



# Financial Considerations for Hiring Municipal Advisors

State and local governments often hire municipal advisors to assist them with a range of services, including the process of issuing municipal securities. The amount of compensation paid to the municipal advisor for these services varies, depending on the scope of services provided to the municipal issuer and the compensation structure agreed upon by the two parties. It is essential for a state or local government issuer to evaluate these factors to determine whether the proposed compensation arrangement will meet its needs. Below are factors for issuers to consider when assessing what services they need and the possible ways to compensate municipal advisors for their services.

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## Assessing Services Needed

When determining services to be provided by a municipal advisor, issuers should consider the skills of existing staff, potential gaps in internal staff resources, the expertise of the municipal advisor and other deal team members, and how this expertise can meet the issuer's needs.

Issuers may also consider the number, size and frequency of municipal bond issues the issuer expects to bring to market, the anticipated complexity of the transactions, the duties and roles of the other members of the deal team and any transaction parameters the issuer has chosen. For example, if an issuer engages a municipal advisor in connection with a specific issuance and has already determined that the bonds will not be rated, municipal advisory services related to rating agency presentations will not be required.

## Understanding the Scope of Services

Municipal advisors may offer a wide range of services, either in connection with a specific transaction or more generally. These may include, but are not limited to, the following:

- Assisting in the development of a financing plan
- Assisting in the underwriter evaluation and selection process
- Assisting in preparing rating agency presentations
- Assisting in the preparation of offering documents
- Evaluating market conditions and pricing performance

Issuers should carefully evaluate the services offered by the municipal advisor to ensure they appropriately meet the needs of the issuer.



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## Compensation Structures

The most common methods for compensating municipal advisors include the following:

- Fixed fees
- Hourly fees
- Contingent fees
- Fees paid under a retainer agreement
- Fees based upon the amount of the transaction

Depending on the nature and extent of work to be performed by the municipal advisor, an issuer may favor one type of compensation structure over another.

### Fixed Fees

In a fixed fee structure, the municipal advisor is paid a fixed amount based on, among other things, the expected duration and complexity of the transaction and agreed upon scope of work. Typically, the fixed amount is established at the beginning of the transaction and applies regardless of how much time and effort the municipal advisor actually spends on the transaction.

### Hourly Fees

Under an hourly fee structure, the municipal advisor is paid based on a rate schedule for each hour worked. Depending on the specific compensation agreement between the issuer and the municipal advisor, the hourly fee may or may not be contingent upon the successful completion of a financing. In some cases, the hourly fee may be applied against an existing retainer. There may also be a maximum dollar amount, or

“not to exceed” amount, that the issuer will agree to pay to the municipal advisor, regardless of the actual number of hours worked.

Issuers should periodically review the invoices received for municipal advisory services to ensure that they do not contain any errors and accurately reflect the terms of the fee agreement, including any applicable credits against existing retainers and/or not to exceed amounts.

### Contingent Fee

In a contingent fee arrangement, the municipal advisor is paid only if the transaction closes. This fee arrangement may require the municipal advisor to assess the risk of the likelihood that the transaction will close. This fee arrangement may be combined with another fee structure such as a fixed fee or hourly fee arrangement. However, under such an arrangement, certain expenses may be reimbursable to the municipal advisor even if the transaction does not close.

### Fee Paid Under a Retainer Agreement

Under a typical retainer agreement, the municipal advisor is paid periodically regardless of whether a particular financing or other transaction is successfully completed. This fee arrangement may be combined with another fee arrangement. For example, under a fixed fee retainer agreement, the municipal advisor might be paid a specified sum per month, regardless of the number of hours worked during that month.

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*The compensation arrangement between the issuer and the municipal advisor should be documented in writing.*

### **Fee Based Upon the Amount of the Transaction**

Under a fee structure determined by the amount of the transaction, the municipal advisor is paid an amount based on a percentage of the principal amount of the bond issue. There may be minimum or maximum fees established to ensure that the municipal advisor is compensated for the services provided.

### **Expenses**

Another financial consideration for a municipal issuer is the treatment of expenses. Expenses generally are those out-of-pocket costs incurred by the municipal advisor. Depending on the terms of the compensation arrangement, issuers may be responsible for paying the municipal advisor for certain expenses, even if the transaction does not close. Before concluding the compensation discussion with a municipal advisor, issuers should come to an agreement with the municipal advisor as to the expenses for which the issuer is responsible and the rate at which such expenses will be reimbursed. For example, an issuer may impose a maximum dollar amount for reimbursements for flights, or agree that it will only reimburse the municipal advisor for photocopying services at the actual cost incurred by the municipal advisor, with no additional mark-up.

### **Document the Compensation Arrangement**

The compensation arrangement between the issuer and the municipal advisor should be documented in writing. To avoid any confusion about the compensation arrangement, both parties should specify in detail the scope of services to be provided by the municipal advisor. In some circumstances, it may also be appropriate to specify the services that will not be provided by the municipal advisor. Maximum compensation and any other additional agreed-upon conditions should also be documented, as should costs that are to be borne by the municipal issuer and the municipal advisor.

