to defend and pay on abuse claims here has neither been adjudicated nor has [the objecting insurer] formally accepted responsibility to pay for those claims.").

The facts here are just like those underlying the *Archdiocese of New Orleans* decision, which was predicated on the fact that the allowance of abuse claims and distributions to holders of allowed abuse claims from the settlement trust did not alter the rights of the objecting insurer to assert all rights and defenses to claims filed against it in a court of competent jurisdiction. Here too, the allowance and payment of Abuse Claims is of no moment to Non-Settling Insurers. *First*, no party in interest can demonstrate an "injury in fact" if an Abuse Claim is allowed against the Survivors' Trust because no party has liability for those claims other than the Survivors' Trust. *See* Diocese Plan, § 9.6 ("[T]he Survivors' Trust shall, as of the Effective Date, assume sole and exclusive responsibility and liability for all Abuse Claims against the Released Parties, and such Claims shall be paid by the Survivors' Trust from the Survivors' Trust Assets . . . ."). *Second*, the Diocese Plan makes clear that the allowance or payment on Abuse Claims has zero impact on a Non-Settling Insurers' rights:

> The Non-Settling Insurers reserve (and expressly do not waive) all policy defenses and Claims, including without limitation all rights and defenses concerning cooperation, offsets, recoupments, deductions, deductibles, self-insured retentions, and all rights and defenses provided in their policies. The Non-Settling Insurers also

> reserve all objections to any Abuse Claim available to a party of interest in this Chapter 11 Case and any such objections are preserved and may be asserted by Non-Settling Insurers as a defense to coverage in Abuse Claim Litigation commenced by a Litigation Claimant.

Diocese Plan, § 8.3.12.

Without facing a concrete injury that is real and actual, Non-Settling Insurers lack standing to object to Abuse Claims. Where insurers have reserved their rights under their policies, they cannot simultaneously claim standing on the basis of financial responsibility and maintain that they may not have to pay claims. Such a position is "paradoxical: insurance companies could claim standing because they are likely to contribute to the bankruptcy distribution while simultaneously claiming they are under no obligation to make said contribution." *In re Roman Cath. Diocese of Albany*, 2025 WL 2536165, at *6.

Second, if this Court concludes that the Non-Settling Insurers have standing to object to Abuse Claims, the Survivors' Trust Distribution Plan provides otherwise by providing it is the sole method through which to reconcile Abuse Claims and it is the Abuse Claims Reviewer who determines the allowance and value of Abuse Claims. This is made clear based on the following provisions in the Survivors' Trust Distribution Plan [Dkt No. 2867-6 at Exhibit 1]:

- "The Abuse Claims Reviewer's review … as to each Trust Claim shall be the final review for each such Trust Claim. Survivors' Trust Distribution Plan § 2.1;
- "If a Trust Claimant does not exercise the Second-Look Review, the Abuse Claims Reviewer's Initial Determination shall be final as to the value of the Trust Claim as against the Survivors' Trust . . . ." *Id.* § 3.5;
- "After the Abuse Claims Reviewer has made all applicable Initial Determinations and the Abuse Claims Reviewer has conducted all Second-Look Reviews, the Survivors' Trustee shall make an Initial Distribution from the Trust Claim Reserve to all appropriate Trust Claimants. This amount shall be based on the points assigned to each Trust Claimant in the Final Determination based on the Survivors' Trust Assets then existing in the Trust Claim Reserve, less reserve amounts for administrative expenses, including litigation." *Id.* § 6.3; and
- "For the avoidance of doubt, all Abuse Claims asserted against the Debtor in the Bankruptcy Proceeding shall be resolved exclusively in accordance with the Survivors' Trust Documents." Survivors' Trust Agreement [Dkt No. 2867-6] § 1.2.

Third, if the Reorganized Debtor or Non-Settling Insurers have the right to object to Abuse Claims, the Survivors' Trustee will be unable to make distributions to Abuse Claimants until at least 12 months after the Effective Date. *See* Diocese Plan, § 5.2.3. This potentially meaningful and material delay in distributions runs contrary to countless statements made by the Debtor as to its desire to get money into the hands of Abuse Claimants quickly upon confirming a plan of reorganization. *See* Survivors' Trust Agreement, § 5.3.1 ("As soon as practicable after the Effective Date, the Survivors' Trustee may make distributions to Abuse Claimants as set forth in the Survivors' Trust Distribution Plan, which distributions shall account for reasonable reserves of the Survivors' Trust.").

C. The Diocese Plan Does Not Satisfy Section 1129(a)(10) of the Bankruptcy Code

Under section 1129(a)(10) of the Bankruptcy Code, a plan can only be confirmed if at least one class of claims that is impaired has accepted the plan, which is determined "*without* including any acceptance of the plan by any insider." *See* 11 U.S.C. § 1129(a)(10) (emphasis added). Although the Debtor will attempt to rely on the accepting votes of allegedly impaired Classes 1 and 3, the evidence will demonstrate that the Debtor has not properly secured an impaired accepting class necessary to cramdown the Diocese Plan over Survivors.[15]

Class 1 (the RCC Secured Claim) may not serve as the Debtor's impaired accepting class for purposes of cramdown. Under section 1129(a)(10) of the Bankruptcy Code, the votes of insiders may not be considered when determining whether a debtor has secured the vote of an impaired accepting class. The Debtor cannot credibly argue that RCC is not an insider. Indeed, it has conceded that RCC is an affiliate.[16] *See In re Rexford Props., LLC*, 557 B.R. 788, 798 (Bankr. C.D. Cal. 2016) (purpose of requiring one impaired class of non-insider creditors is to ensure measure of support for the plan "from creditors whose only motivation is to maximize their interests as creditors of the estate" and the insider exclusion excludes creditors who may be

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[15] In the last round of voting, 341 Survivors—99.4%—voted to reject the Debtor's Third Amended Plan [Dkt. No. 1830]. *See* Voting Declaration.

[16] *See Declaration of Charles Moore, Managing Director of Alvarez & Marsal North America, LLC, Proposed Restructuring Advisor to The Roman Catholic Bishop of Oakland, in Support of Chapter 11 Petition and First Day Pleadings* [Dkt. No. 19], at II.C. (listing RCC as one of the "Affiliated Non-Debtor Catholic Entities").

motivated to vote "by their affinity to the debtor, or by the potentially conflicting interests that often come with a close relationship to the debtor. . . .") (citations omitted).

Class 3 (General Unsecured Claims) may not serve as the Debtor's impaired accepting class for purposes of cramdown. *First*, as set forth above, this Class is artificially impaired; the Debtor can easily pay this Class in full. *Second*, the Committee is investigating the validity of votes cast in Class 3. If certain votes are designated, the Debtor may not have satisfied section 1126(c)'s acceptance thresholds (two-thirds in amount and more than one-half in number). During discovery on the Third Amended Plan, the Committee learned that several purported "general unsecured" creditors that voted on the Third Amended Plan were not entitled to vote, including insiders (such as the Bishop, based on a $300 Claim for unreimbursed expenses), Parishes that are not separately incorporated and have no separate existence from the Debtor, and claimants who filed claims asserting priority status which are properly classified as Class 2 and not Class 3 Claims. Once insider, facially invalid and/or misclassified votes are excluded, the Committee expects that the Debtor will not have procured Class 3 as its accepting impaired class—or may have done so only through a handful of non-insider claims that could readily be paid in full.

Class 5 (Unknown Abuse Claims) may not serve as the Debtor's impaired accepting class for purposes of cramdown. The representative of the interests of alleged Class 5 Claimants (Unknown Abuse Claims), the Unknown Abuse Claim Representative, has not yet cast his ballot. Obviously, if the Unknown Abuse Claim Representative rejects the Diocese Plan, this Class is not an impaired accepting class. But even if the Unknown Abuse Claims Representative votes for the Diocese Plan, three issues arise: *first*, it is unclear whether there will be any Unknown Abuse Claimants in this Class as the Debtor appears confident that no actual unknown abuse claims exist; *second*, the Debtor must establish the legality of separately classifying unknown abuse claims which, as set forth below, is far from established, and *third*, basic principles of fairness and equity dictate that the vote of a single individual—representing the interests of a group of individuals that may ultimately prove to be a null set—not serve as the basis upon which cramdown is permitted to unfairly hammer down the claims of Survivors.

The legality of separately classifying an unknown group of holders of future demands in a non-consensual diocesan plan is far from established. The Diocese Plan's concept of appointing an Unknown Abuse Claims Representative to represent the interests of Unknown Abuse Claimants is patterned after the appointment of a future claimants representative to represent the interests of demand holders in an asbestos-related bankruptcy under section 524(g)(4)(B)(i) of the Bankruptcy Code.[17] Section 524(g)(4)(B)(i) requires the appointment of "a legal representative for the purpose of protecting the rights of persons that might subsequently assert demands . . . ", but it does not grant the legal representative the right to vote on a plan. The fact that Congress chose to use the word "demand" instead of "claim" in section 524(g) has led some to conclude that holders of demands may not be classified under a plan of reorganization. *See, e.g.*, Nat'l Bankr. Rev. Comm'n, Bankruptcy: The Next Twenty Years 339–41 (1997), https://govinfo.library.unt.edu/nbrc/reportcont.html, Chapter 2 ("Treatment of Mass Future Claims in Bankruptcy", available at https://govinfo.library.unt.edu/nbrc/report/09bmass.html) (explaining that "the 1994 [Bankruptcy Code] amendments treat asbestos injuries as 'future *demands,*' not *claims*, a distinction that calls into question the applicability of other provisions of the Bankruptcy Code [regarding claims] to the holders of these future demands.") (emphasis in original). While consensual diocesan plans have classified unknown holders of demands, they often do so by placing them in the same class as known claimants.[18]

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[17] Holders of "demands" in an asbestos related bankruptcy are individuals that have been exposed to asbestos but have not manifested evidence of asbestos related disease before the claims bar date. They are also colloquially referred to as "future claimants."

[18] *See, e.g.*, **(i)** Second Amended Joint Plan of Reorganization Proposed by the Debtor and Official Committee of Unsecured Creditors, *In re Diocese of Davenport*, No. 06-02229-lmj11 (Bankr. S.D. Iowa Apr. 3, 2008), Dkt. No. 262, at 27 ("For purposes of accepting or rejecting the plan," Unknown Tort Claims class combined with the abuse Tort Claims class and "treated as a single class."); **(ii)** Debtor's and the Official Committee of Unsecured Creditors' Third Amended and Restated Joint Plan of Reorganization for the Catholic Bishop of Northern Alaska, *In re Cath. Bishop of Northern Alaska*, No. 08-00110 (Bankr. D. Alaska Dec. 17, 2009), Dkt. No. 602-1, at 42 (Class 10 impaired voting class of creditors included tort claims and future tort claims); **(iii)** First Amended Disclosure Statement for Debtor's Second Amended Plan of Reorganization Jointly Proposed by Executive Committee of the Association of Parishes, Debtor, Future Claims Representative and Tort Claimants' Committee, *In re The Cath. Bishop of Spokane*, No. 04-08822-FPC11 (Bankr. E.D. Wash. Mar. 7, 2007), Dkt. No. 1773-3, at 33 (current and future claimants treated as one voting class for purposes of accepting or rejecting the debtor's plan) and **(iv)** Third Amended and Restated Disclosure Statement Regarding Plan of Reorganization Dated May 25, 2005, *In re The Roman Cath. Church of the Diocese of Tucson*, No. 4:04-bk-04721-BMW (Bankr. D. Ariz. May 26, 2005), Dkt. No. 401, at 16 (same).

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Although some diocesan plans have classified holders of unknown "claims" in a separate class, that has only been done by agreement of the debtor and the committee. Under a consensual plan, where survivors are supporting the plan, the vote, and separate classification, of unknown abuse claims is of no moment because confirmation of the plan will not turn on the vote of the unknown abuse claimant representative. But here, in the context of a contested plan, the separate classification and vote of the Unknown Abuse Claims Representative may have meaningful repercussions. And so, whether unknown abuse claims can legally be separately classified warrants stricter scrutiny. When subject to further analysis, the claims of unknown abuse claimants may not be separately classified because their alleged "claims" are not "Claims" as defined by the Bankruptcy Code and only Claims may be classified under a plan. *See* § 101(5) of the Bankruptcy Code (defining a Claim as "a right to payment") and § 1123(a)(1) (mandating that a plan of reorganization designate classes of claims). While holders of future Unknown Abuse Claims that are more like demands may have their interests protected, that protection does not include the right to vote on a plan, especially where it would vest the power to vote all such interests in the hands of a single person.

Class 6 (Non-Abuse Claims) may not serve as the Debtor's impaired accepting class for purposes of cramdown. Only one creditor in Class 6 (Non-Abuse Claims) voted to accept the Debtor's Third Amended Plan. *See* Voting Declaration. But that claim may not be counted as an acceptance for three reasons:

(i) The claim filed by Lila Sterling (claim 544) is subject to objection by the Committee because it was filed after the claims bar date [Dkt. No. 2829];

(ii) Ms. Sterling asserts her claim is entitled to priority status under section 507(a), making her claim, at best, a priority claim under Class 2; and

(iii) The claim appears to be against RCWC and not against the Debtor.

D. The Diocese Plan Does Not Satisfy the Absolute Priority Rule Under Section 1129(b)(2) of the Bankruptcy Code

Section 1129(b)(2) sets forth requirements which must be met for a plan to be "fair and equitable." Section 1129(b)(2)'s "fair and equitable" requirement with respect to unsecured claims requires that each holder of a claim in a rejecting class receive or retain property of a value, as of

the effective date of the plan, equal to the allowed amount of such claim, or that holders junior to the claims of such rejecting class will not "receive or retain anything under the plan," which is known as the "absolute priority rule." *In re Juarez*, 603 B.R. 610, 622 (B.A.P. 9th Cir. 2019).

The Diocese Plan's central economic feature—the Bishop's retention of hundreds of millions of dollars in assets while paying Survivors pennies on the dollar—is a textbook violation of the absolute priority rule. While certain courts have declined to apply the rule to nonprofit debtors, the rationales of those cases do not warrant that result here. Confirming the Diocese Plan would force Survivors to accept a recovery untethered from the value of their claims while the entity whose conduct created those claims walks away with the bulk of its prepetition wealth intact. That outcome inverts the priority scheme Congress enacted and cannot be reconciled with section 1129(b)(2).

In *Sec. Farms v. Gen. Teamsters, Warehousemen & Helpers Union, Loc. 890 (In re Gen. Teamsters, Warehousemen & Helpers Union, Local 890),* 265 F.3d 869, 877 (9th Cir. 2001), relying on the Seventh Circuit decision in *In re Wabash Valley Power Ass'n,* 72 F.3d 1305 (7th Cir. 1995), the Ninth Circuit, in *dicta,* noted that the absolute priority rule did not apply to a non-profit union debtor. In *Gen. Teamsters*, none of the indicia of an "equity interest" identified by the Seventh Circuit in the *Wabash* case—control, profit share, and ownership of corporate assets—were present for either the international union (affiliated with the debtor) or the union's members, and the absolute priority rule therefore did not apply to the union's plan in the *Gen. Teamsters* case. The court explained that control alone, without an ownership interest, failed to qualify as the equity "interest" needed to trigger the absolute priority rule analysis.

Other courts faced with a similar issue addressed in *Gen. Teamsters* focus on whether the non-profit is organized to provide a personal benefit to the director or management group of the non-profit. Thus, where members or patrons control the non-profit organization for their own benefit, thus giving them an equity-like interest which could be viewed as property under the Bankruptcy Code, the absolute priority rule has been found to apply to non-profit entities. *See, e.g.*, *In re S.A.B.T.C. Townhouse Ass'n*, 152 B.R. 1005, 1008–11 (Bankr. M.D. Fla. 1993) (debtor nonprofit corporation homeowners' association proposed to pay unsecured creditors a portion of

the full amount of their claims and to allow association members to retain their interests in the reorganized nonprofit; court treated members' interests as "interests" subject to the absolute priority rule and then held that because the members had not contributed "new value," the plan violated the absolute priority rule and could not be confirmed); *S. Pac. Transp. Co. v. Voluntary Purchasing Grps., Inc.,* 252 B.R. 373, 386 (E.D. Tex. 2000) (patronage stock qualified as property that the debtor's members could not retain); *In re E. Me. Elec. Coop., Inc.*, 125 B.R. 329, 338 (Bankr. D. Me. 1991) (same).

The Diocese proposes to retain hundreds of millions of dollars in real property, investment accounts, cash reserves, and other estate assets while paying Survivors a small fraction of the allowed amount of their claims. At the same time, the Diocese Plan permits the Diocese to emerge from chapter 11 with substantially all of its prepetition asset base intact, to continue operating its parishes and ministries, and to retain the economic benefit of property that, but for the Diocese Plan, would be available to satisfy creditor claims. That is the precise outcome the absolute priority rule forbids.

The Diocese cannot escape this conclusion by labeling retained property necessary to its religious mission or denying that it holds a "junior interest" under § 1129(b)(2)(B)(ii). First, the Bankruptcy Code recognizes no mission-critical exception; a debtor that wants to retain property must pay dissenting creditors in full or obtain their consent, not override the statute. Second, the Diocese is the residual stakeholder of the estate—the entity that will "receive or retain" the reorganized debtor's property after confirmation—and § 1129(b)(2)(B)(ii) reaches "any" such retention by a junior interest holder.

Critically, even in cases upholding the lack of applicability of the absolute priority rule to non-profit debtors and approving such debtors' chapter 11 plans, many such courts implicitly analyze whether the plan provides fair recoveries to a class of dissenting unsecured creditors in conformity with the "fair and equitable" requirement. *See Gen. Teamsters*, 265 F.3d at 877 ("[T]he plan represented the [union]'s honest effort to satisfy the demands of its creditors."); *In re Whittaker Mem'l Hosp.*, 149 B.R. at 817 (noting that "the debtor must give priority, next to the care of its patients, to the position of [a certain creditor] . . . . [The creditor] is financing all of this

and the debtor must be dedicated and determined that for [the creditor]'s sake the plan is successfully consummated."); *In re Wabash Valley Power Ass'n*, 1991 WL 11004220, at *60 ("Wabash's Plan satisfies the economic underpinnings of the absolute priority rule because it converts every piece of economic property in Wabash into cash to be paid to its creditors.").

VI.

RESERVATION OF RIGHTS

The Committee reserves the right to amend or supplement this Objection because discovery is ongoing. In addition, the Debtor filed its proposed confirmation order (the "**Proposed Confirmation Order**") on April 29, 2026, and the Committee has not had adequate time to review the proposed findings of fact and conclusions of law. The Committee does not believe the evidence and law will support many of those proposed findings and conclusions and reserves all rights to review, comment on, and object to specific provisions of the Proposed Confirmation Order.

WHEREFORE, the Committee requests that this Court deny confirmation of the Diocese Plan and grant the Committee such further and other relief as this Court deems just and proper.

LOWENSTEIN SANDLER LLP
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Dated: May 8, 2026

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