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Long Island Town Charged With Securities Fraud.

SEC says Oyster Bay failed to tell bondholders about private loan deals

The Securities and Exchange Commission on Tuesday charged the Long Island town of Oyster Bay with defrauding bondholders by failing to tell them about four private loan deals.

The charges come during a multiyear push by the SEC to improve the information local governments give bondholders. Last year, 71 municipal borrowers from Minnesota to Hawaii agreed to stricter disclosure practices as part of an agreement with the SEC.

Tuesday's SEC complaint alleges that Oyster Bay didn't inform investors in the town's bonds that it had agreed to indirectly guarantee \$20 million in private loans to a local vendor who owned and operated restaurants at town facilities. The SEC also charged John Venditto, who served as Oyster Bay's supervisor and treasurer from 1998 through January of this year, with defrauding the bondholders.

Though the terms of the four private loans could have forced Oyster Bay to make a \$16 million payment on short notice, using up 16% of its operating budget, the town didn't disclose these loans to investors in bonds sold between August 2010 and December 2015, the SEC said.

"Oyster Bay and its most senior elected official concealed from its municipal investors that the town had gone to great lengths and taken on financial risk in an unusual decision to assist a vendor," Sanjay Wadhwa, Senior Associate Director of the SEC's New York Regional Office, said in a press release. "Investors were deprived of information they needed to understand the town's true financial condition as they made investment decisions." The terms of the loans were also concealed from some town finance officials, according to the complaint.

The town of Oyster Bay said in a submission to the SEC earlier this year that the town had been "victimized" and that new loan terms were inserted into the town's agreement with the vendor without the town board's knowledge. It noted that a 2016 indictment against Mr. Venditto alleges he accepted bribes from the vendor.

"It is paradoxical to claim that the town should have disclosed illegal agreements that were entered into in secret and were unknown to and concealed from the town board," Oyster Bay said in its response to a so-called Wells notice from the SEC informing the town of a pending enforcement action.

Town attorney Joseph Nocello said he didn't want to comment on pending litigation, especially litigation pertaining to a previous administration, except to say that the Wells submission contains the town's "expensive and formal" response to the charges.

An attorney representing Mr. Venditto in connection with the 2016 indictment didn't immediately respond to a request for comment. Mr. Venditto declined to testify before the SEC, invoking his Fifth Amendment right against self-incrimination, according to the complaint.

The SEC is asking the courts to appoint a monitor to oversee its disclosure practices for five years and prohibit Mr. Venditto, 68 years old, from being involved in bond sales. The SEC also wants Mr. Venditto and the town to pay monetary penalties, according to the complaint. It didn't say how much money.

The complaint was filed U.S. District Court for the Eastern District of New York. The U.S. Attorney's Office for the Eastern District of New York also filed securities fraud charges against Mr. Venditto Tuesday.

Government borrowers file information about their finances at the time they issue bonds and on a continuing basis while the bonds are outstanding. The records are posted on the Municipal Securities Rulemaking Board's website. Since 2014, the SEC has been involved in a campaign to improve disclosure in the municipal market.

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By Heather Gillers

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Write to Heather Gillers at heather.gillers@wsj.com

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