O-20-47

ORDINANCE NO. ____

AN ORDINANCE ADOPTING NORTH LITTLE ROCK ELECTRIC DEPARTMENT REVENUE DISTRIBUTION AND FUND/RESERVE BALANCE POLICY; DECLARING AN EMERGENCY; AND FOR OTHER PURPOSES.

WHEREAS, the City of North Little Rock, Arkansas ("City") owns and operates an electric utility that serves customers both inside and outside the City's municipal boundary; and

WHEREAS, the City has issued certain electric system revenue bonds to finance capital improvements to and working capital for the North Little Rock Electric Department ("NLRED"); and

WHEREAS, the City has entered into certain trust indentures in connection with the issuance of electric system revenue bonds that require the creation of certain funds and the priority of distribution of revenues to those funds; and

WHEREAS, in addition to the City's obligations pursuant to the trust indentures, the City Council finds it is in the best interest of the City to reserve adequate funds to ensure that electricity is delivered in a safe, affordable, and reliable manner; and

WHEREAS, the City Council established an Investment Advisory Board through the adoption of Resolution No. 8613 that is tasked with the proper and prudent investment of City funds, including Electric Department funds; and

WHEREAS, Utility Financial Solutions has advised the Investment Advisory Board regarding proper fund and reserve balances required for sound utility practices; and

WHEREAS, based upon the obligations of the trust indentures and the recommendations of Utility Financial Solutions, the Investment Advisory Board recommends adoption of the North Little Rock Electric Department Revenue Distribution and Fund/Reserve Balance Policy attached hereto as Exhibit A; and

WHEREAS, the City Council finds it is in the best interest of the City and its residents to adopt the recommended policy.

NOW, THEREFORE, BE IT ORDAINED BY THE CITY COUNCIL OF THE CITY OF NORTH LITTLE ROCK, ARKANSAS:

SECTION 1: That the **North Little Rock Electric Department Revenue Distribution and Fund/Reserve Balance Policy** ("Policy"), attached hereto as Exhibit A, is hereby adopted.

SECTION 2: That the Investment Advisory Board established by Resolution No. 8613 shall ensure that the investment of funds identified in the Policy are sufficiently liquid to satisfy the purposes described in the Policy.

SECTION 3: That if any fund or reserve identified in the Policy should fall short of the requirements set forth in the Policy, the NLRED staff and the Investment Advisory Board shall immediately advise City Council in writing as official correspondence, together with a plan to bring the fund/reserve back into compliance no later than by the end of the following budgeted fiscal year

SECTION 4: That any transfers between any of the funds or reserves identified in the Policy that would bring any of the said funds or reserves out of compliance with the Policy shall require approval by the City Council.

SECTION 5: Any legislation that appropriates or obligates funds that would result in a fund balance or reserve lower than that established in the Policy shall include in its title "A Resolution/Ordinance to Appropriate Emergency Funds and Reduce the Balances Required by the North Little Rock Electric Department Revenue Distribution and Fund/Reserve Balance Policy."

SECTION 6: In the event that an emergency requires appropriations that causes any fund or balance to fall below the minimum level required by the Policy, said fund shall be replenished after the emergency has passed by maintaining expenditures, which the exception of wholesale power purchases, at or below the level immediately preceding the precipitating emergency until such time as the required balance is achieved. Any expenditure that does not comply with this provision shall require City Council approval.

SECTION 7: That all ordinances or parts of ordinances in conflict herewith are hereby repealed to the extent of the conflict.

SECTION 8: That the provisions of this Ordinance are hereby declared to be severable and if any section, phrase or provision shall be declared or held invalid, such invalidity shall not affect the remainder of the sections, phrases or provisions.

SECTION 9: It is hereby found and the North Little Rock Electric Department should maintain adequate fund balances and reserves to timely pay obligations when due, to manage emergencies, and to ensure that electricity is delivered in a safe, affordable, reliable and business-like manner; thus the immediate passage of this Ordinance is necessary for the immediate preservation of the public health, safety and welfare; THEREFORE, an emergency is hereby declared to exist, and this Ordinance shall be in full force and effect from and after its passage and approval.

PASSED: APPROVED:

_____ _____

Mayor Joe A. Smith

SPONSOR:

Mayor Joe A. Smith

ATTEST:

Diane Whitbey, City Clerk

APPROVED AS TO FORM:

Amy Beckman Fields, City Attorney

PREPARED BY THE OFFICE OF THE CITY ATTORNEY/ABF

FILED 11:50 A.M. _____ P.M.
By A. Fields
DATE 5.5.20

Diane Whitbey, City Clerk and Collector
North Little Rock, Arkansas

RECEIVED BY S. Usrey

North Little Rock Electric Department
Revenue Distribution and Fund/Reserve Balance Policy

I. Purpose

The North Little Rock Electric (NLRED) department has the following financial goals when establishing a reserve policy:

1. To provide a financial base sufficient to ensure that electricity is delivered in a safe, affordable, resilient and business-like manner.
2. To be able to withstand local, regional and/or national economic trauma, to adjust to changes in the service requirements and to respond to other changes in the environment as they affect NLRED.
3. To consider and provide for the needs of future generations in the North Little Rock community.

II. Revenue Fund

NLRED shall maintain a Revenue Fund. All revenues derived from operation of the NLRED, including, without limitation, all amounts collected or due from customers, investment income and profits from all Funds maintained, shall be deposited into the Revenue Fund except for certain investment earnings and extraordinary income which are required to be deposited directly in other Funds as set forth in any trust indenture to which the City or NLRED is a party to secure payment of electric system revenue bonds.

III. Distribution of Funds from the Revenue Fund

All moneys at any time in the Revenue Fund shall be applied to make transfers to the following funds (and accounts therein) in the following order of priority as provided in any applicable trust indentures and this Policy:

1. Debt service fund(s) for outstanding debt
2. Operating and Maintenance Fund
3. Emergency Reserves
4. Capital Improvement Funds
5. Rate Stabilization Reserves

(1) Debt Service Fund

Debt Service Funds are funds that are held by a Trustee and used to pay long-term debt principal, interest, and related costs. At any time when the City has issued bonds and has pledged the revenues of the NLRED to the repayment of the bonds, NLRED will deliver to the Trustee(s) for

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deposit in the Debt Service Fund(s) such amounts as are required by the trust indenture(s) entered into by and between the City and the Trustee(s).

(2) Operating and Maintenance Fund

NLRED shall establish and maintain an Operating and Maintenance Fund. The purpose of the Operation and Maintenance Fund is to ensure adequate financial assets are available to timely pay routine expenses incurred in the operation and maintenance of the department, including wholesale power purchases, for a minimum of 30 days. This amount is at least 8.2% of annual budgeted operating expenses and annual budgeted wholesale power purchases, excluding budgeted depreciation. On the next to the last business day of each month, after making all required transfers for debt service, there shall be transferred to the Operation and Maintenance Fund from the Revenue Fund an amount at least sufficient to assure that the amount therein is equal to not less than expenses of operation, repair, and maintenance of the System for the then next succeeding month (but in no event a sum greater than 20 percent of the amount appropriated for operation, maintenance, and repair of the System for the then current Fiscal Year). Disbursements shall be made from the Operation and Maintenance Fund for expenses of operation, maintenance, and repair of the System. Fixed annual charges, such as insurance premiums and the cost of major repair and maintenance expenses, may be determined on an annual basis and 1/12 of the amount thereof may be paid into the Operation and Maintenance Fund each month. If in any month for any reason there shall be a failure to transfer and pay the required amount into the Operation and Maintenance Fund, the amount of any deficiency shall be added to the amount otherwise required to be transferred and paid into the Operation and Maintenance Fund in the next succeeding month.

If in any month a surplus shall be accumulated in the Operation and Maintenance Fund over and above the amount which shall be necessary to defray the reasonable and necessary cost of operation, repair, and maintenance of the System during the remainder of the then current month and the next ensuing month, such surplus may be transferred to and deposited in the Revenue Fund or held in the Operation and Maintenance Fund as a credit against future required transfers to such Fund from the Revenue Fund.

(3) Emergency Reserves

NLRED shall establish and maintain an Emergency Reserve Fund. The purpose of Emergency Reserves is to ensure: (a) adequate financial assets are available to respond to a loss of electric service during a declared disaster emergency, including a local disaster emergency declared by the Mayor, or the Mayor's designee, pursuant to A.C.A. § 12-75-108; and (b) to ensure the ability of NLRED to deliver service in the event of a local, state or national economic crisis that results in an immediate and unforeseeable loss of revenue. Emergency Reserves will be maintained in the amount of 15% of annual budgeted operating expenses and annual budgeted wholesale power purchases, excluding budgeted depreciation.

(4) Capital Improvement Fund

NLRED shall establish and maintain a Capital Improvement Fund for the purpose of paying for expenditures related to purchasing, building, maintaining, repairing, and refurbishing NLRED capital assets in a prudent and businesslike manner. In its annual budget submission, NLRED will include an amount that is not less than the greater of: (i) twenty percent (20%) of the five-year capital improvement plan as approved by the City Council; or (ii) NLRED's depreciation as stated in the most recent audited financial statements. Capital Improvement Funds that are not spent during a fiscal cycle will be preserved for future capital expenditure. The minimum balance of the Capital Improvement Fund at the end of a fiscal cycle shall be equal to or greater than half of the amount required in the next fiscal cycle.

(5) Rate Stabilization Reserves

The purpose of Rate Stabilization Reserves is to delay or reduce any future rate increases. If any excess funds remain after the funds and reserves identified in subparagraphs (1) through (4) above have been fully funded in accordance with this Policy, such excess funds shall be distributed to the Rate Stabilization Reserve Fund.

III. Shortfalls

If at any time a fund/reserve should fall short of the requirements set forth above, the NLRED staff and the Investment Advisory Board shall immediately advise City Council in writing as official correspondence, together with a plan to bring the fund/reserve back into compliance no later than by the end of the following budgeted fiscal year.