# Bond Case Briefs

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## How to Choose a Municipal Advisor.

**State and local governments rely on municipal securities to raise money to finance projects for their citizens.**

The process of issuing these securities involves working with municipal advisors to negotiate the structure, pricing, timing and distribution of bonds with the underwriters. Like a fee-only personal financial advisor, municipal advisors work to ensure deals are made in the best interest of their client.

Let's take a look at the role that municipal advisors play in the process and how to select the right advisor.

**Who Are Municipal Advisors?**

Municipal advisors assist state and local governments with issuing municipal securities. Unlike underwriters, they have a federal fiduciary duty to their government clients and are required to act in their best interests. They are regulated by the Municipal Securities Rulemaking Board, or MSRB.

Municipal advisors offer a wide range of different services and have various compensation structures. When selecting an advisor, it's important to consider skill gaps in the municipal staff, the expertise of the municipal advisor, and how that expertise applies to the specific project.

Many state and local governments use municipal advisors to ensure that deals with underwriters are fairly structured, as well as to ensure that their documents are up to par. After all, any accidental or intentional omissions in regulatory disclosures can lead to costly lawsuits and fines.

**What Services They Provide**

The process of issuing municipal securities begins with the preparation of an official statement that explains the bond's features and characteristics. In addition, state and local governments must provide continuing disclosures and may want to present them to rating agencies for coverage.

Municipal advisors can help with each of these steps by:

- Developing a financing plan
- Evaluating and selecting an underwriter
- Preparing rating agency presentations
- Preparing offering documents
- Evaluating market conditions

It's worth noting that underwriters have different financial interests than issuers – their goal is to profit from the bond offering by buying low and selling high. Municipal advisors can help negotiate the structure, pricing, timing and distribution of the bond offering with underwriters to ensure a fair deal.

**How to Select the Right Advisor**

Municipal advisors offer a wide range of services with many different compensation structures, which means that it's important to find the right advisor for your needs.

The first step is finding the right match for your requirements. For example, issuers that don't plan on rating their bonds do not require a municipal advisor that specializes in presenting to rating agencies. The best advisors close any skill gaps with specific expertise.

The second step is determining the right compensation structure, which might include:

- Fixed fees
- Hourly fees
- Contingent fees
- Retainer fees
- Transaction fees

A fixed fee structure is a great option since it caps the total expenditure to a known amount, whereas hourly fees could quickly add up and go over budget without oversight. Contingent or transaction fees may be preferable to some issuers that want to ensure a transaction closure before spending money.

The final step is documenting the agreed upon services and fees. In order to avoid any confusion, both parties should agree on a detailed scope of services and their fees, including services that are NOT provided and any maximum compensation amounts or other conditions that may exist.

For more information, see the MSRB's Financial Considerations for Hiring Municipal Advisors here.

**The Bottom Line**

Municipal advisors are instrumental for state or local governments that are issuing bonds. Like a fee-based personal financial advisor, they work in the issuer's best interest to ensure a fairly structured deal with underwriters that includes all of the necessary disclosures for investors.

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