

CITY OF LONG BEACH

DEPARTMENT OF FINANCIAL MANAGEMENT

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November 11, 2014

HONORABLE MAYOR AND CITY COUNCIL

City of Long Beach
California

RECOMMENDATION:

Receive and approve staff recommendation to decline to voluntarily self-report any of the City's bond issuing transactions to the Securities and Exchange Commission, in response to the Municipalities Continuing Disclosure Cooperation Initiative. (Citywide)

DISCUSSION

When the City issues bonds, it agrees to report significant events, file audited financial information and disclose other information that could be important to bondholders on an ongoing basis (Continuing Disclosure). A bond issuer (City) typically states in the required bond offering document that it has complied with its Continuing Disclosure obligations in all material respects for the last five years. City staff works closely with its financial and legal advisors to help ensure that this disclosure is accurate in all material respects.

On March 10, 2014, the Securities and Exchange Commission (SEC) issued its Municipal Continuing Disclosure Cooperation (MCDC) Initiative that offered favorable settlement terms to bond issuers and bond underwriters if they voluntarily self-report material misstatements made in bond offering documents concerning an issuer's prior compliance with its Continuing Disclosure requirements.

Under the MCDC Initiative, the SEC is offering leniency to any issuer that self-identifies that it failed to disclose any material non-compliance with its Continuing Disclosure requirements. Although staff has worked diligently over the years to prevent a material misstatement, the rules of interpretations change and definitions of "material" may become unclear; no operation is ever perfect and some mistakes may occur.

In addition to its annual due diligence, City staff performed additional reviews of the City's Continuing Disclosure agreements, covering a ten-year period, to determine if the City made any material misstatements concerning compliance with the City's Continuing Disclosure requirements. No material misstatements were found. The City also periodically engages legal counsel to confirm that its disclosure complies with requirements and, from a very recent review, no material misstatements were found. In the last 60 days, all seven of the bond underwriting firms that sold bonds for the City completed independent reviews of their transactions with the City and also found no material misstatements. Finally, the City retained a professional disclosure consultant to conduct a Continuing Disclosure audit of the City's 50 bond issues over the applicable ten-year period. No material misstatements were found.

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In summary, while the City and external parties identified instances of non-compliance, all parties concluded that such instances were not material.

In the event that the City decided to self-report an item because it might be material, it would have to agree in advance to, among other things, receive a cease and desist order from the SEC; cooperate with the SEC and testify in any SEC investigation; consent to all settlement terms; and, disclose, in a clear and conspicuous fashion, the settlement terms in any bond offering document of the City for the next five years. There is always the potential for the SEC to select the City for an investigation and, if it establishes fraudulent intent or negligence, pursue an enforcement action against the City. In either case, the risk of the SEC selecting the City for such an investigation is identical whether or not the City voluntarily self-reports.

Based on the reviews by City staff and multiple third parties, and the fact that the MCDC Initiative does not provide reporting for no material misstatements, City staff is recommending that the City should not voluntarily file any reports in response to the SEC's MCDC Initiative, as the City has no material misstatements to report.

This matter was reviewed by Deputy City Attorney Richard Anthony on October 20, 2014 and by Budget Management Officer Victoria Bell on October 22, 2014.

TIMING CONSIDERATIONS

City Council action is requested on November 11, 2014 in order to comply with the SEC's filing deadline for bond issuers of December 1, 2014.

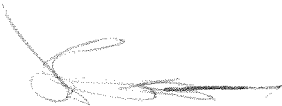
FISCAL IMPACT

There is no fiscal or local job impact associated with this recommendation.

SUGGESTED ACTION:

Approve recommendation.

Respectfully submitted,



JOHN GROSS
DIRECTOR OF FINANCIAL MANAGEMENT

APPROVED:



PATRICK H. WEST
CITY MANAGER