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How Municipal Financial Advisors Evolved Over Time.

Wharton's Daniel Garrett explains how municipal financial advisors influence government decisions and how their role has evolved over the past 25 years.

Municipal financial advisors play an important, but often under-examined, role in how state and local governments access financial markets. In a recent study published in *Public Budgeting & Finance* titled "The Evolving Role of 21st Century Municipal Financial Advisors," professor Daniel Garrett and his co-author Baridhi Malakar explore how this advisory landscape has evolved over the past 25 years, shaped by regulatory changes, shifting market dynamics, and growing demand for financial guidance.

What are the main functions of municipal financial advisors, and what motivated you to study the evolution of their role?

Daniel Garrett: It might be a bit on the nose to say that municipal financial advisors provide advice about finance to municipalities, but these advisors can provide advice about all sorts of borrowing or investing decisions for U.S. municipal entities. Most prominently, municipal financial advisors help guide state and local public entities through the process of issuing municipal bonds, which can have many complications including trying to structure the timing of when bonds will be paid back, whether to include extra features like bond insurance, and how to hire an investment bank who will underwrite the bond. Municipal financial advisors can also provide advice on other financial decisions a municipality might be making: Should we refund our existing bond or should we pay it off? How should we invest the cash that we currently have before we need to spend it? If there is a financial decision that a municipality needs to make, they might seek out the advice of a municipal financial advisor to try to make sense of the tradeoffs.

In this paper, we chose to study the evolution of this market for financial advice for two reasons. First, the financial market decisions of state and local public entities in the U.S. are both understudied for their relative economic importance and potentially influenced by a large number of underappreciated factors, of which financial advisors are one. Municipalities owe about $4.2 trillion to investors through municipal bonds and at least another $1.5 trillion in unfunded pension obligations to retired workers, so the borrowing and investing decisions of municipal entities may have large economic effects on many people. Second, my co-author Baridhi Malakar and I both wrote portions of our dissertations about how the Dodd-Frank Wall Street Reform Act of 2010 changed the operation of municipal financial advisors and how this led to changes in the costs that municipal entities paid to access financial markets. We both realized that there were interesting patterns in the narrower data we used in our dissertations and wanted to have the opportunity to explore those patterns over longer time horizons stretching back to 2000 and up through today.

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Wharton

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