

Chapman Client Alert

November 29, 2018

Current Issues Relevant to Our Clients

SEC Concludes Enforcement Action against Town of Ramapo and its Officials

In October, 2018, the United States District Court for the Southern District of New York entered a final judgment against Christopher St. Lawrence, the former Supervisor of the Town of Ramapo, New York (the “Town”) and Director of Finance and President of the Ramapo Local Development Corporation (“RLDC”), enjoining him from violating Section 17(a) of the Securities Act of 1933 and Section 10(b) of the Securities Exchange Act of 1934 and Rule 10b-5 thereunder and permanently barring him from participating in any offering of municipal securities. St. Lawrence was also ordered to pay a civil penalty of \$327,000 (which is in addition to the fine previously imposed in the federal criminal action described below). The Securities and Exchange Commission (“SEC”) stated in a November 15, 2018 release that the entry of judgment against St. Lawrence ends the litigation for this matter.

Summary of SEC and Federal Actions

In April, 2016, the SEC charged the Town, the RLDC, a local not-for-profit corporation established under state law to further economic development in the Town, and four Town officials, with fraud for allegedly not properly disclosing a deteriorating financial situation in municipal bond offering documents. The SEC alleged that Town officials resorted to fraud to hide the strain in the Town’s finances caused by the financing of a controversial minor league baseball stadium and the Town’s declining sales and property tax revenues. In a joint effort with the SEC, the office of the U.S. Attorney for the Southern District of New York, along with the FBI, brought criminal charges against St. Lawrence and N. Aaron Troodler, former Executive Director of the RLDC and an Assistant Town Attorney. Our article regarding this matter can be found [here](#).

Final SEC Judgment against Town of Ramapo and RLDC

In November, 2017, the United States District Court for the Southern District of New York entered a final judgment on consent against the Town and the RLDC permanently enjoining the Town and the RLDC from violating Section 17(a) of the Securities Act of 1933 and Section 10(b) of the Securities Exchange Act of 1934 and Rule 10b-5 thereunder. Under the judgment, the Town and the RLDC agreed to the following undertakings:

- 1) to retain an independent consultant with municipal finance experience (the “Consultant”) to review and recommend improvements to the Town’s and RLDC’s financial reporting procedures and controls as well as their municipal securities disclosure policies and procedures and to require the Town and RLDC to implement any recommendations and thereafter for the Consultant to assess the sufficiency of the Town’s and RLDC’s implementation of the recommendations for the following two full fiscal years;

- 2) to retain an independent auditor (not unacceptable to the SEC) to audit the Town’s and RLDC’s financial statements for three fiscal years; and
- 3) to prohibit the Town and RLDC from the offer and sale of its municipal securities for three years after the date of entry of the judgment unless they hire independent disclosure counsel (not unacceptable to the SEC) for any municipal securities offered by the Town or RLDC, with such disclosure counsel assisting in preparation of the disclosure document and with the Town’s or RLDC’s investigation as to the accuracy and completeness of the information contained therein and delivering an opinion with respect to the disclosure document.

Final SEC Judgments against Officials of the Town and RLDC

In addition to the recent judgment against St. Lawrence described above, the United States District Court for the Southern District of New York entered a final judgment on consent in June, 2018, against Troodler, Michael Klein, the Town Attorney, and Nathan Oberman, the Town’s deputy finance director, enjoining Troodler, Klein and Oberman from violating Section 17(a) of the Securities Act of 1933 and Section 10(b) of the Securities Exchange Act of 1934 and Rule 10b-5 thereunder, and permanently barring each of them from participating in any offering of municipal securities. In addition, Klein and Oberman agreed to pay civil penalties of \$25,000 and \$10,000, respectively, and to resign from their employment with the Town or any entity owned or controlled by the Town and further agreed that for a period of seven (7) and five (5) years, respectively, that they would not be an employee of the Town or solicit work on any financial transaction for the Town.

Summary of Related Federal Criminal Action against St. Lawrence and Troodler

In a parallel action brought by the U.S. Attorney for the Southern District of New York, St. Lawrence and Troodler were indicted on multiple counts of securities fraud, wire fraud and conspiracy to commit securities fraud. Such action was the first criminal securities fraud prosecution involving municipal bonds in the United States.

In March, 2017, Troodler pled guilty to conspiracy to commit securities fraud, wire fraud and securities fraud. In January, 2018, Troodler was sentenced to eighteen months of supervised release and was assessed a \$20,000 fine. In addition, the State of New York disbarred Troodler from the practice of law due to his felony conviction.

In May, 2017, a federal jury found St. Lawrence guilty of twenty counts of conspiracy, securities fraud and wire fraud in connection with the municipal bonds issued by the Town and

RLDC. In December, 2017, a federal judge sentenced St. Lawrence to 30 months in prison and a \$75,000 fine. St. Lawrence began serving his sentence in March, 2018.

Conclusion

In response to the recent activity of the SEC and ever-increasing penalties imposed for violations, issuers and their finance officials should evaluate their current policies and procedures for disclosure in offerings of municipal securities as well as continuing disclosure upon issuance. Issuers should consider adopting a thorough disclosure policy to ensure compliance with their responsibilities under federal securities laws.

For More Information

If you would like further information concerning the matters discussed in this article, please contact a member of our Public Finance Group or visit us online at chapman.com.

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