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The seal is seen on the Securities and Exchange Commission building - Washington, DC - Sep 18, 2008 - Photo: Chip Somodevilla/Getty Images

Federal regulators have accused fiscally beleaguered Harrisburg, Pa., of issuing misleading financial statements in what marks the second time just this year that a municipality or state has been charged with securities fraud.

In a settlement announced Monday by the Securities and Exchange Commission, the

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disclose critical information about Harrisburg's financial condition and credit ratings," the SEC said in a statement Monday.

George Canellos, co-director of the SEC's Division of Enforcement, called the lack of disclosure "an information vacuum," adding that statements like a state of the city address or mid-year fiscal report "that are reasonably expected to reach the securities markets, even if not prepared for that purpose, cannot be materially misleading."

Harrisburg holds about \$260 million in debt that it had guaranteed for upgrades and repairs to a municipal resource recovery facility owned by The Harrisburg Authority. As of March 15, Harrisburg has missed approximately \$13.9 million in general obligation debt service payments, according to the SEC order.

Harrisburg's securities fraud charge is the first against a city and the second leveled this year by the SEC upon a government. It's also just the third such charge ever made by the commission. In March, the commission charged Illinois with misleading investors about the conditions of its public pension program and in 2010 it nailed New Jersey on a similar charge. The increased activity by the commission comes as the Enforcement Division's Municipal Securities and Public Pensions Unit is expected to start stepping up action after its creation three years ago.

Following the start of the SEC investigation, Harrisburg enhanced its disclosure process by instituting formal written policies and procedures with respect to public statements regarding financial information. In addition, Harrisburg has designated its Business Administrator as the individual responsible for filing Harrisburg's annual financial information and notices with the Electronic Municipal Market Access database run by the Municipal Securities Rulemaking Board.

Harrisburg has also agreed to include a certification by the Business Administrator with any securities offering that the information is true and does not omit any

relevant facts.

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market on the basis of incomplete and outdated information” while the financial condition of The Harrisburg Authority continued to deteriorate, the SEC said.

In the meantime, other financial data proved inaccurate. The 2009 budget misstated Harrisburg’s credit as being rated “Aaa” by Moody’s when in fact Moody’s had downgraded Harrisburg’s general obligation credit rating to Baa1 by December 2008. And the 2009 State of the City address delivered on April 9 of that year simply referred to the authority’s debt as an “issue that can be resolved” but failed to mention that Harrisburg had already made \$1.8 million in guarantee payments on the resource recovery facility bond debt.

“It also omitted the total amount of the debt that the city would likely have to repay from its general fund,” the SEC stated. “By this time, Harrisburg knew that the Authority had failed to secure the requested rate increase, making it likely that Harrisburg would have to repay \$260 million of the debt as guarantor.”

As part of the settlement, Harrisburg also agreed to a cease-and-desist order, although it did not admit any wrongdoing.

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