

[Securities Regulation Daily Wrap Up, TOP STORY—Enforcement officials announce first muni bond-related fraud case, \(Apr. 14, 2016\)](#)

Securities Regulation Daily Wrap Up

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By [Jacquelyn Lumb](#)

The SEC and the U.S. Attorney for the Southern District of New York have announced what is believed to be the first municipal bond-related securities fraud prosecution involving the cover-up of Ramapo, New York's deteriorating financial condition related to the costs of building a baseball stadium. The SEC charged Ramapo, the Ramapo Local Development Corp. (RLDC), and four town officials for perpetrating the fraud. The U.S. Attorney brought criminal charges against the town's supervisor and the former executive director of RLDC including 22 counts of securities fraud, wire fraud, and conspiracy in connection with the municipal bonds issued by the town and RLDC.

Indictment. According to the [indictment](#), the fraud predated the construction of the stadium, but the \$58 million cost of the stadium largely contributed to Ramapo's financial problems. The town paid for over half of the costs even though the guarantee of the bonds to pay for the construction of the stadium had been rejected in a referendum. The town's supervisor issued statements that no public money would be used to pay for the stadium.

In order to conceal the town's deteriorating financial condition and RLDC's inability to make the scheduled payments to its bondholders, the defendants lied to investors about the town's general fund, which is its primary operating fund and a key indicator of financial health. The general fund had deficits as high as \$14 million during the six-month period when the officials were reporting a positive balance of between \$1.4 and \$4.2 million.

Complaint. According to the SEC's [complaint](#), RLDC's president and town supervisor masterminded the scheme to artificially inflate the balance of the general fund between 2009 and 2014. The former RLDC executive director and assistant town attorney concealed from investors that RLDC's revenues were insufficient to cover the debt service on the bonds to finance the stadium. He also hid a fictitious sale that inflated the general fund.

The town's attorney helped conceal the outstanding liabilities related to the stadium and misled the auditors about a \$3.08 million receivable that was recorded in the general fund. The deputy finance director also participated in the inflation of the general fund by arranging improper transfers from another fund.

SEC Enforcement Director Andrew Ceresney noted that retail investors account for more than 75 percent of the \$3.7 trillion municipal bond market. He said the Commission will not stand by while investors are misled by such alleged accounting trickery.

Remedies sought. In addition to financial penalties, the SEC is seeking a court order for the appointment of an independent consultant for Ramapo and RLDC to recommend improvements in their financial reporting and disclosure policies, and to monitor the implementation of the recommendations for five years. The SEC is also seeking an order to prohibit the officials from participating in future municipal bond offerings.

The U.S. Attorney advised in its press [release](#) that the officials could face up to 20 years in prison for each count of securities and wire fraud, and up to five years for conspiracy.

The SEC reported in its news [release](#) that the investigation is continuing.

Attorneys: Andrew Matthew Calamari for the SEC

Companies: City of Ramapo; Ramapo Local Development Corp.

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