

The Supreme Court Update - June 6, 2024

by Ian Blodger, Jessica M. Leano, and Brock Huebner

The Supreme Court of the United States issued three decisions today:

Becerra v. San Carlos Apache Tribe, No. 23-250: This case concerns the funding the Indian Health Service (“IHS”) must provide to Indian tribes that have entered into “self-determination” contracts with the IHS pursuant to the Indian Self-Determination and Education Assistance Act (“ISDA”), 25 U.S.C. § 5301 et seq. By entering into a self-determination contract, the tribe assumes responsibility for administering healthcare programs that IHS would otherwise operate for the tribe. IHS must provide funding to the tribe equal to the appropriated amount IHS would have used to operate the programs, as well as an additional sum to cover “contract support costs” or administrative expenses incurred by the tribe in administering the healthcare programs. A tribe is also able to collect revenue from third-party payers like Medicare, Medicaid, and private insurers; this is called “program income.” The question before the Court was whether IHS must cover contract support costs that are solely associated with program income generated by third-party payers. In a 5-4 decision authored by Chief Justice Roberts, the Court held that IHS must pay those costs solely associated with program income. According to the majority, the ISDA requires IHS to pay the contract support costs that a tribe incurs when it collects and spends program income to further the functions, services, activities, and programs transferred to it from IHS in a self-determination contract. Justice Kavanaugh filed a dissenting opinion, joined by Justices Thomas, Alito, and Barrett in which he argued the ISDA’s statutory language did not require the IHS to cover administrative expenses associated with program income.

View the [Court's decision](#).

Truck Insurance Exchange v. Kaiser Gypsum Co., No. 22-1079: This case considers what entities may qualify as a “party in interest” in a Chapter 11 bankruptcy proceeding. After filing for Chapter 11 bankruptcy in response to thousands of asbestos-related lawsuits, two companies proposed a reorganization plan (“Plan”) that created a trust to

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pay for past and future asbestos claims. The companies' primary insurer—Truck Insurance Exchange (“Truck”)—sought to oppose the Plan via § 1109(b) of the Bankruptcy Code, which allows a “party in interest” to “raise” and “be heard on any issue.” Truck objected to the Plan’s different treatment of insured vs. uninsured claims and further argued that the Plan altered its rights under insurance policies. The courts below approved the Plan after determining Truck was not a “party in interest” and had only limited standing to object because the Plan was “insurance neutral”—it did not increase obligations or impair rights under insurance policies. Today, in an 8-0 decision authored by Justice Sotomayor, the Court reversed and held that an insurer like Truck with financial responsibility for a bankruptcy claim is a “party in interest” under Chapter 11, and must be provided an opportunity to be heard and voice its objections to a Chapter 11 reorganization plan. Justice Alito took no part in the case.

View the [Court's decision](#).

Connelly v. United States, No. 23-146: This case addresses whether a corporation’s contractual obligation to redeem shares is a liability that decreases the value of those shares for federal estate tax purposes. Two brothers entered into an agreement to ensure that their company would stay in the family if either died. The agreement provided that if the surviving brother declined the option to purchase his brother’s shares, the corporation would be required to purchase them. The corporation took out life insurance policies on the brothers to fund the potential redemption of shares. One brother died, the surviving brother declined to purchase his shares, and the corporation used life insurance proceeds to redeem the shares. The surviving brother, as the executor, filed a federal tax return for his brother’s estate, reporting the value of his brother’s shares based on a valuation that deducted the insurance proceeds from the corporation’s value as an “offset by an obligation to pay those proceeds to the estate in a stock buyout.” The IRS insisted that the corporation’s redemption obligation did not offset the life insurance proceeds, and the estate owed additional taxes. The estate paid the deficiency and then sued the United States for a refund. The district court granted summary judgment for the United States, concluding that the estate was not entitled to a refund, as under customary valuation principles, the obligation to redeem shares is not a liability that offsets life-insurance proceeds. The Eighth Circuit affirmed. In a 9-0 opinion authored by Justice Thomas, the Court affirmed, holding that an obligation to redeem shares at fair market value does not offset the value of life insurance proceeds set aside for the redemption because a share redemption at fair market value does not affect any shareholder’s economic interest.

View the [Court's decision](#).