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States, Cities Pay $4 Billion in Bond Fees Yearly, Study Finds.

U.S. state and local governments pay about $4 billion a year to underwriters, advisers, rating companies and other firms when they sell bonds, according to a study examining all of the fees for borrowers in the municipal debt market.

The governments used an average of about 1 percent of their bond proceeds to cover the expenses, according to the study by Marc Joffe for the Haas Institute for a Fair and Inclusive Society, a policy center at the University of California at Berkeley. The amounts varied widely, from 0.13 percent for short-term note issue in Utah to 10.6 percent for a California school district.

While underwriters' payouts are closely tracked, far less attention has been paid to the fees charged by other firms, said Joffe, a credit-market researcher. He said greater scrutiny could empower officials to push for lower costs when they raise money in the $3.6 trillion market.

"Making the cost more transparent will allow issuers to shop around and hopefully find a better price," said Joffe, principal consultant with Public Sector Credit Solutions in Walnut Creek, California. "If governments borrow, they should try to get the most for their money."

The report, based on a review of 812 offerings nationwide between 2012 and 2015, is one of the broadest looks at the fees governments pay when they borrow. It includes even small expenses, such as the cost of publishing official statements on the Internet.

Underwriting accounted for an average of 46 percent of the cost, the largest single expense, according to the study. Then came bond attorneys, with 15 percent, and financial advisers, who got 14 percent. Fees for municipal-bond ratings totaled almost 8 percent.

Liz Pierce of the Securities Industry and Financial Markets Association, representing bond dealers, declined to comment.

By Darrell Preston, Bloomberg News

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