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Doubly Bound: The Cost of Issuing Municipal Bonds.

A new study looks at the one-time fees that governments pay the finance firms that help them sell their bonds in the municipal market. These fees are in adddition to the published interest rate the government pays the investors who actually buy the bonds. The study, commissioned by the University of California at Berkeley and the ReFund America Project, found that the average government issuer pays finance firms a 1.02 percent cut from their bond sale. But this percentage varies widely and tends to be larger for smaller issuers.

For example, a $2.1 million bond issued by the Dehesa School District in Southern California incurred $200,138 in fees — more than 9 percent of the principal amount. That means the school district is paying interest on more than $2 million in debt but in actuality received only $1.9 million after the bond sale. “Had this issuance followed the 1.02 percent average, its issuance fees would have been nearer $21,000,” wrote the report’s author, Marc Joffe, who is also a Governing contributor. “In our findings, six California school districts incurred costs in excess of 8.5 percent.”

The report, however, offers solutions for lowering or equalizing costs. For one, better transparency could provide a template for standardized reporting. This report was done using public records requests, but the increasing popularity of government websites that detail their finances is also a potential venue for reporting such fees. Another idea relates to the millions of dollars government issuers pay annually to get so-called CUSIP numbers, which are like social security numbers given to each bond issuance. The CUSIPs protect each issuance and its data as unique, but Joffe noted that the benefits “do not appear to merit the costs,” suggesting that the charge from the privately operated CUSIP Service Bureau could reasonably be much lower.

Read the Study.

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