

Yorktown Independent School District
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May 9, 2017

Brent J. Fields
Secretary
Securities and Exchange Commission
100 F Street NE., Washington, DC 20549-1090

Re: Comment Letter on Release No. 34-80130; File No. S7-01-17

Dear Secretary Fields:

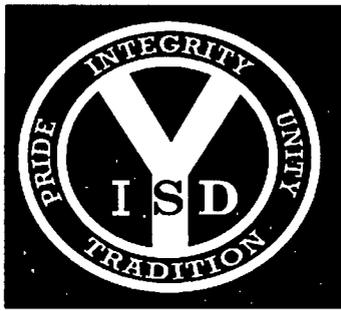
Yorktown ISD appreciates this opportunity to comment on proposed amendments to Rule 15c2-12 under the Securities Exchange Act of 1934 (the "Rule") relating to municipal securities disclosure included in the Release noted above (the "Release").¹

As is the case throughout the United States, school districts in Texas face numerous challenges in providing for the operation of high quality public schools with limited financial resources. Regulations that impose new obligations or additional costs on school districts are of a significant concern, even more so when unaccompanied by reduced burdens. Dollars that are redirected to compliance with new regulations are dollars that are not being spent educating the children of Texas.

The proposed amendments would amend the list of events for which notice is to be provided to the Municipal Securities Rulemaking Board (MSRB) to include (i) incurrence of a financial obligation of the obligated person, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a financial obligation of the obligated person, any of which affect security holders, if material; and (ii) default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a financial obligation of the obligated person, any of which reflect financial difficulties, as well as a newly defined term, "financial obligation." (collectively, the "Proposed Events").

We offer the following observations with respect to the Release:

¹ SEC Release No. 34-80130; 82 Fed. Reg. 13928 (March 15, 2017).



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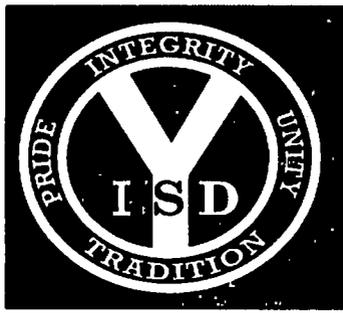
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1. The Release proposes a major shift in the operation of the Rule. Since its inception, the Rule has focused on the particular securities offered in an offering and the accompanying continuing disclosure agreement. The Proposed Events shift the focus of the Rule to the general credit condition of the issuer. The scope and detail of the information contained in event notices filed pursuant to the Proposed Events would encompass information about the financial condition of the issuer that is far greater in scope and in detail than is required in a final official statement under the Rule.² The Release would appear to abandon the 1994 consensus final official statement “footprint” setting the scope of continuing disclosure without providing the opportunity to the market for discussion.³

2. The municipal securities market is generally regulated through an after-the-fact application of materiality under the antifraud provisions. The transplant of selective line-item disclosure requirements out of the complex system of corporate integrated disclosure regulation into the municipal securities market is unlikely to produce the desired results. Because of the experience of issuers and underwriters with the overly-broad application of materiality in the 144 settled Municipalities Continuing Disclosure Cooperation (“MCDC”) initiative proceedings, “materiality” – at least in the context of Rule 15c2-12 – is unlikely serve as an effective filter for event notice filings. A lesson many took from MCDC is that safety resides in over-disclosure. In order to avoid or minimize the time and cost of assessing the necessity of an event notice, issuers will likely file complete documentation for a broad range of financial

² The Commission expressly acknowledges in the Release that the Proposed Events will require periodic reporting more extensive than currently required annually. “[T]he Commission understands that to the extent information about financial obligations is disclosed and accessible to investors and other market participants, such information currently may not include certain details about the financial obligations. For example, disclosure about a financial obligation in an issuer’s or obligated person’s audited financial statements or in an official statement may be limited to the amount of the financial obligation and may not provide certain details, such as whether the financial obligation contains covenants, events of default, remedies, priority rights, or other similar terms of a financial obligation, any of which affect security holders, if material.” 82 FR 13930.

³ “Under the amendments as adopted, the financial information and operational data to be provided on an annual basis pursuant to the undertaking will mirror the financial information and operating data contained in the final official statement with respect to both the issuers and obligated persons that will be the subject of the ongoing disclosure, and the type of information provided (*emphasis added*).” 59 FR 59590, 59593 (Nov. 17, 1994).



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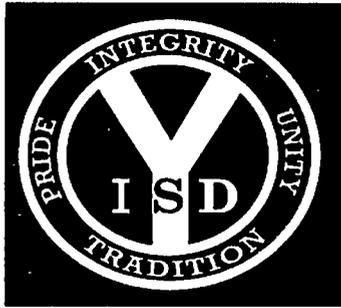
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agreements, obligations, and judgments. This likely volume of disclosed information would require an investor's extensive review and analysis to extract what significance, if any, the obligation has to issuer's creditworthiness or ability to pay its obligations as scheduled, making the investor's review of the proposed disclosures the equivalent to the proverbial search for a needle in the haystack. If the goal of the proposed regulations is to provide quality, useful disclosure to the market, then the proposed regulations are likely to fall short by incentivizing the posting of large volumes of information of limited value to investors. Without substantial and meaningful guidance to issuers regarding determinations of materiality, the proposed regulations will not result in useful disclosure.

3. The Proposed Events described in the Release will place substantial burdens on school districts that are issuers of public securities, regardless of their size, and impose significant new costs. The scope of the financial obligation definition will reach numerous operating leases and other operating transactions entered into by public school districts that under state law are made payable from current revenues or made subject to annual appropriations and have little or no impact on a school district's ability to pay debt service on public securities secured by a separate unlimited ad valorem debt service tax. Additionally, items such as operating leases or energy savings performance contracts are frequently amended or modified, and each amendment would have to be reviewed under the proposed regulations. In the end, the Proposed Events may require greater disclosure by school districts than by public companies.⁴

In response to the proposed regulations, school districts will be required to restructure their organizations and establish review processes in order to vet the types of "financial obligations" captured under the broad definition included in the proposed regulations. Currently, it is uncommon for bond counsel, disclosure counsel or a municipal advisor to be involved in routine operational transactions such as operating leases and energy performance savings contracts. The adoption of the proposed regulations will require that school districts enter into new

⁴ For example, Item 2.03(c)(4) of Form 8-K defines financial obligation as excluding short-term obligations arising in the ordinary course of business, while the Release states: "[a]s proposed, the term debt obligation is intended to capture short-term and long-term debt obligations of an issuer or obligated person." 82 FR 13937.



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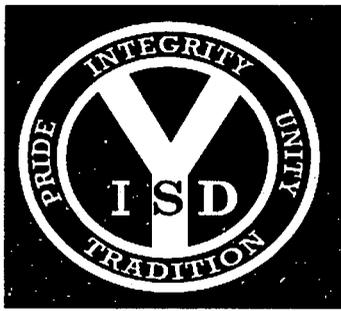
engagements with subject matter experts to assist them in making determinations as to (i) whether agreements constitute “financial obligations,” (ii) which financial obligations are “material,” (iii) which covenants, events of default, remedies, priority rights, or other similar terms affect securities holders, and (iv) what constitutes “financial difficulties” before determining whether an event notice is required and what it should report.

To be clear, the analysis of agreements and instruments captured under the definition of “financial obligations” under the proposed regulations will require subject matter experts to review the financial obligations – which they otherwise would not be engaged to review – in detail and make nuanced determinations as to materiality.⁵ In the post-MCDC world, determinations as to whether a financial obligation and its terms are material and properly reported are difficult and time consuming. The fees paid to the subject matter experts will be new costs that are directly attributable to the proposed regulations. Additionally, such costs will likely be paid out of operating and maintenance funds of the public school district. As a result, fewer dollars will be available for the direct education of students. Every dollar spent on compliance with the proposed regulations will be a dollar that is not spent educating children.

4. The current definition of “financial obligations” is overbroad as proposed in the Release. We have significant concerns regarding the inclusion of operating obligations and monetary obligations resulting from judicial, administrative or arbitration proceedings in the definition of financial obligations as well as the expansion of the Rule to the general credit condition of the issuer. As noted above, we believe substantial guidance with respect to determinations of materiality and what constitutes “financial difficulties” would be required in order to produce meaningful filings.

5. Accurate measurement of the burdens imposed under the Proposed Events is essential, and the Commission should be aware of the considerable amount of time and costs that will be

⁵ The extent of this analysis is made clear by the Commission’s repeated use of the phrases “could affect,” “could result,” and “could potentially impact” in *Overview of Proposed Amendments* under the caption III. Description of the Proposed Amendment to Rule 15c2-12 in the Release. 82 FR 1395-13937.



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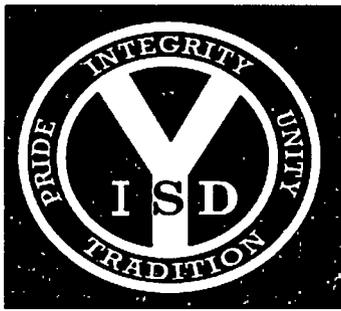
associated with the implementation of the proposed regulations. We call to the Commission's attention the comments of the National Association of Bond Lawyers on the Collection of Information Requirements (the "NABL OMB Letter"), in particular the belief, based upon a survey of NABL membership, that "the actual burdens are more than 100 times those estimated by the Commission."⁶

6. Texas public school districts are already subject to extensive state-law-based financial transparency requirements. Section 44.008 of the Texas Education Code requires that each Texas public school district obtain an annual audit performed by a certified or public accountant holding a permit from the Texas State Board of Public Accountancy. These audits must be filed by the school district with the Texas Education Agency within 150 days of the end of the fiscal year. Annual audits provide information on the significant financial obligations of a school district along with notes to inform readers of the financial statements in accordance with generally accepted accounting principles, and they are made available to the public through an electronic library maintained on the Texas Education Agency website.⁷ We believe that the existing and well-developed process of filing annual audited financial statements provides the public with sufficient information regarding many of the district financial obligations of the type described in the Release. The imposition of separate event-based disclosure requirement for financial obligations other than the issued public securities that are the subject of a continuing disclosure agreement and the accompanying ten-business-day time period for filing such notices impose substantial burdens on issuers without corresponding benefits to market participants.

Texas public school districts are committed to financial transparency. However, the proposed regulations offer little in the way of additional transparency while imposing significant costs on school districts at the expense of the children being educated.

⁶ Letter of Clifford M. Gerber, President, National Association of Bond Lawyers of April 11, 2017, available at: <https://www.sec.gov/comments/s7-01-17/s70117-1698938-149892.pdf>

⁷ For more information, visit <http://tea4avwaylon.tea.state.tx.us/audit/PDFviewer.asp>.



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We appreciate the opportunity to comment on the proposed regulations, and we encourage the Commission to give careful consideration to our comments. We stand ready to provide any additional information or assistance that the Commission might find useful. Please do not hesitate to contact me at [REDACTED] or [REDACTED] with any questions.

Sincerely,

Chad Gee

Superintendent

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