



City of Grand Island

Tuesday, September 14, 2010

Council Session

Item F7

#9275 - Consideration of Amending Chapter 15 of the Grand Island City Code Relative to Commercial Electric Deposit Interest Rate

Staff Contact: Mary Lou Brown

Council Agenda Memo

From: Mary Lou Brown, Finance Director

Meeting: September 14, 2010

Subject: Revision to Commercial Electric Deposit Interest Rate

Item #s: F-7

Presenter(s): Mary Lou Brown, Finance Director

Background

This proposed change in the commercial electric deposit interest rate was presented to Council at the July 27, 2010 meeting and approved as a Resolution at that time. Since the interest rate is referenced in the City Code, the change needs to be made as an Ordinance. The remainder of this memo remains unchanged from what was used in connection with the July 27, 2010 meeting.

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.

ORDINANCE NO. 9275

An ordinance to amend Chapter 15 of the Grand Island City Code; to amend Section 50 pertaining to the interest rate to be used in the accrual of interest on electric service account deposits established under the commercial rate structure.

BE IT ORDAINED BY THE MAYOR AND COUNCIL OF THE CITY OF
GRAND ISLAND, NEBRASKA:

SECTION 1. Section 15-50 of the Grand Island City Code is hereby amended to read as follows:

§15-50. Deposit Requirements

(A) Except as provided below, all electric service accounts established under the commercial rate structure shall be required to maintain a deposit in an amount to be determined by the utilities department as set forth in this section.

(B) Deposits for accounts in existence before September 1, 1983, shall be maintained in the amount established under the ordinances in effect at the time of the initial deposit, unless said deposit has been distributed under the provisions of this section.

(C) Deposits for any account created on or after September 1, 1983, and deposits for all accounts for which service has been reinstated after being disconnected for nonpayment shall be maintained in an amount of not less than Two Hundred Dollars (\$200), nor more than Two Thousand Dollars (\$2,000), as determined by the utilities department. The exact amount of the deposit required should be equal to approximately two times the estimated billing for the highest usage month of the calendar year.

(D) From and after October 1, 2010, all deposits required herein shall accrue interest at the annually adjusted interest rate based on the 3 month LIBOR as of October 1, or the next business day. Interest shall be payable to the customer only at the time the deposit is refundable as provided in subsection E below.

(E) The deposit required herein shall be refunded to the customer 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.

SECTION 2. Section 15-50 as now existing, and any ordinances or parts of ordinances in conflict herewith are repealed.

ORDINANCE NO. 9275 (Cont.)

SECTION 3. The validity of any section, subsection, sentence, clause, or phrase of this ordinance shall not affect the validity or enforceability of any other section, subsection, sentence, clause, or phrase thereof.

SECTION 4. That this ordinance shall be in force and take effect from and after its passage and publication, within fifteen days in one issue of the Grand Island Independent as provided by law.

Enacted: September 14, 2010.

Margaret Hornady, Mayor

Attest:

RaNae Edwards, City Clerk

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(D) From and after ~~September 1, 1983~~ October 1, 2010, all deposits required herein shall accrue interest at the ~~rate of six percent (6%) per annum, annually adjusted interest rate based on the 3 month LIBOR as of October 1, or the next business day.~~ which ~~Interest~~ shall be payable to the customer only at the time the deposit is refundable as provided in subsection E below.

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