



Exploring the Costs of a Municipal Bond Underwriting

School of Government Finance | October 18, 2023 | 8:00 AM

ESTRADA • HINOJOSA
INVESTMENT BANKERS

Outline

Overview of topics
to be discussed

Presenting Team / About Us	3
Financing with Municipal Bonds	5
Underwriting Syndicate	9
Gross Spread / UW Discount	19
Cost of Issuance	28
Bond Distribution	44

Presenters

Support

Lourdes Abadin



**Senior Managing Director
Miami, FL**

- 30+ years experience
- Established FL Office in 2003
- Leads the Firm's Florida efforts providing full service municipal advisory and underwriting services to governmental entities
- Community Advocate & Volunteer

Steven Eaddy



**Senior Managing Director
New York, NY**

- 35+ years experience
- Opened NY Office in 2010
- Leads the Firm's Northeast efforts & involved with Southeast clientele
- Rating agency, insurer, and legal municipal finance expertise

Devin Phillips



**Senior Managing Director
Dallas, TX**

- 30+ years experience
- Head of Capital Markets and Underwriting
- Leads all Florida underwriting transactions
- Priced and placed over \$40 billion in par of senior managed transactions

Cristina Zeinali



**Vice President
Tampa, FL**

- 10+ years experience
- Supports Florida Office with new business development, quantitative analysis, research and transactional support

Daniella Ginebra



**Analyst
Miami, FL**

- Supports Florida Office with quantitative analysis, research and transactional support

Estrada Hinojosa

- Established in 1992 (31+ years)
- Headquartered in Dallas, TX
- 8 offices nationwide - 54 employees
- Serving Florida issuers since 1993 (30 years)
- Established Florida Office in 2003 (20 years)
- Well-capitalized Firm
- 100% dedicated to Municipal Finance
- Underwriting, Sales, and Trading Desk
- Services:
 - Municipal Bond Underwriters
 - Municipal Advisors
 - Competitive Bond Underwriting
 - Secondary Market Trading



About Us

Firm Overview



Financing with Municipal Bonds

Let's explore bond offering process, methods of sale,
and key players

The Bond Offering Process



Once a state or local government decides to finance a capital project by issuing bonds, it would hire a financing team to:

- Develop the financing plan
- Prepare offering documents
- Assist with credit and investor presentations
- Market the bond offering
- Price and sell the bonds
- Close the transaction

Source: MSRB

Methods of Bond Sales

PUBLIC OFFERING

COMPETITIVE BOND SALE

- Issuer works with Financial Advisor, Bond Counsel and other Team members to structure bond issue and offering documents
- Issuer publishes “Notice of Sale” that includes financing structure and avails offering documents
- Closed bidding method
- Lowest/Winning bidding Underwriting Syndicate purchases bonds at offering price
- Winning syndicate/firm then sells bonds to the ultimate investors

NEGOTIATED BOND SALE

- Issuer selects underwriting syndicate to sell bonds
- Financial advisor coordinates and oversees transaction as fiduciary to issuer
- Underwriters have opportunity to market and pre-sell bonds in advance of award
- Timing, structure, and marketing of the bonds are more flexible than in a competitive sale and can be adjusted to meet investor demand

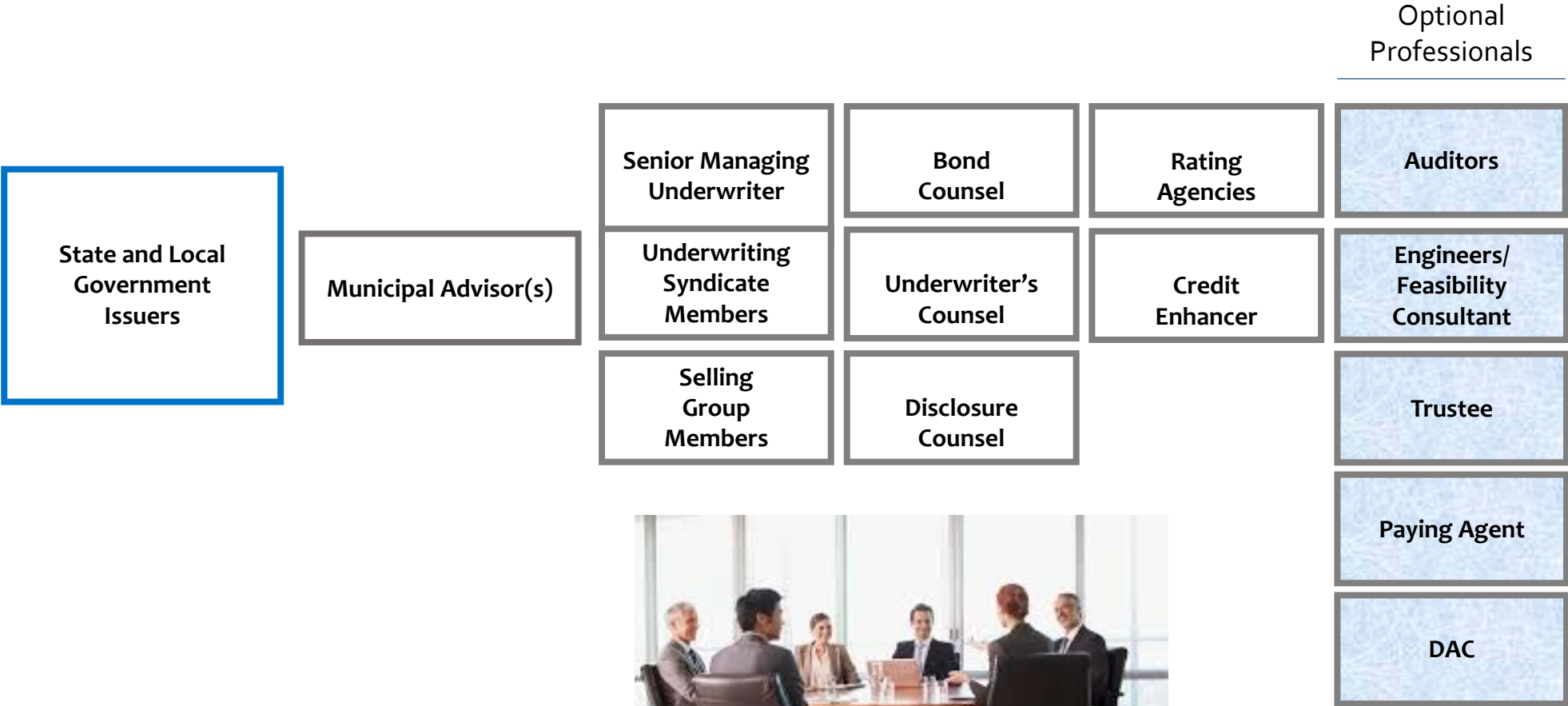
PRIVATE PLACEMENT

NEGOTIATED SALE

- Bonds are placed with private investor such as a commercial bank or “educated investor”
- Lower COI than Negotiated or Competitive since neither an OS nor Underwriting Syndicate are necessary. The investor performs own credit analysis, so also no rating agency
- Final maturities usually shorter than public offering structures that result in higher annual D/S

Key Players

Negotiated Public Bond Offering



Source: MSRB



Underwriting Syndicate

Syndicate Roles, Gross Spread, and Cost of Issuance

The Underwriting Syndicate

Negotiated Public Bond Offering

Senior Manager

- Leads the syndicate
- “Runs the order book”
- Executes the priority of orders established by the issuer
- Accepts orders
- Allocates the bonds
- Transmits applicable commissions and expenses to the syndicate
- Shares in the profits and liabilities for the bonds

Co-Managers

- Market the bonds
- Submit orders to the senior manager
- Share in the profits and liabilities of the syndicate

Selling Group Members

- Dealers that assist in selling and marketing the bonds
- Typically have a contractual relationship with senior manager
- Do not share in any liabilities for the unsold bonds

Source: MSRB

The Role of the Underwriting Syndicate

Due Diligence and Documentation	12
Investor Relations, Sales, and Marketing	13
Pricing, Allocation and Unsold Bonds	14
Underwriting Unsold Bonds / UW Liability	15
Secondary Market and Competitive Bond UW	16

Due Diligence and Documentation



Due diligence is the responsibility of all members, including the UW Syndicate

Review legal and financial documentation to ensure accuracy and compliance.

Assist with structure, rating, and/or credit enhancement process

Preparation of the preliminary and final official statement or offering documents

Investor Relations, Sales, and Marketing



Communicate with potential investors, answering their questions, and providing information about the bond offering

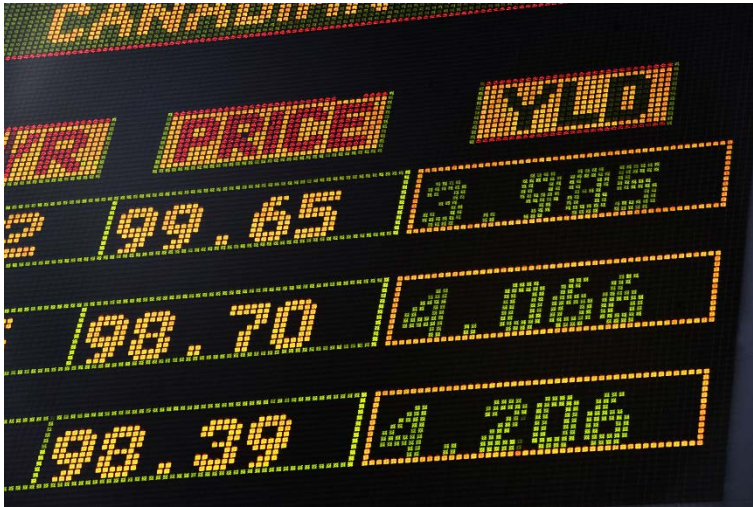
Help build investor confidence and promote the bonds to a wider range of investors

Syndicate responsible for marketing and distribution efforts - selling the bonds to investors

Identify potential investors, promote the bonds, and generate interest

Specific credit familiarity may enhance the distribution of bonds

Pricing, Allocation, Unsold Bonds



Senior Manager and Co-Managers collaborate to determine pricing and allocation

Provide input on market conditions, investor demand, and pricing strategies

Expertise and knowledge of their respective market segments can help inform these decisions

Underwrite unsold bonds

Underwriting Unsold Bonds/ UW Liability



Liability is the risk assumed by the underwriters to purchase unsold bonds from the issuer

Does not equate to the % of underwriters' compensation, unless the issue is sold Group Net

Underwriting Unsold Bonds/ UW Liability



Each member is liable for any unsold portion according to their respective percentage participation

Expressed as a percentage of the number of bonds

Legal liability of the senior manager and syndicate

Issuer and Financial Advisor determine liability

Underwriting Unsold Bonds/ UW Liability

Example: Par Amount: \$100,000,000

Assumed Liability

- Demonstrates full liability

Underwriters	Participation	Liability
Senior Manager	50%	\$50,000,000
Co-Sr. Manager	30%	\$30,000,000
Co-Manager	20%	\$20,000,000
	100%	\$100,000,000

Probable Liability

- 5% of bond issue does not sell = **\$5,000,000**
- Bonds will be underwritten according to assigned Liability

Underwriters	Participation	Liability
Senior Manager	50%	\$2,500,000
Co-Sr. Manager	30%	\$1,500,000
Co-Manager	20%	\$1,000,000
	100%	\$5,000,000

Secondary Market & Competitive Bond Underwriting



After bonds are issued, members may continue to provide support in the secondary market

Assists with trading activities, liquidity support, and market-making

Competitively bid on municipal bond offerings



Gross Spread/UW Discount

Components and Calculation

Gross Spread/UW Discount

Underwriter's Compensation

- Costs paid indirectly by the issuer to the underwriter
- **Gross Spread** is the difference between the underwriting price received by the issuer and the actual price offered to the investing public
- The gross spread consists of:
 - **Average Takedown**
 - **Management fees**
 - **Underwriter's Counsel**
 - **Expenses**
 - **Risk**



Source: GFOA

Gross Spread/UW Discount

SOURCES AND USES OF FUNDS		

	Final Numbers	
Dated Date	10/21/2022	
Delivery Date	10/21/2022	
Sources:		
<hr/>		
Bond Proceeds:		
Par Amount	7,000,000.00	
Net Premium	294,328.00	
<hr/>		
		7,294,328.00
<hr/>		
Uses:		
<hr/>		
Project Fund Deposits:		
Project Fund	7,108,505.67	
Delivery Date Expenses:		
Cost of Issuance	130,000.00	
Underwriter's Discount	55,822.33	
<hr/>		
		185,822.33
<hr/>		
		7,294,328.00
<hr/>		

Calculation of Gross Spread/UW Discount



Gross Spread/Underwriter's Discount



Gross Spread = \$7.97462 /\$1000 bonds
Underwriters Discount = .797462%



Par Amount \$7,000,000

Gross Spread \$7.97462/\$1,000 bonds

$(\$7,000,000/1000*7.97462)/1000 = \$55,822.34$

Gross Spread/ UW Discount

UNDERWRITER'S DISCOUNT		

Final Numbers		
Underwriter's Discount	\$/1000	Amount
Average Takedown	5.00000	35,000.00
Management Fee	1.00000	7,000.00
Underwriter's Counsel	1.42857	10,000.00
DTC	0.11429	800.00
CUSIP	0.05171	362.00
Ipreo	0.09433	660.33
Miscellaneous	0.28571	2,000.00
	7.97462	55,822.33

Gross Spread/UW Discount

UW Compensation

■ Takedown

- The takedown is the commission component for the sales force
- An adequate takedown will incentivize aggressive marketing of the bonds that may generate higher demand and ultimately a lower interest cost
- *A fair balance must be struck between a market rate takedown and the bond yields*

■ Management Fee:

- Paid to the lead manager for managing the syndicate and/or structuring. (“structuring fee”)

UNDERWRITER'S DISCOUNT		

Final Numbers		
Underwriter's Discount	\$/1000	Amount
Average Takedown	5.00000	35,000.00
Management Fee	1.00000	7,000.00
Underwriter's Counsel	1.42857	10,000.00
DTC	0.11429	800.00
CUSIP	0.05171	362.00
Ipreo	0.09433	660.33
Miscellaneous	0.28571	2,000.00
	7.97462	55,822.33

Bond Pricing

Bond Component	Maturity Date	Par Amount	Rate	Takedown \$/Bond	Takedown Amount
Bond Component:					
	09/15/2024	3,270,000	5.000%	1.2500	4,087.50
	09/15/2025	5,110,000	5.000%	2.5000	12,775.00
	09/15/2027	5,365,000	5.000%	2.5000	13,412.50
	09/15/2028	5,635,000	5.000%	2.5000	14,087.50
	09/15/2029	5,915,000	5.000%	2.5000	14,787.50
	09/15/2030	6,210,000	5.000%	2.5000	15,525.00
	09/15/2031	6,520,000	5.000%	2.5000	16,300.00
	09/15/2032	6,845,000	5.000%	2.5000	17,112.50
	09/15/2033	7,190,000	5.000%	3.5000	25,165.00
	09/15/2034	7,550,000	5.000%	3.5000	26,425.00
	09/15/2035	7,925,000	5.000%	3.5000	27,737.50
	09/15/2036	8,325,000	5.000%	3.5000	29,137.50
	09/15/2037	8,740,000	5.000%	3.5000	30,590.00
	09/15/2038	9,175,000	5.000%	3.5000	32,112.50
	09/15/2039	9,635,000	5.000%	3.5000	33,722.50
	09/15/2040	10,115,000	5.000%	3.5000	35,402.50
	09/15/2041	10,620,000	4.000%	3.5000	37,170.00
	09/15/2042	11,045,000	4.000%	3.5000	38,657.50
	09/15/2043	11,490,000	4.000%	3.5000	40,215.00
		146,680,000		3.1662	464,422.50
Term Bond 2048:					
	09/15/2044	11,950,000	4.000%	3.5000	41,825.00
	09/15/2045	12,425,000	4.000%	3.5000	43,487.50
	09/15/2046	12,925,000	4.000%	3.5000	45,237.50
	09/15/2047	13,440,000	4.000%	3.5000	47,040.00
	09/15/2048	13,980,000	4.000%	3.5000	48,930.00
		64,720,000		3.5000	226,520.00
		211,400,000		3.2684	690,942.50

Gross Spread/UW Discount

■ Underwriter's Counsel:

- Represents the underwriter in the offering of bonds
- Per bond fee, fixed fee, not-to-exceed, hourly rate, or other appropriate fee arrangement
- Sometimes paid from COI, especially if UW Counsel also serve as Disclosure Counsel

UNDERWRITER'S DISCOUNT		

	Final Numbers	
Underwriter's Discount	\$/1000	Amount
Average Takedown	5.00000	35,000.00
Management Fee	1.00000	7,000.00
Underwriter's Counsel	1.42857	10,000.00
DTC	0.11429	800.00
CUSIP	0.05171	362.00
Ipreo	0.09433	660.33
Miscellaneous	0.28571	2,000.00
	7.97462	55,822.33

Source: MSRB and GFOA

Gross Spread/UW Discount

Other Fees

- **DTC, CUSIP, Ipreo, Misc.:**
 - **DTC:** “Depository Trust Company” - settlement and clearance services
 - **CUSIP:** Unique numbers to identify securities
 - **Ipreo:** System that manages new-issue workflow, electronic order entry, and trading system/feeds

UNDERWRITER'S DISCOUNT		
	----- Final Numbers	
Underwriter's Discount	\$/1000	Amount
Average Takedown	5.00000	35,000.00
Management Fee	1.00000	7,000.00
Underwriter's Counsel	1.42857	10,000.00
DTC	0.11429	800.00
CUSIP	0.05171	362.00
Ipreo	0.09433	660.33
Miscellaneous	0.28571	2,000.00
	7.97462	55,822.33

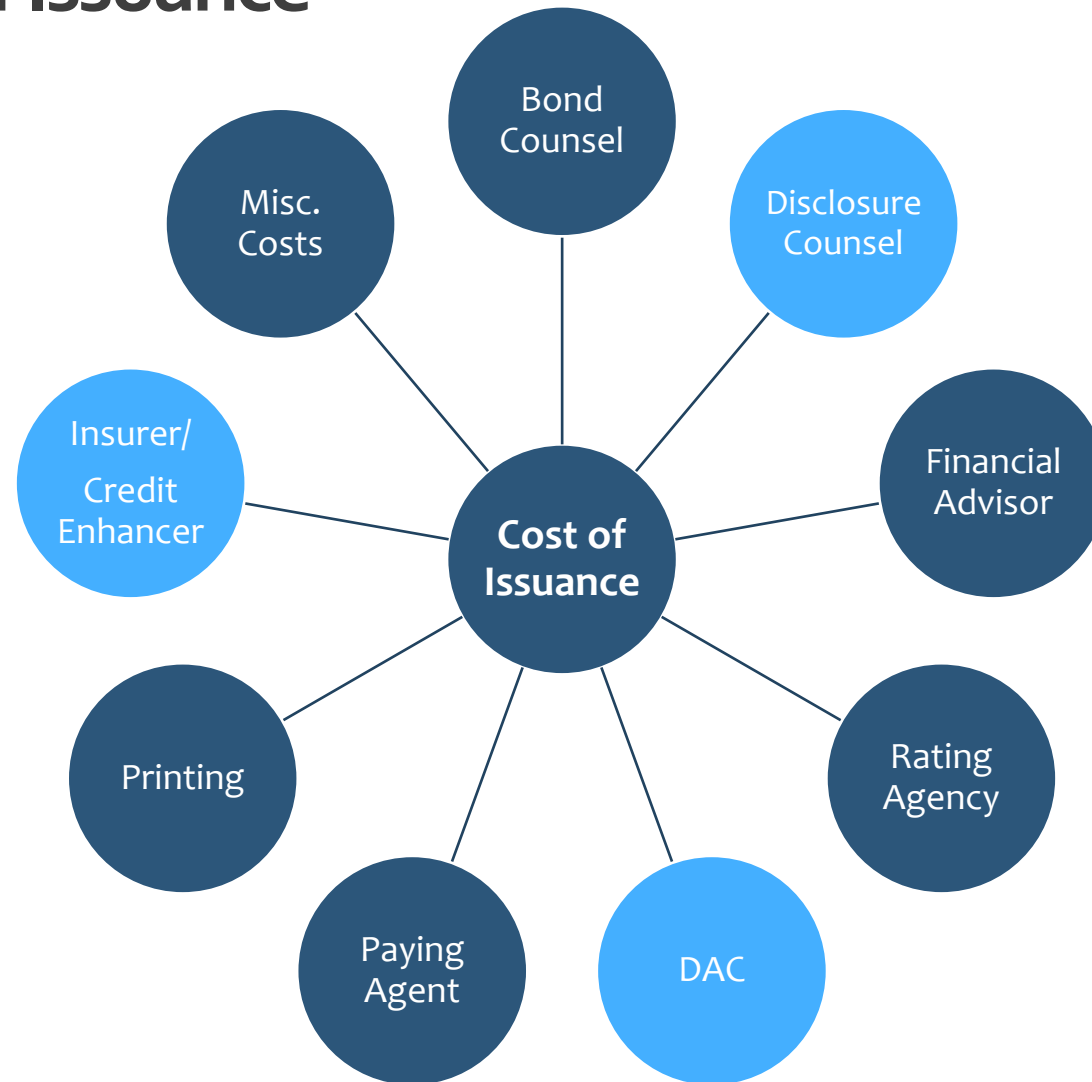
Source: MSRB and GFOA



Costs of Issuance

Financing Team Members, Roles, Compensation Method

Overview of Cost of Issuance



Cost of Issuance

SOURCES AND USES OF FUNDS

FINAL NUMBERS
Pricing Date: July 12, 2023

Dated Date 07/27/2023
Delivery Date 07/27/2023

Sources:	General Obligation Bonds, Series 2023A	General Obligation Bonds, Taxable Series 2023B	Total
Bond Proceeds:			
Par Amount	43,120,000.00	54,035,000.00	97,155,000.00
Premium	4,544,299.00		4,544,299.00
	<u>47,664,299.00</u>	<u>54,035,000.00</u>	<u>101,699,299.00</u>
Other Sources of Funds:			
City Contribution	406,065.10	491,347.66	897,412.76
	<u>48,070,364.10</u>	<u>54,526,347.66</u>	<u>102,596,711.76</u>
Uses:			
Project Fund Deposits:			
Project Fund	47,665,000.00	54,035,000.00	101,700,000.00
Delivery Date Expenses:			
Cost of Issuance	249,615.06	296,404.63	546,019.69
Underwriter's Discount	155,749.04	194,943.03	350,692.07
	<u>405,364.10</u>	<u>491,347.66</u>	<u>896,711.76</u>
	<u>48,070,364.10</u>	<u>54,526,347.66</u>	<u>102,596,711.76</u>

Cost of Issuance

COST OF ISSUANCE			
----- FINAL NUMBERS			
	General Obligation Bonds, Series 2023A	General Obligation Bonds, Taxable Series 2023B	Total
Bond Counsel Fee	53,915.00	59,276.25	113,191.25
Bond Counsel Expenses	1,109.57	1,390.43	2,500.00
Projects & Grant Agreements	27,739.18	34,760.82	62,500.00
Disclosure Counsel Fee	40,436.25	44,457.19	84,893.44
Disclosure Counsel Expenses	887.65	1,112.35	2,000.00
Financial Advisor Fee	53,900.00	66,535.00	120,435.00
Financial Advisor Expenses	2,219.13	2,780.87	5,000.00
Rating Agency Fees	29,070.66	36,429.34	65,500.00
Paying Agent/Registrar Fee	27,295.35	34,204.65	61,500.00
Dissemination Agent	3,500.00	3,500.00	7,000.00
Legal Advertising	1,109.57	1,390.43	2,500.00
Printing	2,662.96	3,337.04	6,000.00
Transcripts	2,219.13	2,780.87	5,000.00
Miscellaneous	1,331.48	1,668.52	3,000.00
	2,219.13	2,780.87	5,000.00
	249,615.06	296,404.63	546,019.69

Cost of Issuance

Major Components

- The adjacent table provides a sample breakdown of the major components of Cost of Issuance
- The percentage is calculated based on the total Cost of Issuance
- Major components of COI are usually negotiable

Cost of Issuance Breakdown*	
Bond Counsel	30%
Financial Advisor	25%
Disclosure Counsel	15%
Rating Agency	15%

*Percentage of costs based on estimates

Legal Counsel – Bond and Disclosure Counsel

- Generally paid on an hourly, fixed fee basis, or per bond fee basis.
- Fees are negotiated and can vary based on factors such as the size of the issue and complexity of the bond documents.



Financial Advisor

- Only member with a fiduciary responsibility to the issuer.
- Typically paid based on a fixed fee or per bond fee basis.
- Fee arrangement is determined through an agreement between issuer and financial advisory firm.
- Fees are negotiated and can vary based on factors such as the size and complexity of the bond issue.



Printing

- Companies like ImageMaster, BondLink and FPR Printing print and/or create the electronic version of the preliminary and final official statements for distribution to the marketplace.

NEW ISSUE – BOOK-ENTRY ONLY

In the opinion of Bond Counsel to the County to be delivered upon the issuance of the Series 2022 Bonds, under existing law and assuming continuing compliance by the County with certain requirements of the Internal Revenue Code of 1986, as amended (the "Code"), that must be met subsequent to the issuance of the Series 2022 Bonds, with which the County has certified, represented and covenanted its compliance, (i) interest on the Series 2022A and the Series 2022B Bonds is excludable from gross income for federal income tax purposes, except for interest on any Series 2022A Bonds for any period during which such Series 2022A Bonds are held by a person who is a "substantial user" of the facilities financed or a "related person," as those terms are used in Section 147(a) of the Code; (ii) interest on the Series 2022A Bonds is an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals; (iii) interest on the Series 2022B Bonds is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals; (iv) in the case of the alternative minimum tax imposed by Section 55(b)(2) of the Code on applicable corporations (as defined in Section 50(k) of the Code), interest on the Series 2022 Bonds is not excluded from the determination of adjusted financial statement income and (v) the Series 2022 Bonds and the income thereon will not be subject to taxation under the laws of the State of Florida, except as to estate taxes and taxes under Chapter 220, Florida Statutes, on interest, income or profits on debt obligations owned by corporations as defined in said Chapter 220. See "TAX MATTERS" for a description of certain other tax consequences to the Series 2022 Bonds.


\$522,000,000

MIAMI-DADE COUNTY, FLORIDA

SEAPORT REVENUE REFUNDING BONDS,

SERIES 2022A

(AMT)



\$12,810,000

MIAMI-DADE COUNTY, FLORIDA

SEAPORT REVENUE REFUNDING BONDS,

SERIES 2022B

(NON-AMT)

Dated: Date of Delivery

Due: October 1, as shown on the inside cover

Miami-Dade County, Florida (the "County"), is issuing the above-captioned series of bonds (collectively, the "Series 2022 Bonds") to provide moneys which, together with other legally available funds, will be used to (1) refund the County's outstanding Capital Asset Acquisition Special Obligation Bonds, Series 2020B (Taxable) issued in the original aggregate principal amount of \$338,395,000 and the outstanding Seaport Commercial Paper Notes Series B-1 (AMT) and Series B-2 (Taxable) issued in the aggregate principal amount of up to \$200,000,000 outstanding at one time, both previously issued for the benefit of the Miami-Dade County Seaport Department (the "Seaport Department"); (2) fund a deposit to the Revenue Bonds Subaccount in the Senior Reserve Account, and (3) pay costs of issuance of the Series 2022 Bonds. The Series 2022 Bonds are special and limited obligations of the County as described below. The Series 2022 Bonds (1) will bear interest at the rates and mature on the dates and are initially offered at the yields and prices set forth on the inside cover page of this Official Statement and (2) are subject to redemption prior to maturity as described in this Official Statement.

The Series 2022 Bonds will be issued as fully registered bonds in the name of Cede & Co., as registered owner and nominee of The Depository Trust Company, New York, New York ("DTC"), which will act as securities depository for the Series 2022 Bonds. Purchases of Series 2022 Bonds may be made through a book-entry only system maintained by DTC in denominations of \$5,000 or any integral multiple of \$5,000. Since purchases of beneficial interests in the Series 2022 Bonds will be made in book-entry only form, beneficial owners will not receive physical delivery of bond certificates. See "APPENDIX F – THE DTC BOOK-ENTRY ONLY SYSTEM." Interest on any Series 2022 Bonds will be payable semiannually on October 1 and April 1 of each year, commencing April 1, 2023. Principal of each series of the Series 2022 Bonds will be payable at the designated office of U.S. Bank Trust Company, National Association, as Paying Agent and Bond Registrar for the Series 2022 Bonds. As long as DTC or its nominee is the registered owner of the Series 2022 Bonds, payments of principal of and interest on each series of the Series 2022 Bonds will be made directly to DTC or its nominee.

The Series 2022 Bonds constitute Senior Bonds and Revenue Bonds under the Master Ordinance (as defined herein) and are payable solely from and secured equally by a pledge of and lien on the Net Revenues (as defined herein) of the Seaport Department. The Series 2022 Bonds are additionally secured by the Revenue Bonds Subaccount of the Senior Reserve Account.

THE PRINCIPAL OF AND INTEREST ON THE SERIES 2022 BONDS SHALL BE PAYABLE SOLELY FROM THE NET REVENUES PLEDGED TO THE PAYMENT THEREOF IN THE MANNER AND TO THE EXTENT SET FORTH IN THE BOND ORDINANCE (AS DEFINED HEREIN), AS MORE SPECIFICALLY PROVIDED IN THE BOND ORDINANCE, AND NOTHING IN THE SERIES 2022 BONDS OR THE BOND ORDINANCE SHALL BE CONSTRUED AS OBLIGATING THE COUNTY TO PAY THE PRINCIPAL OF AND INTEREST ON THE SERIES 2022 BONDS EXCEPT FROM SUCH NET REVENUES, OR AS PLEDGING THE FULL FAITH AND CREDIT OF THE COUNTY OR AS OBLIGATING THE COUNTY, DIRECTLY OR INDIRECTLY OR CONTINGENTLY, TO LEVY OR TO PLEDGE ANY FORM OF TAXATION WHATEVER THEREFOR.

THIS COVER PAGE CONTAINS CERTAIN INFORMATION FOR QUICK REFERENCE ONLY. IT IS NOT A SUMMARY OF THE SERIES 2022 BONDS OR THEIR TERMS. INVESTORS MUST READ THE ENTIRE OFFICIAL STATEMENT FOR INFORMATION ESSENTIAL TO THE MAKING OF AN INFORMED INVESTMENT DECISION.

The Series 2022 Bonds are offered when, as and if issued by the County and accepted by the Underwriters, subject to the opinions on certain legal matters relating to their issuance of Greenberg Traurig, P.A., Miami, Florida, and Edwards & Fanning, P.A., Miami, Florida, Bond Counsel for the County. Certain legal matters relating to disclosure will be passed upon for the County by Henton Andrews Kurth LLP, Miami, Florida, and DiFulco & Fernandez LLP, Miami, Florida, Disclosure Counsel. Certain legal matters will be passed upon for the County by the Office of the Miami-Dade County Attorney. Certain legal matters will be passed upon for the Underwriters by Bryant Miller Olive P.A., Miami, Florida, Underwriters' Counsel. Hilltop Securities Inc., Orlando, Florida, has served as Financial Advisor to the County in connection with the issuance of the Series 2022 Bonds. It is expected that the Series 2022 Bonds will be available for delivery through DTC in New York, New York, on or about February 2, 2023.

Baird

Barclays Capital Inc.

Ramirez & Co., Inc.

Drexel Hamilton LLC

Estrada Hinojosa & Company, Inc.

J.P. Morgan

RBC Capital Markets

Dated: January 19, 2023

Source: MSRB and EMMA

Rating Agencies

- Assess creditworthiness of the bonds to assign ratings that provide risk guidance to investors
- Fees vary depending on:
 - Complexity
 - Par amount
 - Source of payment of the bonds

S&P Global
Ratings

MOODY's

FitchRatings

KBRA

**KROLL BOND
RATING AGENCY**

Rating Agency Fees

- The adjacent is an example of a rating agency fee schedule for local governments

General Obligation / Leases / Special Tax

Rating Fees	Fee Range			
Par Amount	General Obligation	Lease / Special Tax	Short- Term Debt	BANs
Under \$10mm	\$12,500-\$18,500	\$12,500-\$18,500	\$6,000-\$9,500	\$4,500
\$10 mm-<\$25 mm	\$21,000 - \$25,000	\$23,250-\$28,000	\$12,000-\$12,750	\$5,500
\$25 mm-<\$50 mm	\$28,500-\$33,300	\$32,500-\$37,000	\$15,750-\$17,850	\$7,000
\$50 mm-<\$100 mm	\$37,500-\$61,500	\$42,000-\$62,000	\$19,250-\$25,500	\$8,500-\$9,750
\$100 mm-<\$200 mm	\$72,000-\$108,750	\$74,000-\$108,750	\$30,000-\$39,400	\$12,000
\$200 mn-<\$500 mm	\$120,750-\$134,500	\$125,500-\$152,000	\$44,700-\$56,500	\$12,000
\$500 mm-<\$999 mm (1)	\$140,000-\$148,000	\$163,000-\$172,500	\$67,000	\$12,000

Paying Agent, Trustee, Registrar

- Oftentimes these terms are used interchangeably, however, there are key differences:

- **Paying Agent**

- Responsible for distributing interest payments and principal repayments to bondholders

- **Trustee**

- Fiduciary entity representing the interests of bondholders, ensuring adherence to the bond agreement

- **Registrar**

- Responsible for maintaining the official records of bond ownership and may also facilitate transfer of bond ownership

DAC (“Digital Assurance Certification”)

- Disclosure Dissemination Agent
- Provides post-issuance securities and tax compliance services
- Depending on the scope of services, DAC will charge a one-time set-up fee for each new issue and an annual filing fee

DAC Bond[®]

Optional Additional Professionals

Additional professionals that may be included in the Cost of Issuance depending on the financing

- **Feasibility Consultant**
 - Prepares a report or study detailing the economic practicality of and the need for a proposed program, service or project
- **Auditor**
 - Audits or investigates an entity's financial position
- **Trustee**
 - Fiduciary entity representing the interests of bondholders
- **DAC**
 - Disclosure Dissemination Agent

Interest Costs

Issuer should also consider the relationship between coupons and yields in their financing

- **Coupons**

- Coupon: periodic rate of interest
- Municipal bonds pay interest to bondholders, typically in the form of semi-annual payments
- The interest rate and the price of the bonds have an inverse relationship
- Issuer is responsible for paying the interest costs over the life of the bonds

- **Yields**

- Yield: annual rate of return on an investment, based on the purchase price, coupon rate and the length of time the investment is held

Interest Costs

- The adjacent example demonstrates the relationship between price, coupon, and yield

Example:

- \$1,000 bond with 6% coupon rate sells at **par** (amount equal to \$1,000 price) then the current yield is also 6%
 - $(6\% \times \$1,000) / \$1,000 = 6\%$
- \$1,000 bond with a 6% coupon sells at a **discount** for \$800, the yield on these bonds is 7.5%
 - $(6\% \times \$1,000) / \$800 = 7.5\%$
- \$1,000 bond with a 6% coupon sells at a **premium** for \$1,100, the yield on these bonds is 5.45%
 - $(6\% \times \$1,000) / \$1,100 = 5.45\%$

Break!





Bond Distribution

Priority of Orders and Designation Policies

Priority of Orders

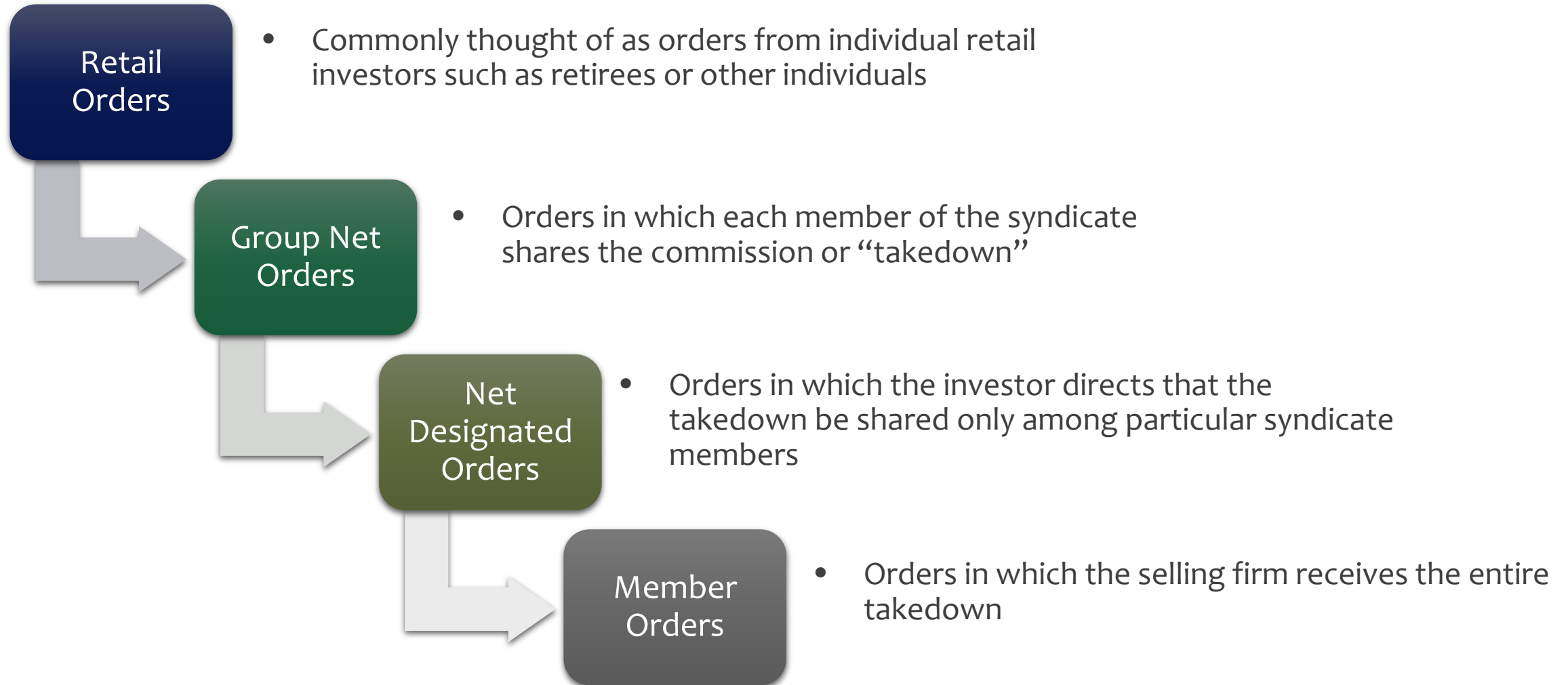
Provides transparency to the issuer, senior manager and syndicate so that each knows how orders for the bonds will be filled.



Source: MSRB

Priority of Orders

Typical Priority of Orders



Source: MSRB

Priority of Orders

Florida Example

1. Florida Individual Retail



2. National Individual Retail

3. Group Net

4. Member

Designation Policy

Priority of orders is closely tied to how underwriters will be compensated.

Set of rules for how “takedowns,” or compensation is allocated

Can influence syndicate performance

Should be guided by issuer’s goals and policies it wishes to promote

Source: MSRB

Designation Policy

Bond Buyer Article

- **Widest distribution of bonds**
 - Fair distribution to all incentivizes syndicate members
 - A well-balanced underwriting team
 - Sales expertise (institutional and retail investors)
- **Group Net**
 - Recommended practice; aligns risk/reward for underwriter
- **Net Designated**
 - Old practice; investor decides which underwriter receives the sales credit instead of issuer

THE BOND BUYER All Sections ▾

Now Reading The Latest

Commentary Muni industry best served by wider acceptance of ...

MTA deal leads municipal market into SOFR era, away from Liber

Wisconsin hits market with GOs

Pension p Park Distr

Commentary Muni industry best served by wider acceptance of group net syndication rule

By Chris Hamel

Published April 20 2018, 11:52am EDT


More in Sell side

f in t e ...

Print Reprint

This year the municipal industry marks the tenth anniversary of the launch of its milestone breakthrough for market transparency — the creation of EMMA or the Electronic Municipal Market Access. It is a reminder of the imperative of modernizing an industry that provides three-quarters of the annual U.S. infrastructure spend and is a \$3.7 trillion market.

Chris Hamel



While commendable in its creation, the transparency provided by EMMA for municipal bond investors existed for other debt markets years before. Other long-held municipal industry practices are overdue for review and change as well.

Toward the top of the list of areas requiring a fresh approach is the way negotiated bond underwriters are paid. Not how much, but by whom. This arcane issue is stuck in decades-old practice long ago abandoned by other markets such as the corporate and securitization bond sectors.

Some background at this point is useful. Once the municipal debt issuer determines the amount of compensation to be paid to the underwriters, there is also a discussion of syndicate rules or the method by which these dollars will be divided among the underwriters.

In the municipal market, the syndicate rule of choice is "net designated." This approach, selected by many state and local governments, is intended to reward underwriters that deliver actual orders from investors to purchase bonds.

Agreement Among Underwriters (“AAU”)

- AAU is the contract between the senior manager, co-managers, and other underwriters in the offering.



Source: MSRB

Selling Group Agreement

- A selling group may assist in the distribution of a new issue of municipal securities.
- The group executes a selling group agreement with the senior manager.



Source: MSRB

Takeaways

Key Considerations of the Costs of a Municipal Bond Issuance



- Bond issue costs are an important consideration for local governments.
- By understanding these costs, municipalities can make informed decisions.
- Specific payment arrangements may vary based on several factors.
- Fees and compensation structures are typically disclosed in the official statement or offering documents.



Questions?

Disclaimer

This document is intended for discussion purposes only and, in conjunction with oral presentations and further negotiations, is subject to the final terms of definitive transaction related written agreements, if appropriate, and is not a commitment to lend money, underwrite or purchase securities or commit capital, nor does it obligate this firm to enter into written agreements. Terms and conditions described herein are an indicative summary which may be amended or replaced by subsequent summaries.

This document is intended for the exclusive use of the entity identified on the cover page hereof or otherwise identified as the recipient by a member of the firm and may contain information proprietary to Estrada Hinojosa, which by acceptance of this document obligates you to use discretion when sharing the proposed terms for any prospective transaction. With this communication, Estrada Hinojosa is **not** assuming the role of your independent registered municipal advisor and is **not** attempting to establish a fiduciary relationship with you pursuant to the SEC's Municipal Advisor Rule. Estrada Hinojosa is acting in its own interests with a view to underwriting and distributing your municipal securities in an arm's length commercial transaction and you should discuss any action you intend to take with any and all internal or external advisors and experts that you deem appropriate before acting on this information or material.

In addition, Estrada Hinojosa does not provide accounting, tax or legal advice and any discussion of such matters herein should not be relied upon by you as a guarantee or commitment of a specific result should a transaction occur. All numbers and prices discussed herein are preliminary and indicative of market conditions on the date prepared and do not represent bids or offers, and you should determine, without reliance upon us, the economic risks and merits as well as the legal and tax consequences of any such transaction, keeping in mind that the results of analyses from any quantitative model which represent potential future events that may or may not occur, and that may not include every particular material fact related to a proposed transaction, are by their nature subject to further discussion and examination.

2023 Estrada Hinojosa & Company, Inc. © Member: FINRA & SIPC.

All rights reserved. No part of this document may be reproduced in any manner without the written permission of Estrada Hinojosa & Company, Inc.



Thank You!

Estrada Hinojosa & Co

(305) 507-0100

abadin@ehmuni.com

www.ehmuni.com