



Disclosure Matters for Municipal Bonds: Overview & Hot Topics

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Speakers



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Disclosure for Municipal Bonds

❖ Primary Disclosure (*going out on the public market*)

- Offering Documents
 - Preliminary Official Statement
 - Contains information on offered bonds and on the issuer/obligated person
 - Deemed “final” but for certain information to be determined at pricing
 - Official Statements
 - Final with all pricing information (but can be supplemented)
 - Dated as of the date of pricing

❖ Secondary Disclosure (*already out on the public market*)

- Continuing Disclosure Agreements
 - Ongoing obligation to update the market via annual financial information and notices
 - SEC Rule 15c2-12
 - EMMA

EMMA

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EMMA



Emma Thompson

EMMA



Emma Stone

Our Favorite EMMA: Electronic Municipal Market Access



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Tennessee

Browse the list of municipal securities issuers below.



Consolidated Issuer Information

These pages provide a consolidated view of the information available on EMMA for each issuer. Pages listed as "customized" have been confirmed by the issuer and provide contact information to investors. Homepages, including those that have been customized, typically exclude matured securities and may contain errors or omissions.



Access tools and resources for assessing bonds



See a calendar of upcoming Tennessee issues

Educational Resources

- To learn about additional methods for finding information, read about EMMA's search features.
- Read instructions for issuers on how to customize an EMMA issuer homepage.
- Please contact us for assistance customizing a homepage or to report any errors or

Our Favorite EMMA

← ↻ 🏠 <https://emma.msrb.org/IssuerHomePage/Issuer?id=F185C01DC47619B2E043161E0A0A841E&type=M> 📄 ☆ ⚙️ | 🎵 ☆ 👤 ... 🗨️ Chat



STATE OF TENNESSEE (TN)

Customized

Click on a tab to access data and documents about this issuer's municipal securities.

IssuesTrade ActivityPre-Sale DocumentsOfficial StatementsRefunded IssuesFinancial DisclosuresEvent-Based Disclosures

Click on the issue description to view details about the issue.

View all Issues

Display

10

 results | Search within list:

First

Previous

1

2

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Issue Description	Dated Date	Maturity Dates
GENERAL OBLIGATION BONDS, 2023 SERIES B (FEDERALLY TAXABLE)	08/30/2023	2027 to 2043
GENERAL OBLIGATION BONDS, 2023 SERIES A	08/30/2023	2027 to 2043
GENERAL OBLIGATION BONDS, 2021 SERIES A	07/13/2021	2025 to 2041
GENERAL OBLIGATION BONDS 2021 REFUNDING SERIES B (FEDERALLY TAXABLE)	07/13/2021	2025 to 2035
GENERAL OBLIGATION BONDS, 2019 SERIES A	10/03/2019	2025 to 2039
GENERAL OBLIGATION BONDS, 2019 SERIES B (FEDERALLY TAXABLE)	10/03/2019	2025 to 2039
GENERAL OBLIGATION BONDS, 2018 SERIES A	05/03/2018	2026 to 2038
GENERAL OBLIGATION BONDS 2016 SERIES A	08/25/2016	2025 to 2036

Our Favorite EMMA



MANDEVILLE LA SALES & USE TAX RFDG FGIC-MBIA RE (LA)*

Dated Date:09/01/2000

Closing Date:10/25/2000

View issuer homepage:

MANDEVILLE LA SALES & USE TAX

Final Scale

Official Statement

Continuing Disclosure

Trade Activity

View the official statement, which is the most complete source of information about the securities as of the initial issue date.

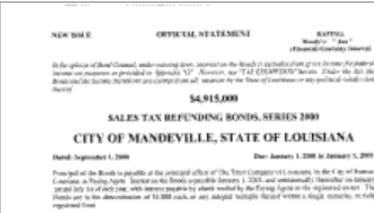
Official Statement

Official statement files are large and can take several minutes to download, depending on your connection speed. Preview the cover, if available, before downloading to ensure that it is the correct document.

Download Document

Official Statement posted 09/22/2000 (6.6 MB)

Preview



Glossary of Terms

View the MSRB's industry-standard Glossary of Municipal Securities Terms.

Why read the official statement?

The official statement describes the essential terms of the bonds, including call features, sources of repayment, issuer's covenants, and much more.

Rules for being out on the public market...

Requirement to Speak Truthfully to the Market

❖ **Section 10(b) of the Securities and Exchange Act of 1934 and SEC Rule 10b-5**

- Prohibits misstatements or omissions of material facts in connection with the purchase and sale of municipal securities and in connection with continuing disclosures
- Requires a finding of intent or recklessness, an extreme departure from the standard of ordinary care

❖ **Section 17(a) of the Securities Act of 1933**

- Makes it unlawful to "employ any device, scheme, or artifice to defraud", "obtain money or property" by using material misstatements or omissions, or to "engage in any transaction, practice, or course of business which operates or would operate as a fraud or deceit upon the purchaser"
- Only requires a finding of negligence to determine that an antifraud violation has occurred

❖ A fact is "material" if there is a substantial likelihood that a reasonable investor would consider it important in making an investment decision

❖ What happens if a government issues bonds without proper disclosure in its offering documents...

SEC Charges Rochester, NY, City's Former Finance Director and School District CFO (and Municipal Advisor) with Misleading Investors (2022)

- ❖ Allegation that officials misled investors with bond offering documents that included outdated financial statements for the City School District and did not indicate that the District was experiencing financial distress. (No reason given in documents for declining revenues.)
- ❖ 42 days after bond offering, the District's auditors revealed that the District had overspent its budget by nearly \$30 million, resulting in a downgrade of the city's debt rating and requiring the intervention of the State of New York.
- ❖ SEC's complaint against the City, Finance Director and Municipal Advisor, filed in federal court, charges them with violating the antifraud provisions of the securities laws.
- ❖ School District CFO agreed to settle SEC's charges by consenting to a court order prohibiting him from participating in future municipal securities offerings, and ordering him to pay a \$25,000 penalty.

SEC Charges Rochester, NY, City's Former Finance Director and School District CFO (and Municipal Advisor) with Misleading Investors (October 2024 Update)

- ❖ Final judgment entered in October 2024.
- ❖ City and former City CFO were enjoined from future violations of securities laws, and former City CFO was barred from participating in future municipal securities offerings.
- ❖ But neither City nor former City CFO were ordered to pay a monetary penalty, and no monitorship was required (seen as a first and as a win for the City and its former CFO).
- ❖ City's primary argument: City School District operates independently of City's fiscal oversight. Though the City issues debt on the School's District behalf per state law, the School District is effectively a separate entity.

And What About After Bonds Are Issued?

- ❖ SEC staff issued a legal bulletin in 2020
- ❖ Confirms prior SEC guidance that the antifraud provisions apply to any statement of a municipal issuer that is reasonably expected to reach investors and the trading markets
 - EMMA filings
 - Information on government websites
 - Statements made by government officials
- ❖ Statement is material if there is a substantial likelihood that it would be viewed by a reasonable investor as significantly altering the “total mix” of information available
 - SEC enforcement action against City of Harrisburg, PA (misleading material info released by City administration + failure to file audited financial statements)

What Does This Mean For The Local Government?

- ❖ Local governments cannot just rely on third parties to make sure their disclosure is correct. Local government officials need to carefully review disclosure documents to make sure they are accurate and do not omit material information. While your municipal advisor and counsel help with this process, the ultimate responsibility for disclosure is on local government officials.
- ❖ Local government officials should keep securities laws in mind when they “speak to the market” through disclosure on websites and through press releases.

Hypothetical #1: The Optimistic Budget Press Release

The City's Finance Director holds a press conference in early March to announce the City's preliminary budget projections for the upcoming fiscal year. During the press conference – which is livestreamed on the City's official website and posted to its social media accounts – the Finance Director states:

“We are pleased to report that the City is in a strong fiscal position heading into next year. Our revenue collections are trending upward, and we anticipate a balanced budget with no anticipated need for additional borrowing beyond what is already authorized.”

At the time of the press conference, the Finance Director is aware that:

- ❖ The City's two largest sales tax revenue sources have shown modest declines over the prior two quarters, though property tax collections have remained steady.
- ❖ The City's internal budget office has circulated a preliminary memo – not yet reviewed by the City Council – flagging a potential \$8 million shortfall if sales tax trends continue but also identifying possible offsets through expenditure reductions that have not yet been approved.
- ❖ The City has approximately \$45 million in general obligation bonds outstanding that trade in the secondary market.
- ❖ No new bond offering is currently planned, but the City's capital improvement plan contemplates a potential issuance within the next 12 months.

Three weeks after the press conference, a local newspaper obtains the internal budget memo through a public records request and publishes a story under the headline: “City Faces Potential \$8 Million Budget Gap Despite Rosy Projections.”

Issues to Consider:

- 1) Did the Finance Director's statements constitute a misstatement or omission of material fact under Section 10(b) or Section 17(a) of the federal securities laws? Does it matter that no bond offering was pending at the time?
- 2) The Finance Director's statement was technically accurate in some respects—property tax collections were steady, and the shortfall was only "potential." Is the overall impression created by the statement misleading when considered against the "total mix" of information available?
- 3) Does it matter that the internal memo had not yet been reviewed or adopted by the City Council? At what point does preliminary internal financial information become something that must be disclosed—or at least not contradicted—in public statements?
- 4) Consider the SEC's 2020 guidance that antifraud provisions apply to any statement by a municipal issuer "reasonably expected to reach investors and the trading markets." Was a budget press conference on the City's website reasonably expected to reach bondholders?

Hypothetical #2: The Infrastructure Project Website Update

- ❖ The County issues \$30 million in revenue bonds to finance a new water treatment facility. The Official Statement for the bond offering states that the project is expected to be completed within 24 months and that projected user fee revenues are sufficient to cover debt service at a 1.4x coverage ratio based on the County's engineering consultant's feasibility study.
- ❖ Eight months after the bond closing, the project encounters significant construction delays due to unexpected soil contamination at the site. The County's project manager estimates that remediation will add approximately \$6 million in costs and delay completion by at least 9 months. The County's outside engineering consultant has not yet issued a revised feasibility study but has verbally indicated that the additional costs "could put pressure on" the projected coverage ratio, though the consultant believes the ratio will likely remain above 1.0x.
- ❖ The County's Public Works Department updates the project page on the County's website with the following language:
 - *"The Water Treatment Facility project is progressing. During construction, the County identified environmental conditions at the site that require additional remediation work. The County is working with its contractors and consultants to address these conditions and keep the project on track. The County remains committed to delivering this critical infrastructure improvement to our residents."*
- ❖ The website update does not mention the estimated \$6 million cost overrun, the 9-month delay, the potential impact on debt service coverage, or the fact that the engineering consultant has expressed concern about the coverage ratio.
- ❖ Meanwhile, the County Mayor, responding to a question at a community meeting, states:
 - *"I know there have been some rumors about the water plant project. I want to assure everyone that the project is on budget and on schedule. Every construction project has hiccups—this is nothing out of the ordinary."*

Issues to Consider:

- 1) The County's website update is carefully worded and does not contain any affirmatively false statements. But does the omission of the cost overrun, schedule delay, and coverage ratio concerns render the update misleading under the antifraud provisions? How does the "total mix of information" standard apply here?
- 2) The County Mayor's statement at the community meeting appears more clearly problematic—the project is arguably neither "on budget" nor "on schedule." But does it matter that the statement was made at a community meeting rather than an investor meeting? Is a community meeting statement "reasonably expected to reach investors and the trading markets"?
- 3) Does the County have an obligation to file a material event notice under its continuing disclosure agreement for the cost overrun and delay? Consider that the Rule 15c2-12 event notice categories do not include a general "material adverse development" trigger—should the County nonetheless consider a voluntary EMMA filing?
- 4) How does this scenario compare to the Rochester case, where the City issued bonds with offering documents that included outdated financial statements and failed to disclose a school district's financial distress? Is the County here in a better or worse position than Rochester, given that the County's website update at least acknowledges the environmental issue, even if it omits the financial details?

Hot Topics – Tennessee’s New Disclosure Requirements

- ❖ Notices of Events of Default, Covenant Violations, and Credit Rating Downgrades (*TCA Section 9-21-134*)
 - Public Entities must notify the Comptroller’s Office of events of default, covenant violations, and credit rating downgrades within ten (10) business days of occurrence. The notification must include copies of the underlying documents such as:
 - Event reporting notice of default
 - Notice of covenant violation
 - Credit rating downgrade notification from a rating agency or agencies
 - Loan agreement or similar documents for a debt obligation
 - The reporting content, format, and method of delivery can be found online at the Comptroller’s website.

Example of State Adverse Debt Event Reporting Form

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https://comptroller.tn.gov/content/dam/cot/lgf/documents/debt/debt-default-reporting/Adverse%20Debt%20Form%20Credit%...

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Adverse Debt Event Reporting Form

Notice of Credit Rating Downgrade

This form is pursuant to and authorized by Tenn. Code Ann. § 9-21-134(d) and Tennessee State Funding Board Guidelines for debt reporting by public entities

Complete the following form. Email the completed form **and** a copy of the rating agency downgrade report to LGF@cot.tn.gov.

Step 1: Entity Name and Address

Enter Entity Name →

Street Address / P.O. Box →

City, State, Zip Code →

Step 2: Contact Information

The authorized entity representative is meant to be the main contact our office can speak with on issues pertaining to the entity or referenced debt. For example, Chief Operating Officer, Chief Financial Officer, Counsel, Financial Advisor, etc.



Questions?



Thank You!
