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Jury Finds Miami Defrauded Bond Investors.

A federal jury found Wednesday that the city of Miami and its former budget director had defrauded bond investors by failing to truthfully disclose the city's deteriorating financial condition.

The verdict came in the first federal jury trial by the U.S. Securities and Exchange Commission against a municipality. The SEC last month settled other civil cases with 71 municipal issuers as part of an agency initiative to improve disclosure.

"We will continue to hold municipalities and their officers accountable, including through trials, if they engage in financial fraud or other conduct that violates the federal securities laws," Andrew Ceresney, director of the agency's enforcement division, said Wednesday.

Miami City Manager Daniel J. Alfonso said the city "has put into place procedures, policies and practices to improve transparency and accountability."

City Attorney Victoria Mendez said the city is reviewing its legal options. "While we respect the jury and the judicial process, we are disappointed in the jury's verdict," she said.

The jury found that Miami had committed securities fraud while reporting on the city's finances in 2007, 2008 and 2009. According to the SEC's complaint, Miami transferred dollars earmarked for specific capital projects between funds, enabling the city to meet its own reserve-fund requirements.

Miami bond offerings were subsequently rated favorably by rating firms, which later downgraded Miami after an auditor's report forced the city to reverse most of the transfers, the SEC complaint said.

Former City Budget Director Michael Boudreaux was found not liable on one count—using a fraudulent scheme—but was found liable for negligence and misrepresentations during his time as budget director, his lawyer said. The lawyer, Benedict Kuehne, said his client plans to challenge those portions of the verdict.

Mr. Kuehne described his client as a "responsible government officer who tried to do the right thing at all times."

Mr. Boudreaux said in an interview with The Wall Street Journal in 2011 that "there was no deception on my part." He said that others implemented the ideas to transfer funds and that he was fired in 2010 after speaking to federal investigators.

This is the second time Miami has run into trouble over disclosure issues. The SEC said Wednesday that it now expects the court to find Miami violated a 2003 SEC order prohibiting the city from engaging in fraud, which followed an administrative trial.

The verdict could be costly for Miami. An SEC attorney said in court the agency would make a request for injunctive relief and monetary penalties the next two weeks.

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