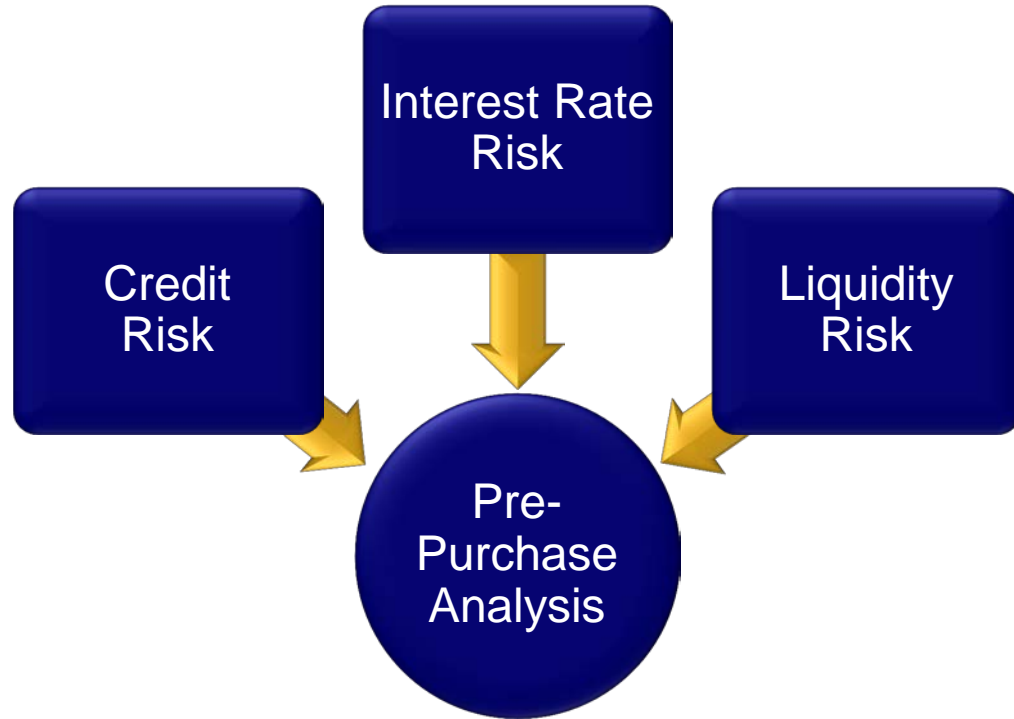




Evaluation of Municipal Securities

III. Basic Analysis

Pre-Purchase Analysis



Credit Risk Analysis

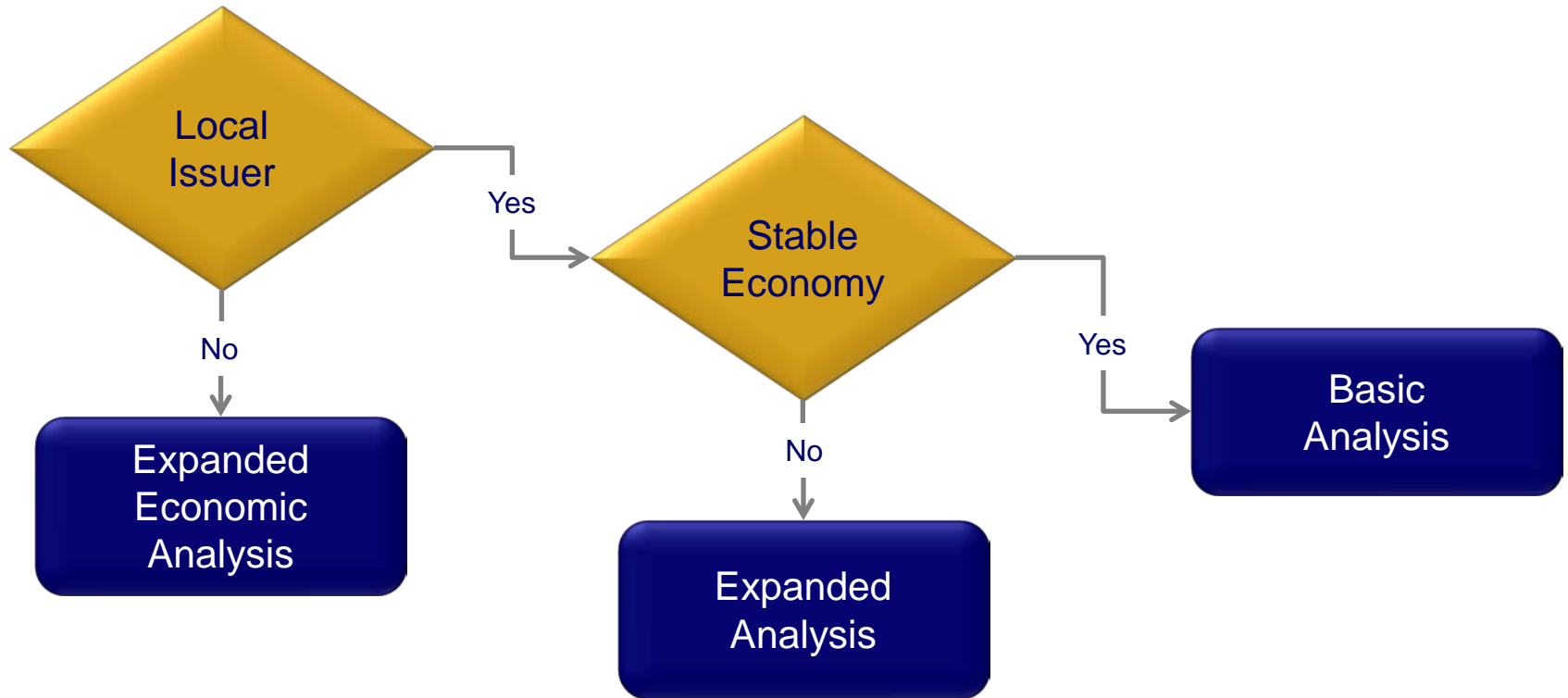


Credit Risk Analysis Factors



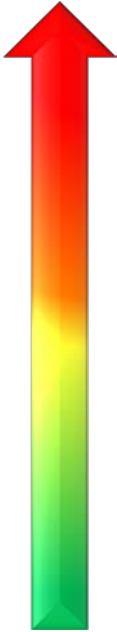
- ➔ Location & Economic Conditions
- ➔ Type of Issuance
- ➔ Financial Condition
- ➔ Fiscal Responsibility
- ➔ Rating Agency Reports

Location & Economic Conditions



Type of Issuance

Higher Risk



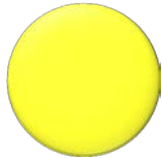
Lower Risk



Other Municipal Issuances



Non-Essential Purpose Revenue
Obligation Bonds



Essential Purpose Revenue Obligation
Bonds

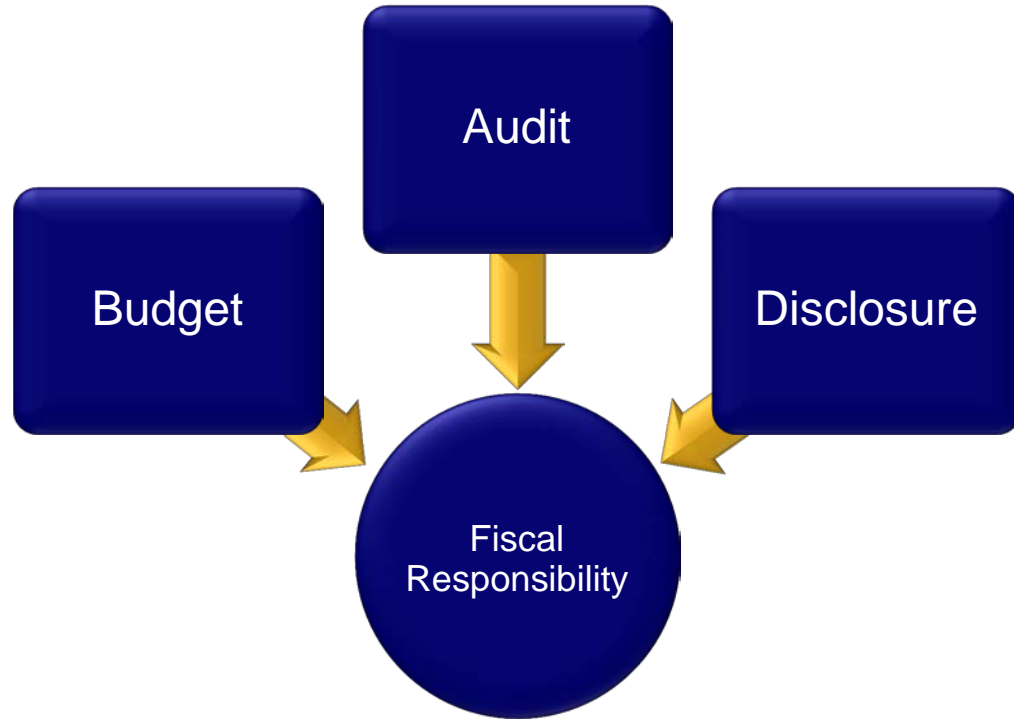


General Obligation Bonds

Financial Condition

Financial Condition (Potential Examples)	Ratio	Within Policy Guidelines?
Leverage (Debt Per Capita)		
Leverage (Debt To Assessed Value)		
Capacity (Debt Service Coverage Ratio)		
Protection (Covenant Compliance)		

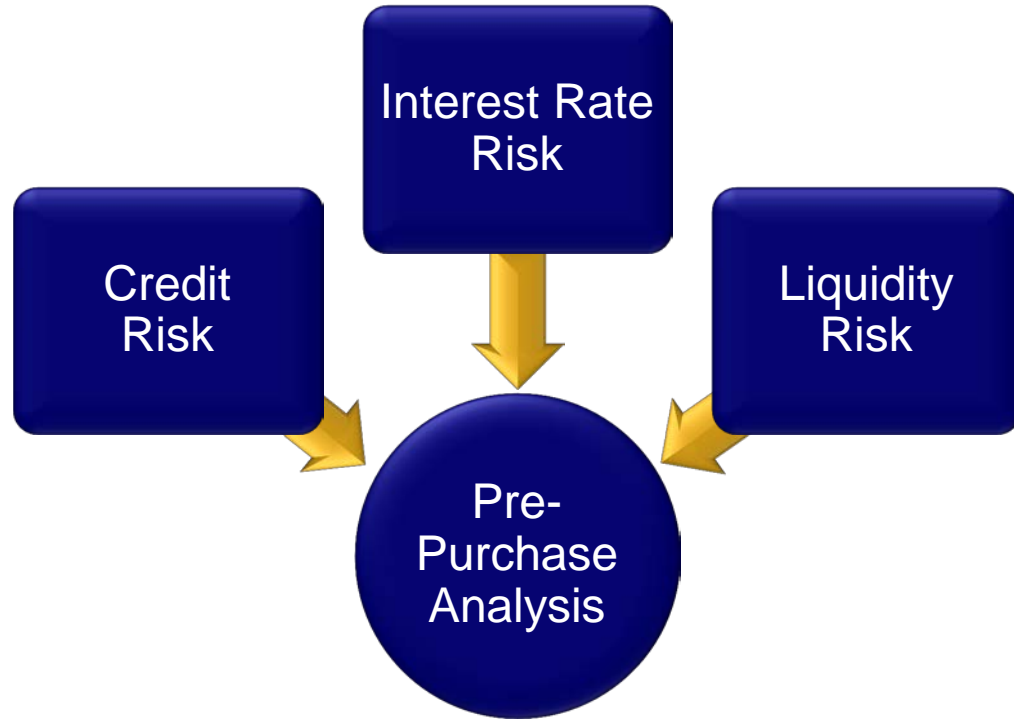
Fiscal Responsibility



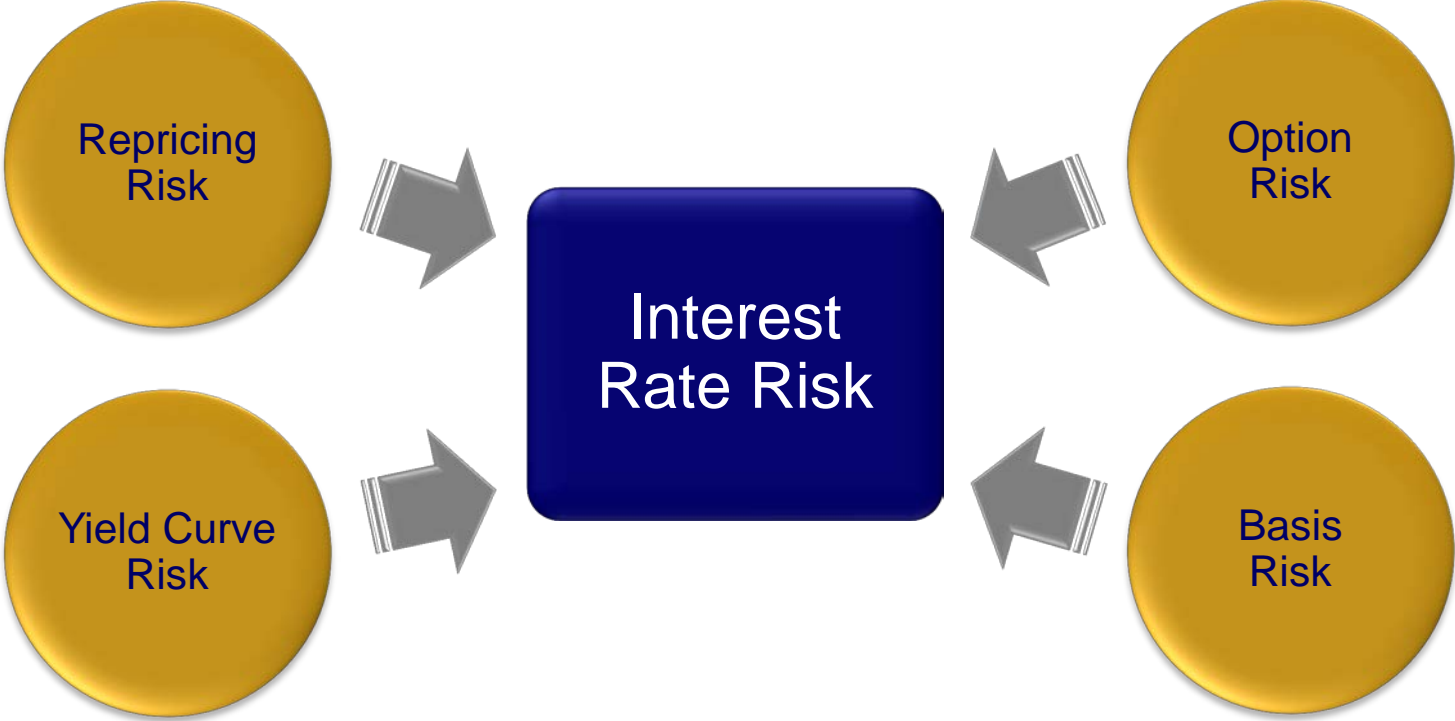
Rating Agency Reports

- **Credit rating**
 - ◆ Can be one component of the credit analysis process
 - ◆ Not always updated on a timely basis after issuance
- **Credit rating median reports**
 - ◆ Can be one tool for establishing policy guidelines
 - ◆ Limited to that rating agency's universe of rated bonds
- **Other rating agency reports (examples)**
 - ◆ Sector outlook
 - ◆ Default statistics
 - ◆ Rating methodologies

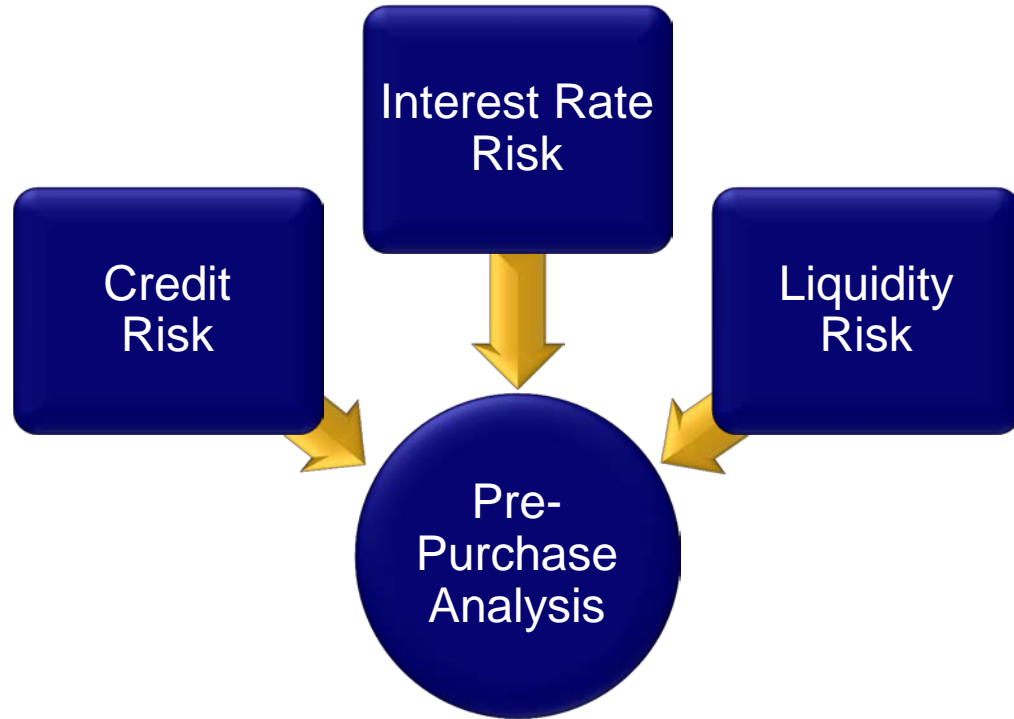
Pre-Purchase Analysis



Interest Rate Risk



Pre-Purchase Analysis



Liquidity Risk



Ongoing Credit Risk Analysis Factors



- ➔ Location & Economic Conditions
- ➔ Type of Issuance
- ➔ Financial Condition
- ➔ Fiscal Responsibility
- ➔ Rating Agency Reports

Ongoing Monitoring

- Ongoing monitoring should be completed annually or more frequently, as warranted
- Ongoing monitoring must be documented



Resources

- EMMA – www.emma.msrb.org
- Issuer
- State Auditor/Attorney General
- Other third-party providers

Summary

- **Basic analysis must be conducted on each bond**
 - ◆ Credit Risk
 - ◆ Interest Rate Risk
 - ◆ Liquidity Risk
- **If concerns are identified, some form of expanded analysis should be performed**