

LOCAL FINANCE NOTICECHRISTINE TODD WHITMAN
GOVERNORHARRIET DERMAN
COMMISSIONERBETH GATES
DIRECTOR**NEW SECURITIES AND EXCHANGE COMMISSION (SEC) DISCLOSURE REQUIREMENTS**

Rules affecting all local government units that issue debt obligations took effect on July 5, 1995. These rules, promulgated by the SEC, are intended to provide a higher level of financial disclosure to buyers of local government securities. The rule is officially known as "Rule 15c2-12." Information in this Notice is extracted from a variety of sources, including SEC material and publications of the Government Finance Officers Association of the United States and Canada.

While the SEC does not regulate local governments, it has authority over bond industry practices. This rule provides that bond traders and underwriters cannot sell local government securities unless the local unit agrees to provide the bond markets information related to the financial condition of the issuer.

The point of the rule is to provide secondary bond markets ongoing financial information that is necessary for buyers to evaluate credit risks. Historically, financial information is provided at the time of the original offering and ongoing information was never a requirement; this made it difficult for secondary bond buyers to have full knowledge of the financial condition of the issuer at the time of the purchase. This rule is intended to correct that, and questions of interpretation should be made with due consideration to this principle.

In New Jersey, this rule potentially affects all government units. A government unit is affected if it meets the definition of an "obligated person," an entity committed by contract or other arrangements to support payment of the issued securities. For the purposes of this Notice, this can include municipalities, counties, school boards, local public authorities and fire districts, or any government unit responsible for supporting general obligation, revenue, conduit or lease backed debt payments (which may have more than one obligated person), or other arrangement where an entity is obligated to make payments as part of a security issue.

It must be noted that there are a number of outstanding issues and concerns that have been raised by the local government financial community, as represented by national organizations. In particular, the national Government Finance Officers Association has taken a lead in addressing issues that require interpretation. They are also working with other organizations, including those representing bond counsel, underwriters, and State officials.

Director's Office
609-292-6613Local Government
Research
609-292-6110Financial Regulation
and Assistance
609-292-4806Local Finance
Board
609-292-4537Local Management
Services
609-292-7842Authority Regulation
609-984-0133Fax
609-984-7388

In addition, bond counsel and underwriters will apprise issuers of their disclosure responsibilities under the rules, as underwriters cannot complete transactions until the requirements of the rule have been met. While the Division can provide direction and general information, issuers with detailed questions concerning legal interpretation should address them to appropriate legal counsel.

The Local Issuer's Obligation

The rule obligates underwriters to enter into written agreements, called an "undertaking" with issuers, where the issuer agrees to conduct two primary activities.

- 1) To disclose annual financial information to the bond markets.
- 2) To provide timely disclosure of "material events." They are "occurrences" relating to outstanding securities or the "issuer." The events that may be material events are listed below.

Financial information is not required for fiscal years ending prior to January 1, 1996. However, since undertakings will require submission of information for debt issued after July 3, 1995, information will be required for fiscal years ending on and after June 30, 1996, depending on the issuers fiscal year. In both cases, the information must be provided to all SEC approved information repositories, officially known as "Nationally Recognized Municipal Security Information Repositories (NRMSIRs).

There are several categories of exemptions and limitations to the broad rule. Those exempt from SEC official statement requirements -- those where the denominations of the bonds exceed \$100,000 and the bonds are sold to less than 35 sophisticated investors, or the maturity is nine months or less -- are also exempt from the undertaking requirement. Issues of less than \$1,000,000 are also exempt.

Annual financial reporting to the NRMSIRs is not required if the issuer has less than an aggregate of \$10,000,000 in outstanding securities and agrees to a "limited undertaking" to provide otherwise routine financial reports to the NRMSIRs and to anyone upon request, and to report to all NRMSIRs Notices of Material Events.

The law also authorizes the creation of State Information Depositories (SID) that can accept submissions of information from local issuers and distribute to the NRMSIRs. The State is considering creating a SID. Details on this will be forthcoming over the next year.

What is Annual Financial Information?

Annual financial information is both financial data and operating data and is the same type of information provided by the issuer in the official statement for a bond issue. In addition, audited financial statements are also required to be submitted. Effectively, this means, that when debt is issued after July 3, 1995, the issuer must update official statement information annually and submit it to a SID or all NRMSIRs (on a schedule listed in the undertaking). A copy of the most recent audit report must also be provided.

The "undertaking" agreement is a formal document that will be prepared by Bond Counsel as part of the debt issuance. If an undertaking is executed, Chief Financial Officers and their advisors must be prepared to update Official Statement information on an annual basis and submit it to all NRMSIRs.

Because of the federal mandate nature of the rule, and that Official Statements are not automatically prepared each year for most municipal and county issuers, any direct costs incurred in their preparation may be appropriated as an exception to the budget cap.

What is a Material Event?

A Notice of Material Events is a formal mechanism to notify the bond markets that "something important happened," and that it may affect bond market decisions. Thus, disclosure to affected parties should be made simultaneously to prevent any unfair advantage. The filing of these notices is in effect as of July 5, 1995. This means local issuers are responsible for these filings today.

The rule lists 11 types of events which may be reportable under the rule. They include:

1. Principal and interest payment delinquencies,
2. Non-payment related defaults,
3. Unscheduled draws on debt service reserves reflecting financial difficulties,
4. Unscheduled draws on credit enhancements reflecting financial difficulties,
5. Substitution of credit or liquidity providers, or their failure to perform,
6. Adverse tax opinions or events affecting the tax-exempt status of the security,
7. Modifications to rights of security holders,
8. Bond calls,
9. Defeasances,
10. Release, substitution, or sale of property securing repayment of the securities, and
11. Rating changes.

In addition:

- Information is generally material if there is substantial likelihood that the disclosure of the information would have been viewed by the reasonable investor as having significantly altered the "total mix" of information made available.

- Issuers and other parties to the transaction should determine if other events should be disclosed and identified.
- Events that may be material that are not listed may be sent to repositories to ensure equal access to the information by all investors and participants in the market.
- Statements by elected officials, relating to an issuer, even if they are material, do not have to be provided to the repositories, but may be if they are intended to reach the market.
- General events having widespread impact such as tax law changes do not have to be disclosed by individual issuers.
- The determination of timely disclosure must take into account the time needed to discover the occurrence of an event, assess its materiality, and prepare and disseminate the event notice.

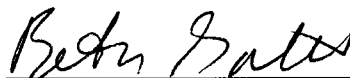
Fortunately, these events are rare for local unit issuers in New Jersey. However, if a material event is anticipated or takes place, the Chief Financial Officer should contact Bond Counsel immediately to discuss compliance with the Law. Because material events affect secondary market pricing, it is critical for compliance efforts that the markets be notified through NRMSIRs and done at the same time to prevent potential unfair advantage by buyers or sellers of securities. This also means that release of information must also be coordinated with the local news media.

Finally, Chief Financial Officers are hereby directed to file Notices with the Local Finance Board as well.

About NRMSIRs

NRMSIRs are organizations that earn income by providing participants in the securities industry up-to-date information about issuers. However, they are not allowed to charge issuers for submission of information. A list of NRMSIRs approved by the SEC is included as an Appendix to this Notice.

As noted above, questions concerning a local units requirements under these rules are best determined by counsel familiar with the rules. Please be sure to bring this Notice to the attention of other concerned local officials.



Beth Gates, Director
Division of Local Government Services

Distribution:

All Local Unit Chief Financial Officers

Enclosure - List of NRMSIRs

LIST OF NATIONALLY RECOGNIZED MUNICIPAL SECURITY REPOSITORIES
(as of 8/1/95)

Bloomberg Municipal Repositories

P.O. Box 840
Princeton, NJ 08542-0840
Phone: (609) 279-3200
Fax: (609) 279-5962

Disclosure Inc.

5161 River Road
Bethesda, MD 20816
Attn: Document Acquisition/Municipal Securities
Phone: (301) 951-1450 (for issuer related questions)
(800) 638-8241 (for purchase of documents)
Fax: (301) 718-2329 (for issuers to fax in documents)

Moody's NRMSIRs

Public Finance Information Center
99 Church Street
New York, NY 10007
Phone: (800) 339-6306
Fax: (212) 553-1460

The Bond Buyer

Attn: Municipal Disclosure
395 Hudson Street
New York, NY 10014
Phone: (212) 807-3814
Fax: (212) 989-9282
Internet: Disclosure@Muller.com

Kenny Information Systems, Inc.

65 Broadway - 16th Floor
New York, NY 10006
Attn: Kenny Repository Service
Phone: (212) 770-4595
Fax: (212) 797-7994