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SEC Charges Municipal Issuer in Washington's Wenatchee Valley Region for Misleading Investors.

The Securities and Exchange Commission today charged a municipal issuer in the state of Washington's Wenatchee Valley region with misleading investors in a bond offering that financed the construction of a regional events center and ice hockey arena. The SEC also charged the underwriter and outside developer of the project and three individuals involved in the offering.

The Greater Wenatchee Regional Events Center Public Facilities District agreed to settle the SEC's charges by paying a $20,000 penalty and undertaking remedial actions. It is the first time that the SEC has assessed a financial penalty against a municipal issuer.

The issuer is a municipal corporation formed by nine Washington cities and counties in 2006 to fund the Town Toyota Center, located in the city of Wenatchee. An SEC investigation found inaccuracies in the primary disclosure document accompanying the issuer's offering of bond anticipation notes in 2008. The document, called the "official statement," stated there had been no independent reviews of the financial projections for the events center. However, an independent consultant twice examined the projections and raised questions about the center's economic viability. The official statement failed to disclose that financial projections had been revised upward based in part upon optimistic assurances by civic leaders that the community would support the project. The document also omitted key information about the possibility that the City of Wenatchee's remaining debt capacity of $19.3 million would limit its ability to support any future long-term bonds.

"Financial penalties against municipal issuers are appropriate for sanctioning and deterring misconduct when, as here, they can be paid from operating funds without directly impacting taxpayers," said Andrew Ceresney, co-director of the SEC's Division of Enforcement. "This municipal issuer is paying an appropriate price for withholding negative information from its primary offering document and giving investors a false picture of the future performance of the project."

The Greater Wenatchee Regional Events Center Public Facilities District issued $41.77 million in bond anticipation notes in 2008, and defaulted on its principal payments in December 2011.

The SEC's settled administrative proceedings also name the developer Global Entertainment and its then-president and CEO Richard Kozuback, the underwriter Piper Jaffray & Co. and its lead investment banker Jane Towery, and Allison Williams, a senior staff member for the Greater Wenatchee Regional Events Center Public Facilities District who certified the accuracy of the official statement.

"An underwriter's due diligence obligation is critical, particularly when financing a startup revenue project. Piper Jaffray & Co. failed to develop a reasonable basis for believing the accuracy of key representations made in the official statement," said Mark Zehner, deputy chief of the SEC Enforcement Division's Municipal Securities and Public Pensions Unit.

In settling the SEC's charges, Piper Jaffray & Co. and Towery agreed to be censured and pay penalties of $300,000 and $25,000 respectively. Global Entertainment and Kozuback each agreed to

pay penalties of $10,000. Williams consented to a cease-and-desist order and the issuer agreed to remedial actions, including training for personnel involved in the offering and disclosure process. The issuer also agreed to adopt written policies for disclosures in municipal offerings and continuing disclosure obligations, and to designate an individual responsible for ensuring compliance with those obligations. The respondents neither admit nor deny the SEC's findings.

The SEC's order requires Piper Jaffray & Co. to retain an independent consultant to conduct a review of the firm's municipal underwriting due diligence policies and procedures as well as its supervisory policies and procedures relating to municipal underwriting due diligence. Towery agreed to limit her activities as an associated person of a broker-dealer or municipal advisor for one year by refraining from any contact with any existing or prospective municipal issuer client for the purpose of conducting, maintaining, or developing business or for the purpose of making decisions on behalf of a broker-dealer in connection with any due diligence activities.

The SEC's investigation was conducted by Monique C. Winkler in the San Francisco Regional Office, who is a member of the Municipal Securities and Public Pensions Unit. The case was supervised by Cary Robnett, an assistant director in the San Francisco office.

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