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Michigan City Settles SEC Fraud Charges in Municipal Bond Sale.

The city of Allen Park, Mich., and two of its former officials settled fraud charges related to the sale of a $31 million municipal bond issue to raise funds for a movie studio project to spur needed economic development, according to the Securities and Exchange Commission.

The SEC and other regulators have been moving to protect the small investors who make up the bulk of the $3.7 trillion municipal-bond market, which the SEC described in a 2012 report as "illiquid and opaque." That has included fining Kansas, New Jersey and Illinois for failing to disclose that underfunded pension obligations posed a risk to the repayment of some bonds. The states settled without paying a penalty or admitting wrongdoing.

This week, the SEC fined 13 brokerage firms for improperly selling junk-rated Puerto Rico bonds in increments below $100,000, the agency's first action under a rule designed to protect mom-and-pop investors from high-risk debt. The firms didn't admit or deny the SEC's findings and agreed to pay fines between $130,000 and $54,000.

Andrew J. Ceresney, director of the SEC's enforcement division, said in a news release Thursday, "Allen Park solicited investors with an unrealistic and untruthful pitch, and used outdated budget information in offering documents to avoid revealing its budget deficit."

The SEC had alleged that former Allen Park mayor Gary Burtka championed the project and was in the position to influence the actions of co-defendant, former city administrator Eric Waidelich. As a result, Mr. Burtka, who agreed to pay a $10,000 penalty under the settlement, was charged with liability for violations allegedly committed by Mr. Waidelich and the municipality.

The SEC said it is the first time it has charged a municipal official under a federal statute that provides for "control person" liability.

According to the SEC, the city began initial planning for the project in 2008. The initial plans included a $146 million facility with eight sound stages led by a Hollywood executive director. However, by the time the bonds were issued in 2009 and 2010, the project had deteriorated into merely building and operating a vocational school on the site.

However, the changes weren't reflected in the bond offering statements or public documents, the SEC said. Investors also weren't informed of the substantial impact the diminished project would have on the city's ability to repay the debt.

Without admitting or denying the allegations, Messrs. Burtka and Waidelich consented to the final judgment, which bars them from participating in any municipal bond offerings. Also without admitting or denying the allegations, the city agreed to cease and desist from future violations.

Mark Mandell, Mr. Waidelich's defense council, said Mr. Waidelich thoroughly cooperated with the SEC in its investigation. He added that no criminal charges or civil penalties were filed against Mr.

Waidelich, and that his client was “glad to have the matter behind him.”

“Every action he took was at the direction of council members, the mayor and attorneys representing the city, including the attorneys who drafted the bond,” Mr. Mandell said.

Defense counsels for the city and the two former officials couldn’t immediately be reached to comment.

THE WALL STREET JOURNAL

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Updated Nov. 6, 2014 1:22 p.m. ET

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