

Bond Case Briefs

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USAA Mutual Funds Trust v. Jordanelle Special Service District

United States District Court, D. Utah - December 9, 2015 - Slip Copy - 2015 WL 8489959

In 2005, the Wasatch County Council created the “Jordanelle Special Service District Special Improvement District No. 2005-2” (JSSD) for the purpose of financing water and sewer improvements to benefit certain properties within the Assessment Area. The resolution contemplated that the bonds financing the improvements would be repaid with revenue from special assessments to be levied against properties to be improved.

In 2009, JSSD adopted an Assessment Ordinance to levy assessments on properties located within the Assessment Area. The Assessment Ordinance imposed a lien against all the assessed properties within the Assessment Area, subjecting the properties to foreclosure by JSSD.

JSSD subsequently issued three series of Special Assessment Bonds (the “Bonds”) with an aggregate principal amount of \$40,850,000. USAA Mutual Funds Trust (the “Bondholders”) purchased the Bonds.

Ultimately, certain property owners in the Assessment Area failed to make assessment payments. Those properties were foreclosed by JSSD and JSSD took title to those properties. JSSD attempted to transfer the foreclosed properties to the Bondholders in full satisfaction of its obligations under the Indenture, giving rise to Bondholders’ breach of contract claim against JSSD. In addition, the Bondholders alleged that JSSD had failed to pay all delinquent and current assessments on those properties. Bondholders further alleged that JSSD breached its representations and covenants in the Indenture by misusing the bond proceeds and assessment funds.

Bondholders brought claims against JSSD and Wasatch County for breach of contract, breach of the covenant of good faith and fair dealing, unjust enrichment, constructive trust, appointment of a receiver, accounting, and for declaratory judgment. JSSD and Wasatch County moved to dismiss.

The District Court held that:

- Wasatch County was immune from suit under Utah state law, as the Bonds were clearly limited obligations of JSSD (also rejecting Bondholders’ alter ego claims).
- JSSD’s purported attempt to transfer the foreclosed properties absent the direction of Bondholders constituted a breach of the Indenture, as Bondholders had the sole right under the Indenture to elect to direct JSSD to transfer ownership of the foreclosed properties. Absent such direction, JSSD was required to pay all assessments on the properties so long as JSSD retained ownership of the property.
- Bondholders had sufficiently pled their allegations of mismanagement of the bond proceeds to survive JSSD’s motion to dismiss Bondholders’ breach of contract claim.
- JSSD’s failure to repurchase the bonds tendered by Bondholders – as provided for in the Indenture – constituted an Event of Default under the Indenture.

- Bondholders had sufficiently plead their claim for Breach of the Implied Covenant of Good Faith and Fair Dealing, as there existed plausible evidence that JSSD's actions had devalued the properties serving as Bondholders' collateral.
- Bondholders' equitable claims of Unjust Enrichment and Constructive Trust (arising from assessments received by JSSD from properties located outside the Assessment Area) were covered by the Indenture and thus would be dismissed.
- Bondholders cause of action seeking appointment of a receiver would be dismissed, with the understanding that Bondholders could subsequently seek the appointment of a receiver as a remedy.
- Bondholders cause of action seeking an accounting would be dismissed, with the understanding that the Bondholders could subsequently seek an accounting as a remedy.
- Bondholders lacked standing to seek a declaration that the water interest exactions imposed by JSSD on the assessed properties were excessive and, therefore, violated state and federal law.