



# **City of Grand Island**

**Tuesday, July 27, 2010**

**Council Session**

## **Item G18**

**#2010-201 - Approving Revision to Commercial Electric Deposit  
Interest Rate**

**Staff Contact: Mary Lou Brown**

# **Council Agenda Memo**

**From:** Mary Lou Brown, Finance Director

**Meeting:** July 27, 2010

**Subject:** Revision to Commercial Electric Deposit Interest Rate

**Item #s:** G-18

**Presenter(s):** Mary Lou Brown, Finance Director

## **Background**

City Code Chapter 15, paragraph 50 discusses the deposit requirements for all commercial electric service accounts. Effective September 1, 1983, the interest rate of six percent (6%) per annum was implemented for all commercial electric service deposit amounts. This amount is payable to the customer at the time the deposit is refundable. Interest rates have changed dramatically since September 1983 and it is time to modify the existing City Code in this regards.

## **Discussion**

There are two goals that should be achieved with the recommended change. The first is to create a set date upon which the interest rate is periodically changed and the second is to tie the interest rate to a defined financial rate that is easily obtained.

At the time that the interest rate was implemented in 1983, interest rates overall were quite high. The interest accrual was necessary to compensate customers for the City's use of their money.

Deposits are required for all electric service accounts established under the commercial rate structure. For deposits created on or after September 1, 1983, the deposit is equal to two times the estimated billing for the highest usage month of the calendar year.

Deposits are held and refunded to the customers as follows:

- (1) When the electric service has been disconnected, whether at the request of the customer or for nonpayment of the customer's electric bill, or a new account has been created for said service with a different customer, and a final reading has been taken, any deposit on hand plus the accrued interest thereon,

and minus the amount of any unpaid billing statement and other charges, shall be refunded to the customer; or

(2) After at least two years of continuous service to the customer, if the monthly payments for the account have been made promptly, with no more than two delinquent payments during the twenty-four (24) month period immediately preceding the request, the customer may request the utilities department in writing to refund the deposit. Upon receipt of the request, and if the above conditions of prompt payment have been met, the utilities department shall refund any deposit on hand, plus the accrued interest to the customer. For the purposes of this subsection, a payment shall be deemed delinquent if made more than fifteen (15) days after the date set forth on the monthly billing statement.

The recommendation is to set the rate each year on October 1 or the following business day. Setting the rate on an annual basis keeps the rate paid by the City more closely tied to current economic conditions.

The second portion of the recommendation is to tie the rate to the 3 month LIBOR (London Interbank Offered Rate) rate. The LIBOR rate is a daily reference rate based on the interest rates at which banks borrow unsecured funds from other banks. LIBOR is used to guide banks in setting rates for adjustable rate loans, including interest only mortgages and credit card debt. It is the most widely used benchmark or reference rate for short-term interest rates world wide. The rate is published daily in the Wall Street Journal and is also available on the internet.

This rate is recommended due to it being a reference rate for short-term interest rates. Theoretically, a commercial customer should have their money on deposit with the City for no more than 24 months so a long term rate would not be applicable. LIBOR as of the date the memo is written was 0.52%.

There are currently 43 accounts with dates older than 1/1/2007 and 236 accounts in total. The total value of the accounts is \$172,001.45 with an average value of \$728.82.

## **Alternatives**

It appears that the Council has the following alternatives concerning the issue at hand. The Council may:

1. Approve the Resolution as presented.
2. Postpone the issue to a future meeting.
3. Take no action.

## **Recommendation**

City Administration recommends that the Council approve the changes to the interest rate applied to commercial electric service accounts.

## **Sample Motion**

Move to approve the change to an annually adjusted interest rate based on the 3 month LIBOR as of October 1, or the next business day, each year.

RESOLUTION 2010-201

WHEREAS, the City of Grand Island accrues interest on all commercial electric service deposit accounts; and

WHEREAS, the City of Grand Island has maintained the same interest rate since September 1, 1983; and

WHEREAS, economic conditions have changed and make the current rate obsolete;

NOW, THEREFORE, BE IT RESOLVED BY THE MAYOR AND COUNCIL OF THE CITY OF GRAND ISLAND, NEBRASKA, the interest rate payable on commercial electric service deposit accounts be tied to the three month LIBOR (London Interbank Offered Rate) and be adjusted annually on October 1, or the next business day;

BE IT FURTHER RESOLVED, that the mayor is hereby authorized and directed to execute such agreement on behalf of the City Of Grand Island.

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Adopted by the City Council of the City of Grand Island, Nebraska, July 27, 2010.

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Margaret Hornady, Mayor

Attest:

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RaNae Edwards, City Clerk