

Bond Case Briefs

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Attacks On Charter Schools Place Their Muni Bonds In Jeopardy.

University Heights Charter School in Newark NJ appears to have become the victim of New Jersey's teachers union fight to end charter schools in that state. In this case, it is at the cost of bondholders as well as the students. The school has a \$14.9 million municipal bond issue by the New Jersey Economic Development Authority (CUSIP 645912EN2).

The school has not missed any interest payments but has been found guilty of various technical violations of the bond indenture pertaining to debt coverage ratio and cash on hand. It has also been put on probation by the state due to a decline in student performance and behavioral problems observed by a state inspector and other paperwork violations, none of which are not grounds for a default. Also cited are debt coverage ratio and cash on hand violations, all of which was discussed at various confidential meetings with bondholders over the last two years. It finally leading to a threat to accelerate the bonds and the filing of a request with the Superior Court of New Jersey to appoint a receiver. The hearing has been scheduled for February 19, 2022 and is being opposed by the school.

In over 30 years of tracking some 4300 defaults, I can't recall, where a trustee went to court and threatened to accelerate the bonds on such technicalities. Also, there appears to be insider trading here since almost \$3 million of bonds were sold at 103 while the discussions with bondholders were going on, discussions which eventually lead to the present course of action. The fact that the bonds traded at or above par value is a clear indication that the buyers was not informed of what was afoot. The trustee UMB Bank has exposure here since they kept the meetings information confidential for no clear reason. At a minimum they should advise all participating bondholders that selling their bonds without informing the buyer of events not yet disclosed is a criminal violation on the sellers part.

We don't know the extent of the decline in student performance but would seriously doubt it was below that of the public schools in the Newark area. A charter school that doesn't provide serious improvement in learning will die a quick death all on its own. Killing it because it competes too well against union sponsored schools is shameful.

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