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SEC Charges Rochester, NY Former Officials with Misleading Investors on Bond Offering.

The Securities and Exchange Commission (SEC) recently charged the City of Rochester, N.Y., some former city officials, and an advisor with misleading investors in a \$119 million bond offering.

Specifically, former Rochester finance director Rosiland Brooks-Harris and former Rochester City School District CFO Everton Sewell were charged, as were Rochester's municipal advisor Capital Markets Advisors (CMA), and its principal Richard Ganci. CMA, Ganci, and CMA co-principal Richard Tortora were also charged with failing to disclose conflicts to municipal clients.

The SEC alleges that the defendants misled investors in 2019 with bond offering documents that included outdated financial statements for the Rochester City School District and did not indicate that the District was experiencing financial distress due to overspending on teacher salaries. Sewell was allegedly aware that the District was facing at least a \$25 million budget shortfall, but he misled a credit rating agency on the magnitude of the expected shortfall, the SEC alleges.

The SEC alleges that Brooks-Harris and Ganci were also aware of the Rochester City School District's increased financial distress. However, the SEC says they made no effort to inquire further about the District's financial condition prior to the bond offering, nor did they inform investors of the risks that the overspending posed to the District's finances. In September 2019, 42 days after the offering, the District's auditors found that the District had overspent its budget by nearly \$30 million, resulting in a downgrade of the city's debt rating.

"We allege that the Rochester City School District's financial health was important to investors, who were counting on the district as the expected source of repayment," LeeAnn Ghazil Gaunt, chief of the Enforcement Division's Public Finance Abuse Unit, said. "As described in our complaint, these defendants failed to inform investors of the serious financial difficulties the district was experiencing at the time of the offering."

In addition, the SEC's complaint also alleges that CMA, Ganci, and Tortora failed to disclose to nearly 200 municipal clients that CMA had material conflicts of interest arising from its compensation arrangements.

Brooks-Harris, CMA, and Ganci were charged with violating the antifraud provisions of the securities laws. Also, CMA, Ganci, and Tortora were with violating the municipal advisor fiduciary duty, deceptive practices, and fair dealing provisions of the federal securities laws. The Commission is seeking injunctive relief and financial remedies against all parties.

Sewell agreed to settle the SEC's charges by consenting, without admitting or denying any findings, to a court order prohibiting him from future violations of the antifraud provisions and from participating in future municipal securities offerings. He also agreed to pay a \$25,000 penalty.

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BY DAVE KOVALESKI | JUNE 16, 2022

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