

Bond Case Briefs

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NYT: S.E.C. Contends Harrisburg, Pa., Misled Its Bond Investors.

The Securities and Exchange Commission on Monday accused Harrisburg, Pennsylvania's debt-laden capital, of violating federal antifraud rules for securities issuers by repeatedly giving misleading information that created risks for bond investors as the city's finances were rapidly deteriorating.

Harrisburg, pulled to the brink of bankruptcy by a huge debt on its municipal trash incinerator, is also having trouble paying daily bills while it delays payments on general obligation bonds. As a result, it is Pennsylvania's only municipality that is under a state takeover.

The S.E.C. said the charges against Harrisburg, a city of about 50,000, represent the first time a municipality has been accused of misleading statements that were not included in securities disclosures. The S.E.C. is scrutinizing state and municipal governments around the country in connection with offerings in the \$2.7 trillion municipal bond market.

Among the misstatements or omissions by Harrisburg city officials were a 2008 audited financial report that did not mention a downgrade by Moody's Investors Service of Harrisburg's general obligation debt and a midyear financial report in 2009 that did not mention \$2.3 million in debt guarantee payments for the incinerator, the S.E.C. said.

From 2009 to March 2011, the city did not file annual audited financial statements with municipal securities agencies, the S.E.C. said.

On Dec. 31, 2007, the city's bonds and bond guarantees for its agencies totaled about \$500 million, many times its revenue of about \$61 million, the S.E.C. said.

The commission cited cooperation by Harrisburg officials in the investigation and the city's actions to create policies and procedures to ensure that its financial statements are accurate. As a result, the S.E.C. did not impose a financial penalty, and the city did not admit to or deny the commission's accusations in its settlement of the charges. Still, the S.E.C. ordered Harrisburg not to violate disclosure rules again.

"In an information vacuum caused by Harrisburg's failure to provide accurate information about its deteriorating financial condition, municipal investors had to rely on other public statements misrepresenting city finances," George S. Canellos, co-director of the S.E.C.'s enforcement division, said.