

# **Bond Case Briefs**

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## **Why the SEC Barred a Former Charter School Operator From the Market.**

WASHINGTON - The Securities and Exchange Commission has settled with a former Chicago charter school operator over charges that he negligently approved and signed a misleading official statement for a \$37.5 million bond offering to build three charter schools.

Juan Rangel, the former president of Chicago-based UNO Charter School Network, Inc. and former chief executive officer of United Neighborhood Organization of Chicago, agreed to pay \$10,000 and be barred from participating in any future municipal bond offerings to settle the charges. The SEC refers collectively to both organizations Rangel led as "UNO" throughout its complaint.

"We allege that Juan Rangel signed off on the offering document without even reading it," said David Glockner, regional director of the SEC's Chicago regional office. "This kind of negligent behavior is unacceptable in the securities markets."

One market participant said the settlement is especially noteworthy because "a significant portion of municipal officials who sign don't actually read the document."

"[The SEC is] basically saying there has to be a widespread change in the actions of municipal officials with respect to approving official statements," the market participant said.

Rangel, in a statement responding to the settlement, said he takes "full responsibility for not reading the document and should have done more than rely upon others to brief [him] on its contents."

"Although questions were raised about UNO's overall school construction and contracting processes, it is important to note that new schools were indeed built for our community with every penny documented and accounted for," he added.

The settlement is related to a prior one between UNO and the SEC in 2014 over charges that UNO defrauded investors in the same \$37.5 million 2011 bond offering.

The 2011 bond issuance listed UCSN as borrower, UNOC as guarantor, and the Illinois Finance Authority as the conduit issuer. UNOC and UCSN were both liable to repay the proceeds of the bonds and had to rely on per pupil revenues that they would receive from Chicago Public Schools in exchange for operating the charter schools to do so. Some of the schools that would generate revenues still had to be built.

In 2009, the state of Illinois appropriated \$98 million to fund school construction by UNO. In connection with the appropriation, UNO entered into two grant agreements with the Illinois Department of Commerce and Economic Opportunity (IDCEO) to build three schools. Each grant contained a conflicts of interest provision that required UNO to certify that there was no conflict of interest at the time that it signed the grant agreements and that it would immediately notify IDCEO in writing of any conflicts of interest that arose after the signing. IDCEO could suspend the payment of the grants and recover any grant funds that had already been paid if it found UNO violated the

conflicts provision.

During 2011 and 2012, the SEC found that UNO violated the conflict of interest provision by engaging one company and approving the engagement of another company, both of which were owned by brothers of the then chief operating officer of UNOC.

UNO contracted to pay one of the companies, a window subcontractor, roughly \$11 million to supply and install windows and the other about \$1.9 million to serve as an owner's representative during construction.

Each of the engagements required Rangel's approval.

The official statement for the 2011 bond issuance that Rangel signed failed to disclose the engagement of the window subcontractor as well as the breach of the conflict of interest provision in one of its grant agreements by engaging the owner's representative and approving the window subcontractor without notifying IDCEO, the SEC found. The official statement also did not explain that IDCEO could recoup its grant money because of the failure.

The SEC said in its complaint that reasonable investors would have wanted to know those facts.

IDCEO discovered UNO's failure to disclose the conflicts of interest after the Chicago Sun-Times published an article in 2013 about UNO's use of the Illinois grant funds. IDCEO suspended one of the grants after discovering the failure. At the time of the suspension, UNO had received \$25 million of the \$53 million IDCEO had agreed to provide under the grant.

The SEC found that Rangel directly and indirectly violated Section 17(a)(2) of the Securities Act of 1933, which says it is unlawful to obtain money or property through untrue statements or omissions of material facts.

## **The Bond Buyer**

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June 21, 2016