



SESSION FIVE: COST OF ISSUANCE

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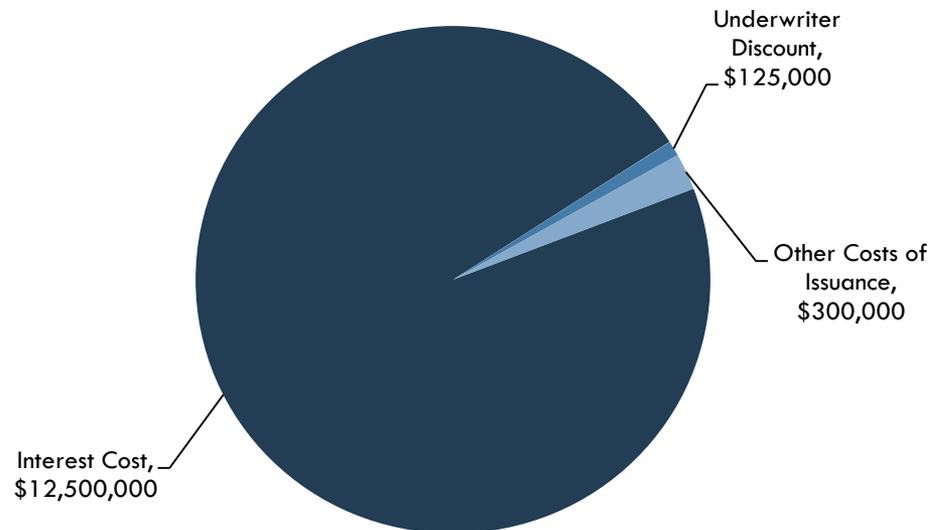
March 17, 2015
Riverside, California

Debt 1: Debt Basics

Expenses For a Bond Issue

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Financing Cost of \$25 MM



Estimated for a \$25 million bond issuance with a 5% borrowing rate for 25 years and \$5 per bond for underwriter cost.

Underwriter's Discount

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- Takedown
 - ▣ Major form of compensation for structuring, underwriting and distributing the bond issue
 - ▣ Usually quoted in “dollars per bond” (i.e., per \$1,000 par amount)
 - ▣ Commonly set at a different amount for each maturity, with longer bonds having higher takedowns

Maturity Date	Amount	Takedown
11/1/2017	\$380,000	\$2.00
11/1/2018	400,000	2.00
11/1/2019	420,000	2.00
11/1/2020	440,000	2.50
11/1/2021	460,000	2.50
11/1/2022	500,000	3.00
11/1/2023	520,000	3.25
11/1/2024	540,000	3.25
11/1/2025	580,000	3.50
11/1/2026	600,000	3.50
11/1/2027	640,000	3.75
11/1/2028	660,000	3.75
11/1/2029	700,000	3.75
11/1/2030	740,000	3.75
11/1/2031	780,000	3.75
11/1/2032	820,000	3.75
11/1/2037	8,260,000	5.00

Takedown and the Cost of Funds

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Underwriter's Fee (\$/bond)	All-In TIC
\$1.00	3.10%
\$2.00	3.11%
\$3.00	3.12%
\$4.00	3.12%
\$5.00	3.13%
\$6.00	3.14%
\$7.00	3.14%
\$8.00	3.15%
\$9.00	3.16%
\$10.00	3.17%



2 basis points

Underwriter's Discount

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- Expenses
 - ▣ Largest is usually for underwriter's counsel
 - ▣ Others are for fees incurred by syndicate
- Management Fee
 - ▣ Additional charge to senior underwriter for structuring
 - ▣ Unfortunately, it has become a rare practice

Estimated Par Amount	\$21,000,000	
	Cost	\$/Bond
Underwriters Counsel	\$25,000	\$1.190
CDIAC Fees	3,000	0.143
CUSIP Fees	525	0.025
Clearing	1,460	0.070
Dalcomp	1,575	0.075
Day Loan	583	0.028
DTC Charges	500	0.024
Internet Roadshow	7,500	0.357
Ipreo Order Monitor	2,500	0.119
Out of Pocket	2,957	0.141
Total Underwriting Expenses	\$45,600	\$2.17

CDIAC Debt Issuance Fee

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Current Fee Structure

- Long-term financings: 15 basis points (0.00015) of principal amount not to exceed \$3,000
- Short-term financings: \$150
(final maturity date is 18 months or less from the issue date)
- Assessed to lead underwriter or purchaser
- Public or private financings are subject to fee

Common Other Costs of Issuance

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- ❑ Bond counsel
- ❑ Disclosure counsel
- ❑ Financial advisor (aka “Municipal Advisor”)
- ❑ Credit rating(s)
- ❑ Trustee
- ❑ “Printing”
- ❑ Contingencies

Other Possible Costs of Issuance

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- Special advisors
 - ▣ Fiscal consultant for redevelopment
 - ▣ Feasibility or engineering consultant for revenue bonds
 - ▣ Verification agent for refundings
- Credit facilities
 - ▣ Bond insurance and reserve sureties
 - ▣ Letters of credit

How Fees are Structured

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- Fixed
- Formula
- Hourly
- Contingent
- Out-of-pocket costs
- All fee structures introduce a potential conflict of interest

Cost of Issuance

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Major Issuance Expenses By Par Value 2012-2014

Par Value Category	Number in Category	Median Par Value		Underwriter Spread	Bond Counsel Fee	Financial Advisor Fee
<\$10:	319	\$4,572,500	Dollar \$	\$35,981	\$29,850	\$49,750
			\$/bond*	\$7.87	\$6.53	\$10.88
\$10 <\$25:	265	\$16,465,000	Dollar \$	\$99,427	\$38,000	\$60,000
			\$/bond*	\$6.04	\$2.31	\$3.64
\$25 <\$75	244	\$40,000,000	Dollar \$	\$203,194	\$47,500	\$63,555
			\$/bond*	\$5.08	\$1.19	\$1.59
\$75 and Over	87	\$116,140,000	Dollar \$	\$452,980	\$73,567	\$70,000
			\$/bond*	\$3.90	\$0.63	\$0.60

* Cost per \$1,000 par

Source: CDIAC, California Local Agency General Obligation Bond Cost of Issuance 2012-2014

Cost of Issuance – When paid?

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- One-time or recurring fee?
 - ▣ Clarify with financing team: fees due at closing and those which recur through final maturity

Typical one-time fee (at closing)	Typical recurring fees
Issuer's Counsel	Trustee/Fiscal Agent (annual)
Bond Counsel	Dissemination Agent (annual)
Disclosure Counsel	Arbitrage Rebate (at least once/5 yrs)
Financial Advisor	
Underwriter	<u>Variable-rate specific:</u>
Printer	Standby liquidity fee
Rating Agencies*	Remarketing agent
Verification Agent (refunding only)	

* Rating fees may be one-time, or up-front plus ongoing "maintenance" fee. Clarify with financial advisor.

Cost of Issuance – Active Management

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- Procurement: Engage financing team early
 - RFP/RFQ for best service providers well in advance of planned financing (12 months or earlier)
 - Where to start? Suggest bond counsel and financial advisor.
 - Ask your financial advisor and counsel for sample scope of work and guidance for other services.
 - Also seek out samples from CSMFO, CMTA, and other industry associations

Cost of Issuance – Active Management

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- COI estimate at beginning of project
 - Financial Advisor to include COI detail in preliminary number run (DBC report, typically last page)
 - Refresh COI details and include in all DBC reports
- TINSTAAFL
 - Staff time and Issuer's counsel may be reimbursed from COI
- Cost of Issuance Account
 - Trustee/Fiscal Agent or Issuer to administer?
 - Evaluate procurement policies
 - May be more efficient, transparent, and practical for Issuer to administer the Cost of Issuance account
 - Authorized Officer