

Bond Case Briefs

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WSJ: Bond Lawyers Rattled by Proposed Clampdown on Local Borrowing.

Pennsylvania lawmakers are considering a crackdown on local public borrowing that's making bond lawyers nervous.

A proposed package of bills would subject bond deals to greater scrutiny and ban certain types of risky transactions. Lawmakers say the extra oversight of local debt is necessary to prevent another fiasco like the Harrisburg incinerator project that saddled the city with \$300 million in debt. The city filed for bankruptcy in 2011.

Another bill would prohibit counties, cities, school districts and municipal authorities from entering into interest-rate-swap agreements with banks. Municipalities across the country have turned to swaps to cushion themselves from market volatility of floating-rate debt. But critics of such transactions say they are opaque and risky and have often backfired on distressed local governments, including Detroit.

The statute also spells out criminal sanctions against local officials, financial advisers and bond lawyers for making misleading statements in regulatory filings or for executing unauthorized deals.

The broad language has rattled bond lawyers. A representative of the Pennsylvania Association of Bond Lawyers said at a legislative hearing this week that the criminal provisions were "unprecedented" and "have no place in the regulation of local government unit debt."

Federal and state laws already make it a crime for an issuer to lie to investors and regulators, but lawmakers say the bill would encourage local prosecutors to open investigations.

Sen. John H. Eichelberger Jr., the main sponsor of the bills, told Law Blog that the sanctions "would make it clear that those laws apply to financial dealings."

"We think the attorney general has the proper tools to police that now," said Lisa Chiesa, president of the bond lawyers association and a municipal finance attorney.

The association contends that by putting attorneys in the cross hairs, the legislation conflicts with a provision of the commonwealth's constitution gives the Pennsylvania Supreme Court exclusive jurisdiction over regulating the practice of law.