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Chicago's UNO Charter Schools Defrauded Bondholders, SEC Says.

(Reuters) – A Chicago charter school operator lied to holders of \$37.5 million of municipal bonds about conflicts of interest and risked having to liquidate its schools, the U.S. Securities and Exchange Commission said on Monday in charging the operator with defrauding investors.

The SEC said UNO Charter School Network Inc did not admit or deny the charges, but agreed to a settlement where it would improve its internal procedures, including appointing an independent monitor. The commission's enforcement division is continuing to investigate, as well. The attorney for UNO did not respond to requests for comment.

The charges and settlement stem from a spending scandal that led the state of Illinois to suspend grants to UNO, which operates 16 charter schools. The scandal also prompted the resignation of UNO's long-serving Chief Executive Officer Juan Rangel in December, according to the Chicago Sun-Times.

According to a complaint filed in federal court in Chicago, UNO breached a conflict of interest provision in grants it received from the Illinois Department of Commerce and Economic Opportunity (IDCEO) to build three schools. It contracted with two companies owned by its chief operating officer's brothers, with one company installing windows for \$11 million and the other acting as an owner's representative during construction. One of the brothers was a former UNO board member, as well, the SEC said.

The bond offering document had a specific section assuring investors of a "robust" policy against conflicts of interest, the SEC said. UNO also failed to tell investors that the commerce department could take back all of its grant money if the provision was violated.

"Had IDCEO exercised its rights under the grant agreements and recouped the entire amount of the grants, UNO would not have had the cash to repay the grants and therefore would have had to liquidate its charter schools – the very revenue-producing assets essential for repayment of the bonds," the SEC said in a statement.

For more than a year the SEC has cracked down on the \$3.7 trillion U.S. municipal bond market, often using its greatest regulatory power over tax-exempt debt – citing issuers for not disclosing information important to bond buyers.

When it comes to charter schools, though, credit rating agencies have led the charge. Last July Fitch Ratings said the average charter school it rates had speculative-grade credit as the schools, which receive charters from their local districts to operate independently, had burdensome debt levels and "breakeven" margins.

Over the course of five years, UNO received \$280 million in public money but had very little oversight from Chicago's educational agencies, according to a profile published in Chicago Magazine in February.

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