Bond Case Briefs

Municipal Finance Law Since 1971

BOND PROCEEDS - MINNESOTA

In re City of Edwardsville

Court of Appeals of Minnesota - April 7, 2025 - Not Reported in N.W. Rptr. - 2025 WL 1024461

In connection with redevelopment plan in which One10 Hotel HRKC, LLC was the Developer and UMB Bank the Indenture Trustee, City agreed to issue $23,280,000 in revenue bonds. These bonds consisted of guest-tax revenue bonds, special-obligation-tax-increment revenue bonds, and community-improvement-district revenue bonds.

Separate indentures governed the administration of each of the three types of bonds, but the indentures were virtually identical in aspects material to this case. City issued the bonds in late October 2019, the proceeds of which were held in trust with UMB Bank.

One10 initially submitted two cost certifications pursuant to the terms of the Indentures, both of which the City approved. The Trustee reviewed these certifications and approved payment of approximately $9 million in bond proceeds.

Funding issues soon arose. On February 28, 2020, Altos (the funder of the $50-million construction loan), informed One10 that it was unable to provide funds under the loan. One10 soon suspended construction on the hotel while it sought a new lender. Shortly thereafter, One10 submitted a third cost certification to the City, in which it sought reimbursement for $829,247.32 in expenses. Although the city approved this third cost certification, UMB, as Trustee, refused to release the requested bond proceeds. UMB also informed One10 of its belief that One10 breached the development agreement and demanded that it cure the breach.

In June 2020, UMB filed a trust-instruction petition pursuant to Minn. Stat. § 501C.0202, subd. 24 (2024), in Hennepin County District Court. Subdivision 24 pertains to requests "to instruct the trustee regarding any matter involving the trust's administration or the discharge of the trustee's duties, including a request for instructions and an action to declare rights." UMB sought a number of declarations and judgments regarding the protection of the bondholders and the trust proceeds.

In February 2023, One10 filed a motion in limine seeking to prevent UMB from introducing events or conduct that are outside the scope of the petition, specifically (1) evidence related to alleged events of default other than those identified in the petition and (2) evidence or argument that relates to events and alleged defaults that postdate the petition. The district court reserved ruling on the relevant portion of the motion in limine.

In March 2023, the district court held a trial on UMB's petition. Following the trial, the district court denied One10's motion in limine. It also ordered that: (1) the Trustee is not required to distribute additional funds to One10, including funds requested in connection with the third cost certification; (2) the Trustee is authorized to declare the principal and interest on all bonds outstanding and due; (3) the Trustee is authorized to make a distribution from the trust estates on direction from a majority of the outstanding bond owners; and (4) the trust estates and the Trustee are not subject to continuing supervision of the court.

The district court later denied One10's posttrial motion for amended findings and conclusions of law or a new trial and One10 appealed.

One10 argued that the district court erred by failing to hold UMB to its petition for relief in two ways. First, One10 argued that the district court improperly considered events that postdated the June 22, 2020, filing of the petition. Second, One10 argued that the district court made a conclusion outside the scope of the petition that UMB could refrain from paying the third cost certification in the absence of uncured event of default.

The Court of Appeal held that:

- Postpetition events were within the scope of of the pleadings because, taken as a whole, UMB's requested instructions put One10 on notice that UMB broadly sought to avoid having to disburse additional bond funds.
- UMB was not required to pay the third cost certification regardless of whether an event of default had occurred because the indentures provide the Trustee with discretion to withhold payment in this situation.

Copyright © 2026 Bond Case Briefs | bondcasebriefs.com