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Evaluation of Underwriter Proposals for Negotiated Municipal Bond Offerings

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The debate continues about the most cost-effective method of issuing municipal securities. The emergence of online securities marketing will add a new dimension to this debate. Some analysts argue that the competitive sale process is the most advantageous because of the inherent protections of open bidding. Others argue that a negotiated sale produces comparable financing costs and affords issuers considerably more flexibility in the marketing of municipal securities. However, the negotiated sale remains the dominant bond marketing strategy. Thus, it is important for issuers to have tools to accurately and fairly evaluate the actual costs of proposed bond offerings. This paper reviews the techniques that are available for comparing alternative pricing proposals and examines their strengths and weaknesses. It includes a description of a process that issuers of negotiated offerings can use to determine the appropriateness of a proposed pricing along with a description of a computer-based evaluation model.

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