

Lessons from Ramapo

Article By:

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The federal government has brought the first ever criminal securities fraud charges in connection with a municipal bond financing, following an investigation by U.S. Attorney for the Southern District of New York Preet Bharara, according to recent news reports. ([NYT](#), [Reuters](#).)

So what lessons are there to be learned from this?

For those who have not followed the story, the charges were brought against Christopher St. Lawrence and N. Aaron Troodler. Lawrence was the elected supervisor of the Town of Ramapo, New York ("Town"), and Troodler was the executive director of the Ramapo Local Development Corporation ("RLDC").

The Ramapo indictment is another high-profile indictment by Bharara, who has brought many high-profile charges for financial fraud and public corruption, which are summarized [here](#) and [here](#). The charges in the Ramapo case include securities fraud, wire fraud, and conspiracy. A copy of the indictment is available [here](#).

According to the indictment, RLDC built a minor league baseball stadium. A resolution for the Town to guarantee \$16.5 million of bonds for the stadium was rejected by approximately 70% of the voters. Lawrence stated that the stadium would be built with private funds. Half of the \$58 million amount came from the Town. The town had guaranteed the RLDC's bonds. The charges stemmed from fabricating receivables, mischaracterizing others, transferring funds between accounts of the Town and RLDC in violation of state law, and purporting to make payments from current operating funds when in fact assets were sold or when lines of credit were used to make the payments. These are of course only indictments, and so we have not yet heard the full story of what happened.

Nonetheless, at least two lessons can be learned from this indictment.

First, we can expect municipal bond issuances to be subject to more scrutiny than in the past. Although this appears to be the first time that criminal charges have been brought, it is safe to assume that it will not be the last. Prosecutors may also feel emboldened to pursue more civil actions.

Second, everyone, whether working for an issuer, underwriter, borrower, or professional service provider should be alert for potential signs of problems in every financing that they work upon. For

instance, one should verify statements and track down the cause of any inaccuracies or inconsistencies. Almost always, there will be an innocent explanation behind mistakes. And in the extremely unlikely event that there isn't, you will be glad that you asked.

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