

# Doubly Bound

## The Costs of Issuing Municipal Bonds

BY MARC JOFFE

This brief explores constraints of the structures of municipal bonds, identifying multiple services that may be used as a municipality issues bonds and services that may or may not be necessary. It also finds uneven costs associated with municipal bond issuances.

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To maximize the use of our data and in hope that others will supplement it, we have posted it in a Google sheet accessible from: [haasinstitute.berkeley.edu/justpublicfinance](http://haasinstitute.berkeley.edu/justpublicfinance).

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# 1 introduction

**STATE AND LOCAL GOVERNMENTS** incur a variety of costs when they borrow money by selling bonds. Among these costs, the most well-known is the amount in interest that must be repaid along with the principal.<sup>1</sup> However, interest is not the only cost incurred by state and local governments seeking to borrow in the municipal bond market.

There are a variety of expenses associated with a bond issuance when a government sells bonds. The amount of funds borrowed is not equal to that received by the government due to the costs of issuance. Those costs are deducted from the bond proceeds before the bond proceeds reach the state or local level.

Based upon a study of the cost of issuance for 812 bond issuances since 2012, we found that costs of issuing bonds average 1.02 percent of the bond's principal amount, but this percentage varied widely. There are examples of significant variance from this average. For example, a bond issuance for \$2.1 million dollars for Dehesa School District incurred \$200,138 in fees, over 9 percent of the principal amount. Had this issuance followed the 1.02 percent average, its issuance fees would have been nearer \$21,000. In our findings, six California school districts incurred costs in excess of 8.5 percent.

Among the many services that may be obtained by an issuer of bonds, the four services with the largest contributions to total issuance costs were from underwriting, legal consult, financial advising, and rating agency services.

This study provides:

- a description of the types of issuance costs local governments incur;
- an estimate of the size of issuance costs;
- implications for further inquiry related to this study; and,
- ideals for reducing issuance costs.

This report begins with a review of other data collected as measures of issuance costs. Our interest in the topic is not unique; however the data we have made available for the report represents a novel approach to collecting issuance cost data. Secondly, we discuss overall patterns and differences among the diversity of issuers included in the study. We then discuss prominent examples of outliers, where issuance fees were particularly high. This includes the high issuance costs of a California public school district to which we compare the issuance costs of a comparable issuance. Finally, we close with a synopsis of further areas of inquiry and a brief list of implications for policy and practice arising from the study.