

ENTERED JAN 25 2005
FILED
JAN 25 2005
CLERK U.S. BANKRUPTCY COURT
SOUTHERN DISTRICT OF CALIFORNIA
BY _____ DEPUTY

FOR PUBLICATION

**UNITED STATES BANKRUPTCY COURT
SOUTHERN DISTRICT OF CALIFORNIA**

In re) **Case No. 03-11096-A7**
DUVALIER RODRIGUEZ) **MEMORANDUM DECISION**
CASTRO,) **FOR FIRST AND FINAL FEE**
) **APPLICATION**
Debtor.)

**I.
INTRODUCTION**

At the hearing held October 28, 2004, the Court took under submission the Application of Gerald H. Davis for First and Final Compensation and Reimbursement of Expenses of Chapter 7 Trustee ("Trustee"), and the Application for First and Final Award of Compensation and Reimbursement of Expenses of Attorneys for the Trustee ("Sparber Rudolph"). The issue under submission is the amount of the reasonable compensation to be awarded to the Trustee and his counsel under 11 U.S.C. § 330(a).¹

The Trustee asks the Court to award him enhanced compensation in the amount of the maximum statutory cap of \$20,800.98 and reimbursement of costs of \$242.41.

¹ Hereinafter, all code and section references are to 11 U.S.C. § 101 *et seq.* unless otherwise specified.

1 Based upon the time spent by the Trustee on this case, the maximum award would
2 result in paying him an hourly rate of \$424.51.² The Trustee's Fee Application
3 indicates his normal hourly rate is \$325/hr.; he bills his paralegal at a rate of \$85/hr.
4 If the Court awards compensation based upon the Trustee's normal hourly rates
5 multiplied by the time spent on this case, he would receive \$15,141, which would
6 equate to paying him a blended rate of \$309/hr. for his services in this case. For the
7 reasons more fully set forth herein, the Court concludes the maximum compensation
8 is not reasonable and reduces it.

9 Sparber Rudolph asks this Court to award the firm \$27,698 in fees and
10 \$1,505.39 in costs for its services to the Trustee in this case.³ However, Sparber
11 Rudolph's Fee Application includes fees for services which should have been
12 performed by the Trustee. *See In re Garcia*, 317 B.R. 810 (Bankr. S.D. Cal. 2004).
13 The Court will deduct \$1,367.50 from Sparber Rudolph's final fee request for these
14 improper services and award compensation in a reduced amount.

15 II.

16 FACTUAL BACKGROUND

17 This case started as a "no asset" case based upon the information in the
18 Debtor's schedules. However, the Trustee discovered the Debtor had misrepresented
19 the status of his house. The Debtor scheduled a joint tenancy interest in the house
20 with his ex-wife when title was really held as community property. Further, the
21 Trustee learned the Debtor was not residing in the house because he was divorced but
22 nevertheless was claiming it exempt as a homestead. Finally, the Trustee discovered
23 the Debtor and his ex-wife had listed the property for sale for \$335,000 a mere
24 34 days before filing bankruptcy but the Debtor listed the property in his bankruptcy
25 schedules as being worth only \$284,952. So the Debtor misrepresented the status of
26

27 ² The Trustee and his paralegal spent a total of 49 hours on this case.

28 ³ Sparber Rudolph spent a total of 93.80 hours on this case.

1 title, his right to an exemption and the fair market value of the residence. The Trustee
2 discovered all of this at the § 341(a) hearing.

3 Although the Debtor did not file written objections to the Trustee's or Sparber
4 Rudolph's fee applications, his counsel appeared at the hearing on their final fee
5 applications. The Debtor's counsel represented that the Debtor (as opposed to his
6 ex-wife who did not file and who was residing in the house) was cooperative with
7 the Trustee once all this was discovered and agreed that the property could be sold
8 by the Trustee. The time sheets for Sparber Rudolph indicate that such an agreement
9 was, indeed, negotiated. However, Sparber Rudolph disputes that the Debtor was
10 fully cooperative.

11 III.

12 LEGAL ANALYSIS 13 (TRUSTEE'S COMPENSATION)

14 Section 326(a) sets forth the maximum compensation available to a trustee (the
15 "statutory cap"). It is well recognized that the statutory cap is *not* an entitlement.
16 *In re Arnold*, 252 B.R. 778, 788 n. 12 (9th Cir. BAP 2000). Rather, the court must
17 determine the trustee's reasonable compensation in accordance with § 330(a) and
18 award compensation in this amount, except that if the reasonable compensation
19 exceeds the statutory cap, it must reduce the compensation to the statutory cap.
20 *Arnold*, 252 B.R. at n. 12; *In re Borrego Springs Dev. Corp.*, 253 B.R. 271, 276 (S.D.
21 Cal. 2000); *In re Roderick Timber Co.*, 185 B.R. 601, 605 (9th Cir. BAP 1995).

22 Section 330(a)(3)(A)-(E) clarifies the criteria to evaluate in determining
23 reasonable compensation for a trustee. *Borrego Springs*, 253 B.R. at 276. Additional
24 factors include: the time and labor involved; the novelty and difficulty of the
25 questions presented by the case; and the experience, reputation and ability of the
26 professional. *Id.* at 276 (citing *Johnson v. Georgia Highway Express, Inc.*, 488 F.2d
27 714 (5th Cir. 1974)).
28

1 In the present case, the Court has considered the above criteria in connection
2 with the Trustee's services performed in this case. The Trustee's services fall into
3 two categories:

4 A. Administrative services including dealing with the listing and sale of the
5 house; the preparation of reports; checking on the status of orders; employing an
6 accountant; and the like. As observed in the recent *Garcia* decision, a trustee's
7 services relating to general case administration and listing and sale of an undervalued
8 house are not complex and do not merit an hourly rate equating to \$424/hr.:

9 The trustee's services [liquidation of an undervalued
10 house] involved neither complex analysis regarding the
11 investigation of assets nor multiparty negotiations which
12 were required by the trustee in *MiniScribe*. He did not run
13 a business as a going-concern in order to sell it within a
14 very short time frame such as the trustee in *Borrego
15 Springs*.... Even so, the trustee requests a rate much higher
16 than Mr. Johnson [his accountant], whose average billing
17 rate was \$80.45 per hour, and much higher than his
18 attorneys whose average billing rate was \$183.50 per hour.

19 *Garcia*, 317 B.R. at 829.⁴ Based upon the trustee's services performed in *Garcia*,
20 the court adjusted the trustee's rate downward from \$375/hr. to \$100/hr. for routine
21 administrative services and \$250/hr. for negotiation and title related services. *Garcia*
22 at 829-30.⁵ This Court agrees with *Garcia's* holding that a rate of \$375/hr. or higher
23 is *not* reasonable for the administrative services in a relatively routine, chapter 7
24 undervalued house case.

25 ⁴ The court was referring to the cases of *In re MiniScribe Corp.*, 309 F.3d 1234, 1244
26 (10th Cir. 2002) which affirmed the lower court's award of a trustee's rate of \$400/hr.; and *In re
27 Borrego Springs Dev. Corp.*, 253 B.R. 271, 275 (S.D. Cal. 2000) which found a rate of \$500/hr. to
28 be a reasonable rate for the trustee's services in that case.

⁵ The court indicates its decision to use two different hourly rates was unique to that case,
and generally it would use a "unified blended hourly rate" method for all the trustee's services in
a case. *Garcia* at 829-30. This Court agrees the unified blended rate method is the better method
for most cases. See *MiniScribe*, 309 F.3d at 1244 (recognizing a trustee performs services that vary
in complexity and agreeing the appropriate solution is to use a unified blended rate to adjust the
trustee's overall fee).

1 **B.** Other services involving analyzing the Debtor's title to the residence;
2 analyzing the effect of the Debtor's dissolution on the title status (including legal
3 research performed by the Trustee who is a lawyer); analyzing the appropriate
4 distribution of the proceeds to the former spouse; negotiating a reduction of broker's
5 commissions; and deciding to compromise a § 727 action. These issues were more
6 complex and the services all involved higher-level trustee's skills. As indicated in
7 *Garcia*, a higher hourly rate is appropriate for services of this nature. *Id.* at 829-30.

8 However, the legal actions required to get the Debtor to cease his efforts to sell
9 the property, to abandon his claim of exemption and to account for his actions in a
10 § 727 action were, of course, for the most part performed by the Trustee's counsel.
11 As noted by the Court in its recent decision in *In re Pruitt*, _WL_ (Bankr. S.D. Cal.
12 Dec. 17, 2004), in determining a trustee's reasonable compensation for a case, it is
13 appropriate for the court to consider the extent to which the trustee has delegated
14 complex tasks to professionals employed at estate expense. *Accord Garcia* at 829.

15 The Court believes that in assessing the balance between complex and routine
16 matters in this case, the Trustee's normal hourly rate of \$325/hr. – and his overall
17 average hourly rate of \$309/hr. – represents a fair blended balance between the
18 mundane and the difficult aspects of this case. Awarding the Trustee's request for the
19 statutory maximum allowable compensation under § 326(a) would result in an hourly
20 rate of \$424.51/hr. That rate does not, in this Court's view, represent a reasonable
21 rate of compensation for this non-operating real estate case in which Trustee's
22 counsel performed many of the complex aspects of this case.

23 The Court observes that its award of a blended rate of \$309/hr. is higher than
24 the hourly rates awarded to the trustee in *Garcia*. The Court does not intend its award
25 of compensation based upon a higher hourly rate as any dissent from the holding of
26 *Garcia*. As indicated in *Garcia*, there is no *per se* hourly rate for trustees in this
27 district, and the hourly rates in *Garcia* were unique to the facts of that case. *Id.* at
28 n. 11.

1 Similarly, the award in this case is unique to the facts of this case. Specifically,
2 the award is based upon the Court's assessment of the Trustee's overall experience,
3 skill and other credentials; the services he performed in this case and the results
4 obtained; the novelty and difficulty of the questions presented; and the "customary
5 compensation" of comparably skilled practitioners performing similar services in
6 nonbankruptcy cases.

7 The Court acknowledges the Trustee's qualifications are impressive. He has
8 22 years of active experience in the U.S. Navy and Marines with much of it involving
9 a management role; he has a B.S. in Business Management, an MBA and a JD; he is
10 a member of the California State Bar and a Board Certified Specialist in Personal and
11 Small Business Bankruptcy with an active bankruptcy-related law practice for over
12 ten years; and he has been a member of the Standing Panel of Bankruptcy Trustees
13 since 1989. [See Fee Application at ¶ 17(a)-(c)]

14 Notwithstanding, the Trustee did not need many of his higher-level skills for
15 this case to justify compensating him at a rate of \$424/hr. As the *Garcia* court aptly
16 observed: "[a] Michelangelo should not charge Sistine Chapel rates for painting a
17 farmer's barn." *Garcia* at 830 (quoting *In re Busy Beaver Bldg. Ctrs., Inc.*, 19 F.3d
18 833, 855 n. 34 (3rd Cir. 1994)).

19 Finally, the Trustee presented no evidence of the customary compensation
20 charged by comparably skilled practitioners other than to cite the hourly rates
21 approved in *Borrego Springs* and *MiniScribe*. [Fee Application at ¶ 15(e)] These
22 cases are distinguishable because this Trustee did not operate an ongoing business or
23 act as a Chief Operating Officer of a large and complex company as the trustees did
24 in those cases.

25 Rather, the Court finds a blended rate of \$309/hr. is comparable to the blended
26 rate of his counsel Sparber Rudolph, and it is generally consistent with the hourly
27 rates of other experienced professionals hired in other bankruptcy cases. *See Garcia*
28 at 830 (indicating it is appropriate for a court to look to the rates charges by other

1 professionals in the case, and to use its experience in handling fee petitions in other
2 bankruptcy cases to determine the reasonableness of hourly rates). Accordingly, the
3 Trustee will be awarded \$15,157 as and for reasonable compensation for his services
4 in this case, together with costs reimbursement of \$242.41.

5
6 **IV.**

7 **LEGAL ANALYSIS**
8 **(SPARBER RUDOLPH'S COMPENSATION)**

9 Sparber Rudolph was employed by the Trustee after he discovered that the
10 Debtor and his former spouse had listed the property for sale prepetition and were
11 proceeding with its sale without regard to the estate's interest. The Trustee's
12 application to employ the firm described the scope of work relevant to this analysis
13 as:

- 14 ● Determining "whether the real property of the estate ... is capable of
15 being sold by the Trustee as a community property asset, or whether it
16 is held in joint tenancy by the debtor and his ex-spouse."
- 17 ● To preserve the property from being sold by the debtor, "Applicant must
18 retain counsel to file an adversary proceeding for injunctive relief,
19 unless the debtor and his ex-spouse voluntarily consent to the Trustee's
20 sale of the property."
- 21 ● "Applicant also requires counsel to prepare documents and pleadings
22 necessary to obtain Court approval of the sale of any property."
- 23 ● "Additionally, if the asset is community property, it is necessary to
24 research and analyze responsibility of community property for debts that
25 were incurred pre and post dissolution."
- 26 ● Trustee also needed counsel "[t]o appear for, prosecute, defend and
27 represent applicant's interest in suits arising in or related to this case"

28 [See Ex Parte Trustee Application to Employ General Counsel at 2:10-24 (Docket
#15)]

1 Had Sparber Rudolph confined its services to the areas described in the
2 Trustee's application to employ the firm, there would be no need for adjustment.
3 However, as observed in the *Garcia* case:

4 "The function of an attorney for a trustee is to render to the
5 estate those services which cannot and should not properly
6 be performed by one who does not have a license to
7 practice law." *Shades of Beauty*, 56 B.R. at 949 (citations
8 omitted). "[T]he threshold question should be whether the
9 services performed were those which one not licensed to
10 practice law could properly perform for another for
11 compensation." *Id.*, see also *Handbook for Chapter 7*
12 *Trustees*, U.S. Dept. of Justice, Executive Office for the
13 United States Trustees ..., Chapter 8, ¶ M(5) at p. 8-25
14 (March 1, 2001)("Attorneys and accountants may not be
15 compensated for performing the statutory duties of the
16 trustee.")

17 *Garcia*, 317 B.R. at 816 (citations and brackets in original).

18 In reviewing Sparber Rudolph's Fee Application, the Court discovered
19 numerous entries which, while not substantial in aggregate time in this case, show
20 an unfortunate tendency by counsel to stray into performing duties which should have
21 been performed by the Trustee. For instance: discussions with the broker regarding
22 offers on the real property (2/18); marketing the property (2/27); access to show the
23 real property to interested bidders; move out dates for the ex-spouse (5/9 and 6/3);
24 and numerous discussions with the broker generally addressing the "status" of the
25 sale (3/25, 3/27, 4/22, 5/19, 6/11, 6/17, 6/25, etc.) – are all examples of actions which
26 should have been taken by the Trustee. These services would have been categorized
27 as "routine" had a trustee performed them and, absent a showing of additional
28 complexity in the case, a trustee would not be entitled to compensation at a high
hourly rate. Instead, we have Sparber Rudolph performing these services and
requesting compensation at the rate of \$325/hr.

Because the Court cannot compensate an attorney for performing the statutory
duties of a trustee, the Court deducts \$1,367.50 from the compensation awarded
Sparber Rudolph and awards \$26,330.50 as final compensation in this case.

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V.

CONCLUSION

The Court concludes enhanced compensation in the amount of the maximum statutory cap is not reasonable compensation for the Trustee's services in this case. The Trustee is awarded reasonable final compensation of \$15,157 and final costs of \$242.41 for his services in this case. The Court finds Sparber Rudolph improperly performed services that should have been performed by the Trustee. Accordingly, the Court deducts \$1,367.50 from Sparber Rudolph's compensation request and awards \$26,330.50 in final compensation and \$1,505.39 in costs reimbursement for its services in this case. Sparber Rudolph is directed to prepare and lodge an order for the above amounts within ten days of the date of entry of this Memorandum Decision.

Dated: 25 Jan 05


LOUISE DE CARL ADLER, Judge