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Town Supervisor: Bonding Adviser Removed During Investigation.

Babylon Supervisor Rich Schaffer has removed the town's municipal finance adviser pending the outcome of a U.S. Securities and Exchange Commission investigation.

The SEC on June 30 asked town employees to preserve documents related to municipal bonding work by the adviser, Doug Jacob, a subcontractor for the town and former town comptroller, for evidence as part of a civil investigation, documents show.

The request to Town Attorney Joe Wilson states the agency believed the town may possess "documents and data that are relevant to an ongoing investigation."

The letter, provided to Newsday by town spokesman Kevin Bonner, asks Babylon officials to preserve documents "created on or after Jan. 1, 2015 that concern the town's issuance of general obligation bonds in 2015 and 2016; Red Hill Professional Services, Inc; and Douglas F. Jacob."

Jacob, 56, of Pelham in Westchester County, owns Red Hill, a general services company founded in 2007 that provides workers to the town. Jacob served as comptroller for the town for a decade before resigning in December 2003.

The town does not contract directly with Red Hill or Jacob, who has an office in the Town Hall Annex. Babylon officials contract with Herbert L. Greene, a solid waste consultant, who subcontracts to Jacob and Red Hill to provide workers for several town departments.

The SEC letter did not provide details about the focus of the investigation. An agency spokeswoman declined to comment.

But Schaffer said Jacob had shown him a separate letter from the SEC to Jacob about the investigation indicating it focuses on whether Jacob had violated the federal Dodd-Frank Act, which aims for better financial industry regulation, including making sure advisers put the municipality's interests ahead of their own.

At issue are Jacob's dual roles as financial adviser to the town and head of a company that provides workers for the town, Schaffer said.

"The question is whether or not they believe there's a conflict of interest" between Jacob's two roles and his ability to provide unbiased advice on bonding, Schaffer said. "I don't believe there is but I will leave it up to the professionals."

Red Hill employees in 2016 worked in 16 town departments including transportation, drug and alcohol counseling, the fire marshal and the town attorney's offices, according to documents. One of the employees is Jacob's son, Max Jacob, who has worked in the controller's office since 2010.

Doug Jacob is an SEC-registered municipal financial adviser and for more than a decade has been

helping the town with annual bonding by acting as a “liaison between the town, the brokerage firms, and bond counsel,” according to Bonner. Jacob did not respond to requests for comment. A message left at a number listed for Red Hill — the same number as Jacob — was not returned.

The town bonded for \$65 million in 2015 and 2016. The town has not bonded yet this year.

Wilson in a July 8 letter told town employees that they must abide by the SEC’s request to “preserve and retain” documents, noting the agency’s letter “should not be construed as an indication that the town has done anything improper or violated the law.”

Local governments frequently use advisers to help them decide how and when to issue the bonds and how to invest proceeds from the sales, according to the SEC’s website. The Dodd-Frank Act, passed in 2010, required advisers to register with the SEC.

Greene in 2016 submitted invoices to the town for himself, Jacob and 32 Red Hill workers totaling \$1.5 million, according to documents.

Jacob invoiced \$115,712 for his own services that year as a subcontractor, according to Bonner. Greene’s contract has one-year extensions running through the end of 2018.

Jacob was one of five top town officials who in 1997 were indicted on felony charges of falsifying documents filed with the state in order to hide a deficit.

Four of the officials were acquitted. Jacob was convicted in 1998 of eight misdemeanor counts of second-degree offering a false instrument for filing and was sentenced to probation.

Schaffer, who is also chairman of the Suffolk County Democratic Party, maintains the arrests were a political vendetta by then-Suffolk County District Attorney James Catterson Jr., a Republican. Schaffer said he believes Jacob was convicted of “actions every other town on Long Island takes” in moving money between the capital and operating funds.

Schaffer said Jacobs was used as a financial adviser on bonding because “he has a lot to offer the town and he’s one of the main reasons why we have one of the highest bond ratings of any municipality on Long Island.”

If the SEC finds a problem with Jacob’s work, he will be permanently removed as adviser — but the town will continue to subcontract with his company, Schaffer said.

“Red Hill provides a very valuable service to the town and allows us to continue to operate as we do and provide the services that we do in the 2 percent tax cap world,” he said.

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