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Chicago's UNO Charter School Network Under SEC Scrutiny.

The Securities and Exchange Commission is investigating Chicago-based UNO Charter School Network for potential securities violations apparently tied to its October 2011 \$37 million bond issue, the organization disclosed Wednesday.

The network issued \$37 million of mostly tax-exempt new-money and refunding bonds in 2011 to help fund its ongoing expansion. The Illinois Finance Authority issued the bonds on the not-for-profit's behalf. Robert W. Baird & Co. Inc. and Cabrera Capital Markets LLC served as underwriters with Kutak Rock LLP acting as bond counsel.

"Last month, UNO Charter School Network received a request for documents from the U.S. Securities and Exchange Commission. We are responding to this request while continuing our community work, including educating more than 7,600 students, over 95% of which are from low-income and minority families, and implementing the reforms outlined earlier this year by Judge Wayne Andersen," the organization said in a prepared statement Wednesday. "With respect to the government inquiry, we're maintaining a level of confidentiality required by the SEC."

The Chicago Sun-Times earlier this year reported on insider deals involving school construction contracts. Reports tying state grant payments to companies owned by relatives of a top UNO executive Miguel d'Escoto prompted Gov. Pat Quinn to halt funding this spring. Under the grant agreement, UNO should have disclosed the potential conflict of interest, state officials said. The network was awarded a \$98 million state grant appropriation in 2009. D'Escoto has since resigned.

UNO commissioned Andersen, a retired federal judge, to conduct a review that resulted in a report recommending changes in governance and contracting practices.

Quinn soon restored funding, saying he was satisfied with reforms UNO was undertaking including its cancellation of the d'Escoto-related contracts.

UNO revamped its board in late May. Longtime chief executive officer Juan Rangel stepped down from his board post while keeping his paid position. Martin Cabrera Jr., well known in local public finance circles as the owner of Cabrera Capital Markets, took over as board chairman with the task of implementing reforms.

Cabrera abruptly resigned the post last month. Cabrera said Thursday during his three months as the unpaid UNO board chairman he had no knowledge "of any type of regulatory investigation by the SEC or others."

"I resigned because of difference in philosophy and mission. Meanwhile, Cabrera Capital Markets will continue to always strive to meet our responsibility and accountability to our clients in full compliance of all industry regulations," he said of his decision to leave.

The SEC declined to comment Wednesday and an IFA spokeswoman said the agency has not been contacted by the SEC seeking any information.

In the Sept. 20 letter from the SEC to UNO posted by the Chicago Sun-Times, the SEC said it is “conducting an investigation...to determine if violations of the federal securities laws have occurred.”

The agency ordered UNO to forward to its enforcement division by Oct. 11 documents and communications related to its state grant agreements, all documents related to its 2011 bond issue and the offering statement, information provided to investors, communications with underwriters on the bonds and investors, and information on who worked on disclosure included in the offering statement.

The request also sought documents and communications related to the engagement of the d’Escoto-related firms to build grant-funded schools, including communications relating to potential conflicts of interest. The SEC also sought transcripts from board meetings during which the bond issue, official statement, or d’Escoto was discussed.

The Chicago Public Schools oversees UNO’s charter and provides funding support. It’s the largest charter school operator in the state.

UNO carries a BBB-minus rating from Standard & Poor’s, the lowest investment grade level. In a December 2012 report, analysts said the UNO Charter School Network continues to expand and to manage its expansion well overall.

In fiscal years 2011 and 2012, the charter schools UCSN had surpluses, after two years of deficits.

Demand continues to be strong, as evidenced by wait lists at each school. However, growth and timing partly contributed to a low days’ cash on hand calculation of 32 days at fiscal year-end 2012. In addition to being secured by the revenues of nine of the organization’s schools, the bonds carry a guaranty of the closely affiliated organization, United Neighborhood Organization, which acts as the charter management company and owner of properties.

UNO, a prominent Latino organization with strong local political ties, was established in 1984 and the organization established the charter school network in 1998.

The Standard & Poor’s reports noted the state support of \$98 million. The school network has a total of about \$67 million in debt.

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