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SEC Muni Enforcement To Increase Coordination with Justice, FBI.

WASHINGTON - The Securities and Exchange Commission's municipal enforcement unit may bring more cases in conjunction with the Justice Department as it plans to increase its coordination with the department and the Federal Bureau of Investigation.

LeeAnn Gaunt, chief of the SEC's public finance abuse unit, said during a municipal securities regulatory panel here last week that the SEC will specifically be coordinating on cases involving public corruption and instances of pay-to-play.

The panel was part of a journalists' forum on municipal health organized by the Lincoln Institute of Land Policy, a think-tank based in Cambridge, Mass.

"What we find is if you see public corruption in building contracts or hiring, we want to take a look at it as to municipal securities offerings and the investment of public pensions and assets," Gaunt said. "I am convinced that there is a lot of ground for us there and we're increasing our focus on that substantially."

The increased coordination may yield cases with similar ramifications to one released on April 14, where Justice and the SEC brought criminal and civil charges against two officials of Ramapo, N.Y. for fraudulently inflating the town's finances and thus misleading investors in connection with bonds, some of which were related to a contentious minor league baseball stadium project. The SEC also brought civil charges against the town, the organization empowered to issue bonds, and two other officials.

Gaunt said her unit is also seeing a number of cases resulting from "municipal state and local officials getting overexcited about public projects."

"[The officials] are coming from a good place, they want to do good things for their town, city or state," she said. "They get really overheated, really excited and they tend to put on rose colored glasses so when they go out to market and they have the offering statement ... the offering statement does not often contain the warts. It doesn't disclose the risks fully."

She said recent cases involving Allen Park, Mich. and 38 Studios, a now defunct video game company, were good examples of enforcement actions in this category.

The SEC took enforcement action against Allen Park, Mich., its former mayor, and its former city administrator in connection with \$31 million of munis sold in 2009 and 2010 to finance a movie studio project in the city. The commission found that the offering documents contained false and misleading statements about the scope and the viability of the project as well as Allen Park's overall financial condition and its ability to pay debt service.

In the 38 Studios case, the SEC charged a Rhode Island agency, its underwriter, and three individuals associated with \$75 million of 2010 bonds for 38 Studios with defrauding investors by

not revealing the complete financial status of the company or the extent of the compensation arrangement with the underwriter.

There was prior knowledge that the funds from the bonds would not be enough for the video game company to finish its project but that information was not disclosed to investors. The company went bankrupt when it could not find an alternate funding source to supplement the bond revenue.

The SEC has also brought a number of cases recently involving issuers masking their financial strain in securities offerings.

In addition to the Ramapo case, Gaunt said her unit's case involving Westlands Water District serves as a good example.

In that case, the SEC charged California's largest agricultural water district and two of its officials with misleading investors about its financial condition when it issued \$77 million of bonds in 2012. The water district had a rate covenant in its bond documents guaranteeing it would maintain net revenues equal to 125% of the debt service it had to pay each fiscal year, but because of draught conditions, it was unable to maintain those revenues and its officials resorted to fabricating the district's financial information.

The Bond Buyer

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