The Changing Role of Financial Advisors

SERVICE ASSOCIATE Q&A

***Jerry Dudzik** is vice president of Springsted Incorporated*

Q. *What are some of the bigger school finance challenges that school districts are currently facing?*

A. Services and training to address student mental health needs and building security are competing more actively for budget dollars than in the past. Balancing these types of costs with allowable revenue authority, increasing operational costs and public expectations makes for a challenging annual budget exercise.

Q. *Have there been recent changes in your field that school boards need to be aware of?*

A. Yes, significant changes. Pursuant to the Dodd-Frank Wall Street Reform Act, the U.S. Securities and Exchange Commission (SEC) approved a rule change concerning the activities of financial advisors who also underwrite municipal bonds. This rule change prohibits municipal securities dealers from acting as a financial advisor to a school district on a new bond issue and subsequently acting as an underwriter on the same issue, even if they have resigned in writing as the financial advisor. In effect, the underwriting firm must make a definitive choice in the earliest stages of an issuance process to either be the financial advisor or the underwriter of the issue.

The SEC also provided more regulatory restrictions on firms that provide both financial advisory and municipal bond underwriting services. For example, if such a firm underwrites a district's bonds, the types of advice underwriters can provide a district is very limited. Furthermore, it requires the firm underwriting the bonds to maintain its duty to the investor, not to the district issuing the debt. The bond purchaser's interests are in direct conflict to that of the school district issuer; issuers want low interest rates and investors want high interest rates and favorable sale terms.

Regulatory changes have fundamentally changed the municipal bond industry for all participants — school district issuers, underwriters and financial advisors. Because independent financial advisors do not purchase bonds, they always have one fiduciary responsibility — representing the best interests of issuers of municipal debt. Independent advisors thereby avoid the conflicts of interest addressed through the new regulatory reforms.

Q. *If you could give one piece of school finance advice to school boards what would it be?*

A. There are ways to maximize the bidding pool on your bonds to help you get the lowest interest rates when issuing debt. An independent municipal advisor provides the following benefits:

- A fiduciary duty to the school district issuing the debt,
- Objective advice to maximize advantages to the issuing school district,
- Free flow of information from all industry sources,
- Candid evaluation of underwriting proposals,
- Perspective to the long-term best interests of clients, not simply a single sale, and
- Confidence that a school district has a professional resource working solely on its behalf.

Q. *In addition to public finance services, Springsted offers referendum assistance services like scientific random sample survey services. What is this service? How does it help prepare school districts going to referendum?*

A. Springsted's survey tool offers districts the opportunity to gather community feedback through use of our scientific, random-sample survey tool. Our methodology — making sure that the sample interviewed closely mirrors the demographics of the community as a whole — has consistently produced reliable results. Surveys can be designed to measure customer satisfaction, gather feedback on a strategic or comprehensive plan, guide budget planning, or determine the feasibility of a referendum when an election is required to raise operating money or to issue debt. The results of these surveys provide valuable information to inform and improve the decision-making process. ■

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