

LETTER OF CREDIT AND BOND POLICY1.0 Purpose:

- 1.1 To identify the policies and procedures under which the City of Thornton can accept a letter of credit from a financial institution or a bond from a bonding company. This directive does not apply to bonds relating to City projects.

2.0 Scope:

- 2.1 This policy applies to all transactions involving letters of credit and bonds with the City of Thornton, herein the "City". All letters of credit and bonds shall be administered in accordance with the provisions of this policy, unless legal restrictions apply under the terms of a special contractual relationship between the City and another party or parties.
- 2.2 This letter of credit and bond policy replaces any previous letter of credit and bond policies of the City.

3.0 Policy:

3.1 Delegation of Authority:

- 3.1.1 In accordance with the City Charter, the City Treasurer (herein the "Finance Director") is responsible for supervising all accounts and evidence of indebtedness of the City (Chapter V, Section IX).
- 3.1.2 The Finance Director hereby sets forth the criteria for financial institutions and bonding companies under which the City of Thornton can accept a letter of credit or bond and allows designated employees to accept letters of credit and bonds on behalf of the City of Thornton providing they meet such criteria.

3.2 Objective:

- 3.2.1 Safety - All letters of credit and bonds are to be drawn on a financial institution or bonding company that is financially capable of paying on the letter of credit or bond if conditions warrant. Safety requirements are outlined in Section 3.3.

3.3 Acceptable Financial Institutions and Bonding Companies:

- 3.3.1 The Finance Director will have discretion to evaluate the credit worthiness of an institution. The Finance Director may utilize both industry ratings and history of performance with the City or other governmental agencies to determine to what extent association with such institution may pose an unacceptable risk of loss to the City.
- 3.3.2 All financial institutions that enter into a letter of credit with the City must certify, in writing, that:

- A) They are a member of the Federal Depository Insurance Corporation (FDIC).
- B) They are uninvolved in the letter of credit itself, such that no party involved in the letter of credit can be a board member (or relative of a board member) of the financial institution issuing the letter of credit.

3.3.3 All bonding companies that provide bonds to the City must certify in writing that:

- A) They are licensed to do business in the State of Colorado as set forth in Circular 570.
- B) The amount of the bond is within the underwriting limitation for that particular bonding company as set forth in Circular 570.
- C) They are rated an A- or better by Best's Key Rating Guide.

3.3.4 Prudence - The standard of prudence to be used for managing the City's financial agreements is that agreements shall be made with judgement and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for consideration of the probable safety of their capital.

The overall letter of credit and bond program shall be designed and managed with a degree of professionalism that is worthy of the public trust. The City shall recognize that no financial agreement is totally riskless and that the letter of credit and bond activities of the City are a matter of public record.

The Director and authorized persons, herein, acting in accordance with written procedures and exercising due diligence shall be relieved of personal responsibility for an individual letter of credit or bond risk, provided that deviations from expectations are reported in a timely manner and appropriate action is taken to control adverse developments.



Chuck Seest, CPA, Finance Director



Date