



Municipal Debt Essentials

Session 6: Costs of Issuance

*Find the “Apple Among the Oranges”
and Control Your Issuance Costs*



Outline of presentation by:

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Principal Owner



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CONTEXT FOR TODAY'S DISCUSSION



In 1962, when America's space exploration program was still in its infancy, the astronaut John Glenn (later a U.S. Senator from Ohio) was asked about his feelings right before he blasted off to become the first American to orbit the earth. His reply?

He said he felt as good as anyone could, considering he was sitting on top of an apparatus consisting of two million parts – all furnished by the lowest bidder!

Do “low bid” approaches always produce the lowest costs?

It depends.





VALUE VS. COST – WHAT’S THE DIFFERENCE?

To perform an objective evaluation of costs, you must first establish an objective basis for comparison of skills, knowledge, abilities and level of service. To compete fairly on cost, vendors must have similar skills, knowledge and abilities.

If competition among service providers promotes lower costs, then consider managing the process to:

- ✓ Maintain access to firms interested in providing the needed services
- ✓ Identify vendors who best meet your agency’s needs
- ✓ Ensure fair comparison of all alternatives, including costs

Additional benefit: a transparent process builds credibility within your community – and among potential service providers.

Goal: *highest* value for *lowest* cost.





WHAT ARE COSTS OF ISSUANCE, ANYWAY?

Definition:

“Costs incurred by the issuer of the securities incident to the planning and sale of the securities.” (*Municipal Bonds, Planning Sale and Administration – Moak, GFOA*)

1. Underwriter's “spread” (including costs paid to others)
2. Feasibility, engineering, market, value and similar studies
3. Costs of financial advisor and other consultants to issuer
4. Printing of legal and offering documents
5. Advertising (both legal and display)
6. Fees of counsel (bond, disclosure, underwriter’s, others)
7. Credit ratings
8. Cost of presentations to investors, rating agencies, others (travel, telephone, etc.)
9. Value of staff time and facilities used in the planning and sale of the securities
10. (rarely) Costs of the election or referendum conducted to approve the issue of the securities





HOW MUCH ARE THEY TYPICALLY?

No such thing as typical. They can vary widely.

Some ranges to start today's discussion. . . .

1. Underwriter's "spread" (including costs paid to others): **\$4.00/\$1,000 to \$25.00/\$1,000**
2. Feasibility, engineering, market, value and similar studies: **\$10,000 to \$250,000**
3. Costs of financial advisor and other consultants to issuer: **\$6,500 to \$75,000**
4. Printing of legal and offering documents: **\$2,000 to \$15,000**
5. Advertising (both legal and display): **\$500 to \$30,000**
6. Fees of counsel (bond, disclosure, underwriter's, others): **\$20,000 to \$175,000**
7. Credit ratings: **\$7,500 to \$100,000**
8. Cost of presentations to investors, rating agencies, others (travel, telephone, etc.): **\$0 to \$????**
9. Value of staff time and facilities used in the planning and sale of the securities: **\$????**
10. (rarely) Costs of the election or referendum conducted to approve the issue of the securities: **\$????**





CAN THEY BE NEGOTIATED?

Many are negotiable. . . .

1. Underwriting spread
2. Feasibility, engineering, market studies, appraisals, tax increment, etc.
3. Financial advisor
4. Printing
5. Counsel

Some are not

1. Credit ratings
2. Out of pocket costs for presentations to investors, rating agencies, etc.
3. Advertising
4. Value of your time
5. Election costs





KEYS TO EFFECTIVE PROCUREMENT

Good vendor relationships:

- “open door?” or “fortress?”
- buy in a fashion that reduces your cost
- identify, then work with, the “best in class” for the job
- use simple business courtesies
- telephone calls & visits; use them to gain knowledge

Your business knowledge:

- match the vendor to the job
- know what’s important for the vendor to know about you
- explain yourself; translate to understandable terms
- stay realistic
- payment policies; contract terms that benefit each side

Let’s look at using the RFP to select the vendors . . .





DECISIONS TO MAKE BEFORE THE RFP

1. What role will you play? How active will you be? How many from your organization will be involved? What will they be doing?
2. How general (or specific) are the services you are seeking?
3. Are services required for one transaction only; or, for longer period or multiple projects? Are the projects similar in scope?
4. What type of issue is it? How large? What is the security? How complex is it? When does it need to be completed?
5. How do you plan to access the market? When?



“I’m impressed by your ability to write a resume and get an interview. What other skills do you have?”





ACCESSING THE WIDEST AUDIENCE FOR THE RFP

Situations to avoid

1. “limited” competition
2. exclusive focus on type of agency instead of type of securities being offered
3. “off the beaten path” RFP platforms and specific bid submission technologies
4. the “bandwagon” phenomenon

Approaches to consider

1. referrals from others to build your interest list
2. known resources – CSMFO, GFOA, CDIAC, CRA, CSAC, ACWA, etc.
3. use direct mail, telephonic outreach, and personal discussion to stimulate interest
4. emphasizing efficiency over cost



CRITICAL FEATURES OF THE RFP

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“My strengths? I’m especially good at answering the typical job interview questions. My weaknesses? I don’t really like working.”

Try to emphasize “opportunities” over “requirements”

What are you *really* looking for?

What does the “ideal” service provider look like?

Will your decision be “price-driven?”

Who will make the decision in your organization?

When will it be made?

What are the specific selection criteria?

You may also wish to consider:

- a) Asking for alternative proposals for compensation as a tool to evaluate “value for the money” received; and/or
- b) Making the solicitation a “cooperative” process that others in your own agency or similarly situated agencies can rely upon.





FIVE STEPS TO SOLICITING AN EFFECTIVE PROPOSAL

1

Seek qualifications relevant to your needs.

2

Require specific expertise applicable to your case.

3

Have a clear understanding of the work you need.

4

Hands-on experience with similar projects.

5

A cost that's consistent with #1 through 4.





EVALUATING THE RESPONSES

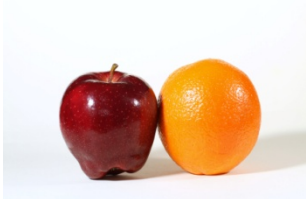
Some suggested considerations:

- a) How has the vendor done this in the past in response to similar needs?
- b) What were the results, and were they measurable?
- c) When was the work completed; on time? As promised?
- d) Why is the reference or expertise relevant to your situation?
- e) Who will be doing the work for you and do they “fit” with your organizational culture and work preferences?



Check those references!!!

Then, open the cost proposal.



UNDERSTANDING CONFLICTS

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“Every time I come up with a great idea, you have to bring up the law and prison.”

Be explicit in your request, and do it “up-front:”

- a) Any regulatory or disciplinary problem?
- b) Any economic interest in the outcome?
- c) Any economic interest in any other entity involved in the transaction?
- d) Past relationships with others on the financing team?
- e) Pattern of “inside baseball” or biases?

Conflicts may appear from unlikely or improbable quarters!





REVIEW THE PROPOSED PLAN OF WORK

Perhaps the most important element; yet, often presented as “boilerplate” material!

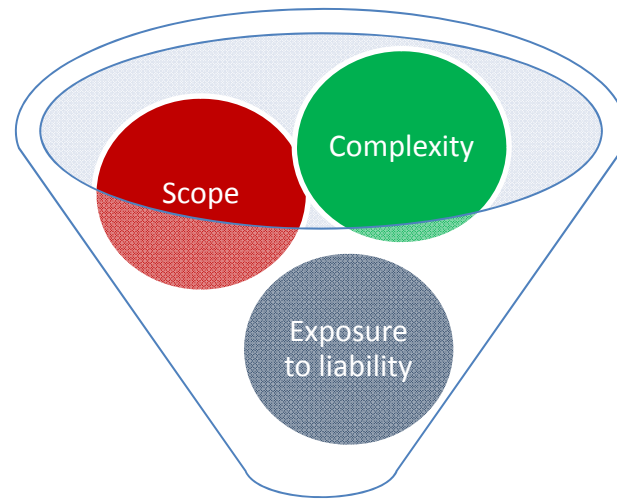
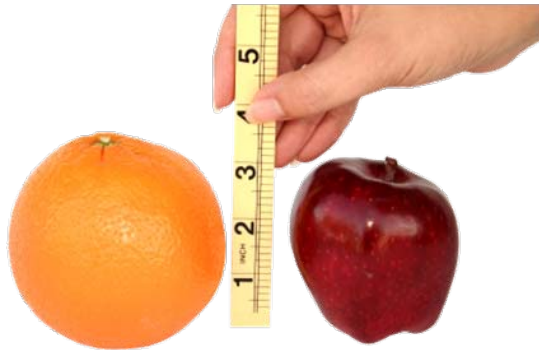
- a) You want a specific plan, with assigned personnel, estimate of time, deliverable work products, etc.
- b) Is it tailored to you, or is it recycled from the last RFP response?
- c) Is it consistent with your actual needs?
- d) Is it adaptable to a change in circumstances?



EVALUATING PROPOSED COSTS

What you see in the cost proposal is driven by what you got in the technical proposal – whether you asked for it or not!

“APPLES TO APPLES” OR,
“APPLES TO ORANGES?”



YOUR COST





PICKING THE “APPLE” FROM THE “ORANGES”

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“Are you finished saying no yet?
Because I’m ready to start
discussing yes now.”

Service provider offering the best combination of skills, knowledge, ability and cost!

That will save you time (and money) in the long run!

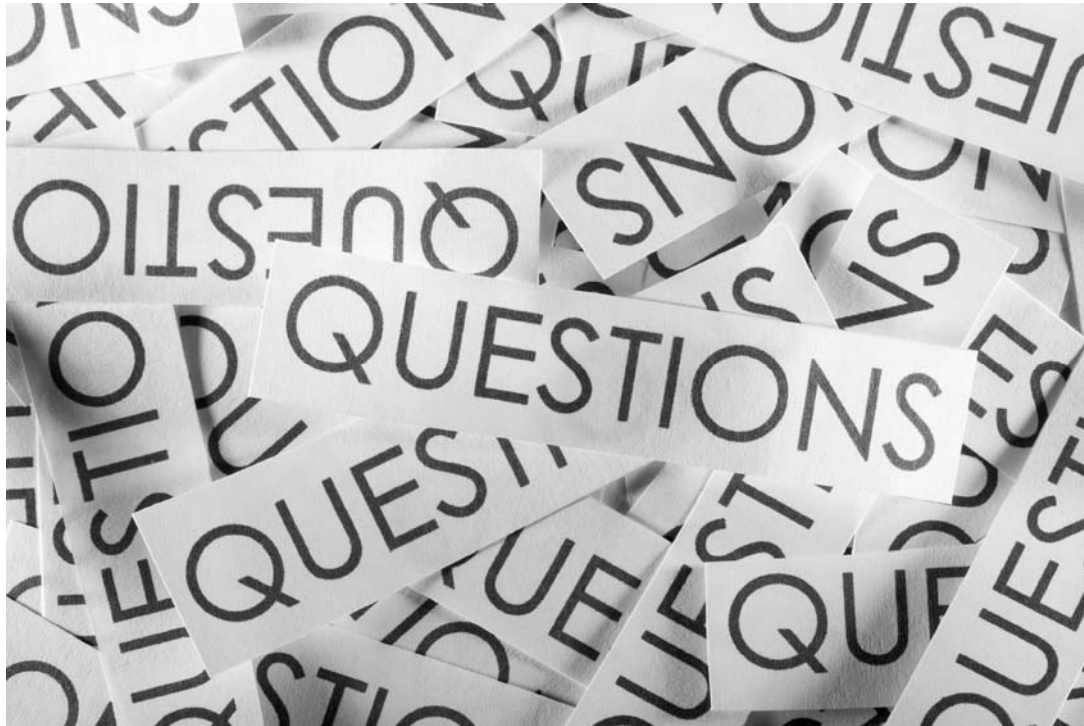
Value is what you get. . .

. . . cost is what you pay.





YOUR TURN!





ADDITIONAL RESOURCES

Should be on every issuer's bookshelf:

California Debt and Investment Advisory Commission. California Debt Issuance Primer Handbook. Bill Lockyer, State Treasurer and Chair, CDIAC #05-06. (This is a smaller, user-friendly version of the California Debt Issuance Primer, listed below in the “nice to have” category.)

California Debt and Investment Advisory Commission. Understanding the Underwriting Spread March 1993 [Issue Brief # 2].

Joseph, James C. Debt Issuance and Management: A Guide for Smaller Governments. Chicago, IL: Government Finance Officers Association, 1994.

Tigue, Patricia. A Guide for Selecting Financial Advisors and Underwriters: Writing RFPs and Evaluating Proposals. Chicago, IL: Government Finance Officers Association, 1997.

Nice to have, but not required:

California Debt and Investment Advisory Commission. California Debt Issuance Primer. Bill Lockyer, State Treasurer and Chair, CDIAC #06-04. (A more comprehensive companion to the similarly named “Handbook” listed above.)





THE SPEAKER

Tim Schaefer is the founder and principal owner of Magis Advisors, an Orange County, California-based consulting firm offering general public finance advice and transaction services for the planning, sale, evaluation and administration of municipal bonds and debt. He has practiced in the financial advisory business in California for more than twenty years and has more than forty years of experience in the municipal securities industry.



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Schaefer offers experience delivering practical, common sense based financing solutions to county, city and special services districts in California. Over the past twenty years, he has been the financial advisor on more than 200 engagements, raising more than \$30 billion.

Notable past clients include the states of California, Minnesota, Montana, New Hampshire, New York, Tennessee and Texas; the cities of Los Angeles, San Diego, and San Jose; and, the counties of Los Angeles, Orange and Riverside, among others.

Prior to entering the financial advisory field in 1989, Schaefer managed the national municipal bond trading desk at Chemical Bank in New York City and also managed the Public Finance Division of Bank of America in San Francisco.

He served more than twenty years on the Technical Assistance Committee to the California Debt and Investment Advisory Commission (including three terms as its chairman) and three years as a private sector advisor to the Standing Committee on Governmental Debt of the Government Finance Officers Association. Recently, he served on a National League of Cities' task force investigating substitute mechanisms for municipal bond credit substitutions as a consequence of the 2008 collapse of the major municipal bond insurers.

He is a co-author of the California Public Funds Investment Primer, published by the California Debt and Investment Advisory Commission in 2006, and has authored a number of articles on the field of municipal finance. Magis is a state-registered investment advisor, an SEC registered municipal advisor and an MSRB registered municipal advisor.





SOME HUMOR FOR THE PROCESS

Bid opening: a form of poker in which the losing hand usually wins.

Bidder: a gambler who doesn't get to shuffle, deal or cut the cards.

Completion date: the point in the project at which liquidated damages begin.

Critical path method: a management process applied to projects that enables you to lose your shirt under perfect control.

Engineer's estimate: the cost of the project in Heaven.

Liquidated damages: a penalty for failing to achieve the impossible.

Low bidder: a bidder who's trying to figure out what was left out of the project bid.

Negotiation: a process where the parties to the project seek a meeting of the minds without a bashing of the heads.

Project Bid: a bidder's wild guess on the cost of the project, carried out to two decimal places.

Project consultant: someone from out of town who shows Power Point slides.

Project manager: the conductor of an orchestra in which every musician is in a different union.

Project: any work assignment that cannot be completed in one phone call.

The "50-50-90" Rule: the law of nature that guarantees that if there is a 50% chance something bad will occur in the project, there's a 90% probability it will happen to you.

