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Muni Distressed Debt Firm Rosemawr Sues Over Revel Energy Bonds.

An investment firm focusing on high-yield and distressed municipal bonds sued the developer of a power plant that serves Atlantic City's shuttered Revel Casino for securities fraud.

Rosemawr Management LLC, a $1 billion fund started by Lehman Brothers Holdings Inc.'s former head of municipal-derivatives trading, alleged that ACR Energy Partners LLC concealed defaults and used almost all its assets to make improper dividend payments to its parent company. In March 2014, New York-based Rosemawr bought $35 million of bonds that financed the power plant at 92.25 cents on the dollar. The securities have since lost 70 percent of their value.

"Although it was public knowledge that the Revel facility was not performing as well as Revel had intended, there was no reason to believe that Revel was defaulting on its payment to ACR," Rosemawr said in the Sept. 16 suit, filed in federal court in Camden, New Jersey. "As a direct result of the fraudulent concealment of material information, plaintiffs purchased the bonds at artificially inflated prices."

Distressed Municipalities

Rosemawr was formed in 2008 by Greg Shlionsky, a former Lehman Brothers managing director. The firm, which bought bonds backed by revenue from Harrisburg, Pennsylvania's parking garages and has lent money to an assisted living facility in Georgia and a storm drain project in the Detroit area, also includes former Lehman municipal derivatives trader James Lister.

Greg Usry, Citigroup Inc.'s former co-head of municipal credit and financial products and Julie Morrone, who formerly managed Morgan Stanley's high yield muni funds, also work at Rosemawr, according to the firm's website.

Revel, which opened at a cost of $2.4 billion in 2012, was an attempt to bring a bit of Las Vegas to the east coast by offering more shows, restaurants and shopping. The property suffered from poor design and competition from new casinos in other states. It went bankrupt twice before closing in September 2014.
New Jersey's Economic Development Authority issued about $119 million of unrated tax-exempt and taxable municipal bonds in 2011 on behalf of ACR, which used the money to build a heating, cooling and electric plant for the Revel resort and casino.

Bond Covenants

Revel had a 20-year contract to buy power and other utility services from ACR, a joint venture between South Jersey Industries Inc. and DCO Energy LLC. Dan Lockwood, a spokesman for South Jersey Industries, didn't immediately return a call seeking comment. Frank DiCola, chairman of Mays Landing, New Jersey-based DCO also didn't return a message.

Two Rosemawr funds bought $35 million of the power plant bonds at 92.25 cents per $100 face amount in March 2014. ACR and its owners “flatly lied” about defaults under the bond covenants which, if disclosed, would have lowered the price of the securities, Rosemawr said.

ACR hid Revel’s failure to make required monthly payments under the energy service agreement and entered into a “special arrangement” with the casino to extend payment terms without bondholder permission, Rosemawr said. ACR also didn’t notify bondholders it failed to fully fund a required reserve account.

The account “provided crucial protection of bondholders’ interests, because it provided a source of payments to bondholders until Revel became consistently profitable.”

Dividend Payments

Finally, ACR made $11 million in improper and fraudulent divided payments to its sole controlling member, an entity set up by South Jersey Industries and DCO, according to the suit. Under the bond documents, dividends were restricted if there was an event of default, Rosemawr said.

The $11 million payments “represented substantially” all of ACR’s liquid assets. ACR missed its June 15, 2014, debt service payment.

The offering statement for ACR’s bonds warned investors that the shuttering of the Revel resort or an ownership transfer meant bondholders couldn’t be assured energy produced by the plant was necessary or that new owners might get energy elsewhere.

Rosemawr said it believed financing wouldn’t be jeopardized because Revel would need power, regardless of who purchased the building or its long-term use.

“Had the plaintiffs known the information that was fraudulently concealed by the defendants prior to the purchase of the bonds, the plaintiffs would either have not purchased the bonds altogether, avoiding any losses, or would have purchased the bonds only at a dramatically lower price, thereby significantly reducing their losses,” Rosemawr’s complaint said.

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