Evaluation of Municipal Securities

II. Investment Policies & Procedures
Policy Content

- Portfolio objectives
- Authorized investments
- Lines of authority and responsibility
- Risk limits
- Guidelines for pre-purchase analysis and ongoing monitoring
- Measurement and reporting
- Accounting and taxation
- Independent review
Authorized Municipal Investments

**Municipal Types**

- **General Obligation Bonds**
  - States
  - Cities
  - Counties
  - School districts

- **Revenue Obligation Bonds**
  - Water and sewer districts
  - Toll road and bridge authorities
  - Hospital authorities
  - Housing authorities

- **Other Municipal Issuances**
  - Municipal notes
  - Industrial development bonds
  - Certificates of participation
Risk Limits

- Location
- Credit Rating
- Issuer
- Maturity
- Sector & Type
Pre-purchase Analysis & Ongoing Monitoring

- Define the scope of pre-purchase analysis and ongoing monitoring
- Establish underwriting criteria to meet safety and soundness standards
- Outline acceptable use of third-party analysis
- Determine the potential use of NRSRO ratings as a component of the overall analysis

NRSRO: Nationally Recognized Statistical Rating Organization
Risk Measurement Systems

- Identify higher-risk securities
- Measure portfolio credit, liquidity, and interest rate risks
- Summarize portfolio diversification

Board Reporting

- Summarize investment activity, risk measures, and compliance with policy limitations
- Document management oversight in board minutes
Independent Review

- Appropriateness of risk management practices
- Compliance with policies, procedures, and limits
- Timeliness, integrity, and usefulness of measurement and reporting systems
- Exceptions noted and corrective action implemented
Investment policies should provide specific guidance, and include common elements:

- Authorized investments
- Portfolio risk limits
- Pre-purchase analysis and ongoing monitoring expectations
- Measurement and reporting requirements

Policy depth and detail varies based on the nature and complexity of investment activities.