



## Criminal Action is Brought Against Municipal Officials for Fraudulent Bond Disclosure

By: [Walter J. St. Onge](#) and [Stanley Keller](#)

In what is believed to be the first action of its kind, on April 14, 2016, the U.S. Department of Justice brought a criminal action against municipal officials based on disclosure claims in connection with municipal bond offerings. The indictment charges two local officials with 22 counts of securities fraud, wire fraud and conspiracy. The SEC also brought a parallel civil enforcement action that included, in addition to the indicted officials, a municipal attorney. The Department of Justice indictment is available [here](#) and the SEC complaint is available [here](#).

The actions involve the Town of Ramapo, New York, and its efforts to build and finance a minor league baseball stadium. To build the stadium the Town formed the Ramapo Local Development Corporation (RLDC) with authority to issue bonds guaranteed by the Town. According to the government accusations, the indicted officials, the elected Town supervisor and the RLDC executive director, took fraudulent actions to make the Town's finances appear more favorable than they were, including recording in the Town's general fund improper receivables from the RLDC and other improper interfund transfers, booking federal reimbursements not yet applied for and making it appear that the RLDC could fund its own debt service when in fact it was being paid by the Town. The SEC further asserts that the stadium project was politically unpopular and that the fraudulent actions were taken to conceal the true condition of the Town's deteriorating finances and the actual cost of the stadium project to avoid further political fallout. The allegedly false statements were made during the period in question to the Town's investors, auditors and rating agencies in connection with 16 securities offerings aggregating over \$300 million.

It is important to remember that an indictment is not a conviction and an SEC filing of an enforcement action is not a finding of wrongdoing. Nevertheless, these actions show that federal officials take municipal disclosure seriously and are prepared to hold individuals accountable, both criminally and civilly, for fraudulently misleading investors in municipal securities offerings. These federal actions should be taken as a reminder that disclosure in the sale of municipal bonds must be accurate and complete, even when it might seem politically inconvenient.

Governmental issuers and their officials are well-advised to adopt written policies and procedures for preparation of disclosure materials, to provide training for all personnel involved in disclosure matters and to utilize the advice of experienced municipal disclosure counsel in order to avoid the problems now being faced by the Town of Ramapo and its officials.

**Walter J. St. Onge** | 617-239-0389 | [walter.stonge@lockelord.com](mailto:walter.stonge@lockelord.com)  
**Stanley Keller** | 617-239-0217 | [stanley.keller@lockelord.com](mailto:stanley.keller@lockelord.com)



Practical Wisdom, Trusted Advice.

[www.lockelord.com](http://www.lockelord.com)

Atlanta | Austin | Boston | Chicago | Dallas | Hartford | Hong Kong | Houston | Istanbul | London | Los Angeles | Miami | Morristown  
New Orleans | New York | Providence | Sacramento | San Francisco | Stamford | Tokyo | Washington DC | West Palm Beach