

THE WATCHDOGS

THIS WEEK BY DAN MIHALOPOULOS

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SESSION

UNO HAS WALL STREET WORRIED

Now under investigation by two state agencies, the United Neighborhood Organization is also facing tough questions on Wall Street from investors who lent tens of millions of dollars to help pay for the rapid expansion of UNO's charter-school network.

The questions were prompted by Chicago Sun-Times reports on \$8.5 million in state grant funds paid to companies owned by two brothers of Miguel d'Escoto, a top UNO executive.

D'Escoto quit his \$200,000-a-year post with the politically well-connected group following the reports. And last month Gov. Pat Quinn's administration halted payments from a \$98 million state grant that's paying for construction of a new UNO high school on the Southwest Side, citing the appearance of a conflict of interest.

During a March 27 "investor update call," UNO's chief executive officer,

Juan Rangel, tried to reassure the Wall Street interests, who lent his organization \$37.5 million in 2011 through state-approved bonds.

He told representatives from Wall Street financial houses he felt UNO still had the support of state officials, according to a recording of the call. He said he expected Springfield would continue to bankroll construction of the new charter high school at 51st and St. Louis and that the half-built school would open, as planned, for next school year and "ensure our long-term viability."

Steven Levy, an executive with Prudential Financial in Newark, N.J., pressed Rangel about the d'Escoto brothers' deals.

"It had to be more than just an appearance" of a conflict, Levy, whose firm bought bonds issued for construction of UNO's schools, told Rangel during the conference call. "There must have been something else going on for [d'Escoto] to quit a job that was paying him

200K a year."

Rangel responded that d'Escoto quit "to show there's a good-faith attempt on our end, as the organization, to get past this."

Levy, who declined an interview request, told Rangel the Chicago Teachers Union "will look for any way to bring down charter schools. Why would you even risk a potential distraction?"

"We're talking about a construction grant that has no guidelines," Rangel replied. "In our minds, there was no conflict."

Levy and others who participated in the investors' call also questioned Rangel about expected higher expenses in light of plans to unionize teachers at UNO's schools, who make an average of \$20,000 a year less than Chicago Public Schools teachers. Another UNO official said she didn't anticipate "a massive increase in the pay scale" that's still to be negotiated.

A month after the call with investors, on April 25, Quinn's administration suspended the remaining payments from the \$98 million grant. The governor, who has been a supporter of UNO, accused the organization of violating terms of its grant by not disclosing the deals involving the d'Escoto family and demanded an audit before state funding can resume.

Work on the new UNO Soccer Academy Charter High School stopped May 1, when the general contractor walked off the job, saying UNO was behind in paying its bills.

The first of the Sun-Times' reports that prompted the cutoff in state funding was published Feb. 4.

At the time of the call with investors, Rangel says, "The construction of the high school was on track."

But a Quinn administration spokeswoman said last week that "UNO was well aware that future funding could be at stake."



UNO supporters demonstrate last week at a pro-charter school rally at Federal Plaza. | SCOTT STEWART-SUN-TIMES

Where charter schools' money comes from

As the largest charter-school operator in Illinois, the United Neighborhood Organization depends largely on City Hall and Springfield.

It also borrows money — from banks and on Wall Street — to pay its bills. Private fund-raising accounts for under 2 percent of UNO's charter-school funding.

Here's where the bulk of its money comes from:

- ◆ The state, which approved a \$98 million grant in 2009 to build new schools. So far, UNO has received \$54.7 million of the state funding, which it won with the support of Gov. Pat Quinn and House Speaker Michael Madigan (D-Chicago). It has used the money — which is now on hold, after Chicago Sun-Times reports on state money that went to contractors owned by brothers of a top UNO executive — to finish one school, build two others and start work on

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Go to suntimes.com to hear excerpts from investors' conference call with UNO's boss.

another.

- ◆ Investors, including banks and Wall Street, which together are owed about \$70 million. About \$37.5 million of that came through the issuance of bonds in 2011.

- ◆ The Chicago Public Schools, which gives UNO tens of millions of dollars a year to educate children whose families choose to send them to charter schools. The schools are privately run and have won the backing of politicians pressed to give people an option to poor-performing public schools.

UNO gets more than \$6,500 a year per student from CPS. The school district funding — more than \$35 million last year — accounts

for most of the money UNO has to run 13 schools serving 6,500 students. It also goes to repay the money UNO borrows.

UNO projected that 624 students will attend the new UNO Soccer Academy Charter High School, which was to open in August at 51st and St. Louis. That timetable has been thrown into doubt after the state suspended grant funding last month.

UNO has pledged to use revenue from the new high school and two other charter schools it built with state money since 2010 to help pay off its debts.

That doesn't appear to be a problem, says Carlotta R. Mills, an analyst for the Wall Street bond-rating agency Standard & Poor's.

"From what I understand, they are able to pay debt service — certainly in the near term, in the next year or two," Mills says. "Right now, I want to see if they are able to get the money from the state."



Juan Rangel