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Wells Fargo Bank, N.A. v. Derrick Thomas Academy Charter School, Inc.

United States District Court, W.D. Missouri, Western Division - March 4, 2014 - Slip Copy - 2014 WL 835891

EdisonLearning, Inc. (Edison) is a for-profit business engaged in the operation and management of charter schools. Edison partnered with a private foundation to open Derrick Thomas Academy Charter School, Inc. (DTA). DTA was a nonprofit corporation.

The Missouri Chartered Schools Act (MCSA) required DTA to have a charter sponsor and management company. DTA's charter sponsor was the University of Missouri–Kansas City (UMKC), and DTA's management company was Edison. UMKC, as a charter sponsor, had the ability to revoke DTA's charter if DTA failed to comply with the MCSA or the requirements imposed by the Missouri Department of Education and Secondary Education (DESE).

By 2007, DTA was indebted $8.2 million for building, equipment, and construction-related expenses and owed $2.5 million to Edison. Due to this indebtedness, the Industrial Development Authority of Kansas City (Authority) issued over $10 million in Revenue Bonds (Bonds) to assist DTA in refinancing its debt pursuant to a Loan Agreement between DTA and the Authority. Under the Loan Agreement, the Bonds were secured by DTA's future revenues and all funds and investments held by DTA. DTA's main source of revenue was state aid from DESE.

Wells Fargo Bank, N.A. was the successor Indenture Trustee for the Bonds and administered the distribution of Bond proceeds and the payment of principal and interest on the Bonds to the Bondholders.

On November 20, 2012, UMKC refused to renew DTA's charter, causing DTA to close. As a result, DTA no longer received state aid payments from DESE. Without state aid payments as revenue for DTA, DTA could not pay its obligations under the Loan Agreement, DTA went into default and the Bondholders were not fully repaid. Wells Fargo sued, alleging it was DTA's negligent mismanagement that caused Wells Fargo to incur, and continue to incur, damages. Wells Fargo also claimed that DTA had liability insurance that covered the claims contained within Wells Fargo's complaint.

DTA moved to dismiss, citing sovereign immunity and failure to state a claim.

"Whether a charter school and its board members are entitled to sovereign immunity is a case of first impression in Missouri. However, there will be no need to decide such an unprecedented issue if Plaintiff fails to allege a duty under Missouri law. Accordingly, the Court will first address whether Plaintiff sufficiently alleges a duty under Missouri law."

"Plaintiff serves as the Successor Indenture Trustee on behalf of the Bondholders, who are creditors of DTA because DTA owed Bond repayments to them. It may be the case under Missouri law that Defendants could be liable to DTA for fiscally irresponsible decisions made that resulted in DTA

closing and being unable to make Bond repayments. However, Defendants owed no duty or allegiance to the Bondholders or Plaintiff acting as Successor Indenture Trustee of the Bondholders. Accordingly, without any such recognized duty, Plaintiff fails to state a claim for negligence under Missouri law."

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