Cost of Issuance

DAVID BRODSLY
MANAGING DIRECTOR
KNN PUBLIC FINANCE

ANGELICA HERNANDEZ
MANAGER
CDIAC

Debt 1: Debt Basics

October 22, 2013
Oakland, California
Expenses For a Bond Issue

Estimated Financing Costs on a $25 million Bond Issuance

- Interest Cost, $12,500,000
- Underwriting Costs, $125,000
- Costs of Issuance, $300,000

Estimated for a typical $25 million bond issuance with a 5% borrowing rate for 25 years and $5 per bond for underwriter cost.
Cost of Issuance

By definition Costs of Issuance are the expenses paid by or on behalf of the issuer in connection with the sale and issuance of bonds.

— California Debt Issuance Primer
Common Costs of Issuance

- Bond counsel
- Bond Insurance
- Credit Rating
- Disclosure counsel
- Feasibility or Fiscal Consultant
- Financial Advisor
- Miscellaneous fees
- Trustee
- Underwriter’s Spread
CDIAC Debt Issuance Fee

**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
Factors in Negotiating Fees

- Complexity of Deal
- Issuer Rating
- Conflicts of Interest
- Underwriter Takedown
- Cheaper is not always best
How Agencies Manage Issuance Costs

- Review fees charged by financing team members.
- Issuers should strive to achieve quality service for a fair price.
- Compare a proposed fee against similar transactions.
- Sources of COI information include CDIAC as well as Official Statements.
## Cost of Issuance

### Major Issuance Expenses By Par Value 2009-2011

<table>
<thead>
<tr>
<th>Par Value Category</th>
<th>Number in Category</th>
<th>Median Par Value</th>
<th>Underwriter Spread</th>
<th>Financial Advisor Fee</th>
<th>Legal Fee</th>
<th>Sum</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Median</td>
<td>A</td>
<td>B</td>
<td>C</td>
<td>(A+B+C)</td>
<td></td>
</tr>
<tr>
<td>&lt;$10:</td>
<td>175</td>
<td>$5,200,000</td>
<td>Dollar $</td>
<td>$50,000</td>
<td>$63,675</td>
<td>$47,500</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>% of Par</td>
<td>1.000%</td>
<td>1.180%</td>
<td>0.917%</td>
</tr>
<tr>
<td>$10 - &lt;$25:</td>
<td>118</td>
<td>$15,070,000</td>
<td>Dollar $</td>
<td>$132,654</td>
<td>$75,750</td>
<td>$59,000</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>% of Par</td>
<td>0.946%</td>
<td>0.471%</td>
<td>0.381%</td>
</tr>
<tr>
<td>$25-$75:</td>
<td>133</td>
<td>$38,389,923</td>
<td>Dollar $</td>
<td>$275,725</td>
<td>$82,450</td>
<td>$79,125</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>% of Par</td>
<td>0.700%</td>
<td>0.206%</td>
<td>0.192%</td>
</tr>
<tr>
<td>$75 and Over</td>
<td>52</td>
<td>$127,500,000</td>
<td>Dollar $</td>
<td>$803,318</td>
<td>$90,221</td>
<td>$139,549</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>% of Par</td>
<td>0.557%</td>
<td>0.078%</td>
<td>0.106%</td>
</tr>
</tbody>
</table>

Source: California Local Agency General Obligation Bond Cost of Issuance 2009-2011
Financing Team Members

Each play a role in the issuance process and in helping lower interest expenses:

- Financial Advisor: Serves as the “quarterback” for the financing and an advocate for public agencies to help reduce interest expense. Only financing team members with a fiduciary duty owing to issuer.

- Bond Counsel: Provides a bond opinion to allow issuers to borrow at tax-exempt rates.

- Disclosure Counsel: Puts together a prospectus with issuer and bond information and provides opinion for investors.

- Underwriter: Identifies investors and markets bonds to set borrowing rates on the bonds.

- Rating Agencies: Provides credit analyses to help investors evaluate risk.

- Credit Enhancers: Bond insurance, LOC banks, and liquidity providers provide an additional level of security in a transaction.

- Others: Paying agent, trustees, title insurer, printers and other financing team members also contribute in the bond issuance process.