

# **Bond Case Briefs**

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## **COVID-19's Impact on Bond Issuers' Finances and 15c2-12 Continuing Disclosure Obligations.**

As state and local governments continue to take actions to protect the safety and well-being of their citizenry in response to the COVID-19 pandemic, it is important for issuers and other obligated persons of tax-exempt financings to understand the impact such actions and the economic slowdown may have on their finances and outstanding debt obligations. Each issuer or obligated person should analyze the current and potential effect on its finances and begin to plan for its response to decreased revenues, at least for the foreseeable future.

For example:

- Delayed property and income tax deadlines and stay-at-home orders may lead to decreased government revenues, creating difficulties for issuers and obligated persons to cover existing debt payments, lease rental payments and operating expenses.
- Issuers and obligated persons may also incur increased operational costs associated with maintaining facilities, employee turnover and adapting to enable employees to work remotely.
- Decreasing revenues and increasing costs may lead to reportable events under Securities and Exchange Commission (SEC) Rule 15c2-12 including unscheduled draws on debt service reserves and credit enhancements or ratings downgrades.
- Operational disruptions may create obstacles for issuers and obligated persons to make timely disclosures of reportable events, and the Municipal Securities Rulemaking Board and SEC have no authority to postpone filing deadlines. Failures to meet mandatory disclosure obligations must be reported on offering statements for five years.
- In addition to mandatory disclosures, voluntary disclosure of nonreportable events may be appropriate for some issuers and obligated persons to maintain transparency with investors.

With uncertainty surrounding historically predictable revenue streams, issuers and obligated persons may need to take out loans or issue short term warrants to meet current payment obligations. Issuers and obligated persons should also keep their continuing disclosure obligations under Rule 15c2-12 and procedures for making event disclosures top of mind. Issuers and obligated persons should maintain consistent communications with their attorneys and other advisers to understand how secondary effects of COVID-19 impact their outstanding issues and operations, and how to stay prepared as the situation continues to evolve.

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