



CITY OF BANNING STAFF REPORT

TO: CITY COUNCIL

FROM: Douglas Schulze, City Manager

PREPARED BY: Art Vela, Public Works Director

MEETING DATE: October 22, 2024

SUBJECT: Consideration of Resolution 2024-169, Approving Electric Rate Increases and Revisions to Certain Electric Rates and Tariffs

RECOMMENDATION:

Adopt Resolution 2024-169.

BACKGROUND:

On June 25, 2024, staff reported on the lowering of the Banning Finance Authority's Outstanding Electric System Revenue Bond rating, see staff report attached hereto. In summary, the City's outstanding Electric System 2015 Refunding Revenue Bonds (current outstanding balance: \$20,880,000) underlying rating was downgraded from A- to BB due to two primary factors:

1. Lack of proactive rate setting: while the electric rates underwent various restructures, the rates have not been increased for the purpose of generating additional revenue since 2013.
2. The use of interfund borrowing to meet financial obligations: due to increases in power purchase costs, operating expenses and accelerated investments in capital improvements, the Banning Electric Utility's cash balance fell below reserve policy and has been supplemented by other City funds.

During the June 25, 2024 discussion, City Council provided direction for staff to prepare different rate increase options. On August 27, 2024, staff returned (see attached staff report) with four options:

1. Option 1: No rate increase; do nothing.
2. Option 2: A 13% rate increase in FY 2025 to cover the annual deficit only.
3. Option 3: A 64% rate increase in FY 2025 (Option 3A) or a 22% rate increase in FY 2025 and FY 2026 (Option 3B) to cover the annual deficit, brings cash balance to positive and avoids debt coverage covenant default.
4. Option 4: A 13% rate increase in FY 2025 to cover the annual deficit, bring cash balance to positive and avoids debt coverage covenant default. This option replenishes cash with \$10M bond revenue.

Although the majority of City Council supported Option 3B, two City Councilmembers (Flynn and Minjares) requested to see a modified Option 3B, that would include increases spread over three years rather than two years.

On September 24, 2024, staff presented three electric rate increase options for City Council's consideration:

1. Option 3B: Same as described above, although updated to reflect an increase of 22.7% each year in FY 2025 and FY 2026.
2. Option 3C: 14.7% rate increase each year in FY 2025, FY 2026 and FY 2027 to cover the annual deficit, bring cash balance to positive and avoids debt coverage covenant default.
3. Option 4B: 13.9% rate increase per year in FY 2025 and FY 2026 to cover the annual deficit, bring cash balance to positive and avoids debt coverage covenant default. This options is similar to Option 4 described above, although revised to rely on \$6M in bond revenue made up of \$3.8M in taxable financing and \$2.2m in tax exempt financing.

In concluding the discussion, Council majority supported Option 4B.

If approved, the following rates and tariffs will be adjusted as follows (see Exhibit “A” for revised rate and tariff pages in their entirety; all others remain unchanged):

Residential Service (RS-1)

	Current	11/1/2024	11/1/2025
Basic Service Charge – per meter	\$30	\$34	\$39
Energy Charge – per kWh	\$0.1421	\$0.1619	\$0.1843

General Service Single Phase (GS-1)

	Current	11/1/2024	11/1/2025
Basic Service Charge – per meter	\$58.50	\$67	\$76
Energy Charge – per kWh	\$0.1202	\$0.1369	\$0.1559

Small Commercial Multi-Phase (SC-1)

	Current	11/1/2024	11/1/2025
Basic Service Charge – per meter	\$58.50	\$67	\$76
Energy Charge – per kWh	\$0.1202	\$0.1369	\$0.1559
Multi-Phase Service Meter Charge	\$3.97	\$4.52	\$5.15

Interruptible Well Service (IW-1)

	Current	11/1/2024	11/1/2025
Basic Service Charge – per meter	\$300	\$342	\$389
Energy Charge – per kWh	\$0.1052	\$0.1198	\$0.1365
Demand Charge – per kWh	\$13.50	\$15.38	\$17.51

Medium Commercial Service (MC-1)

	Current	11/1/2024	11/1/2025
Basic Service Charge – per meter	\$200	\$228	\$259
Energy Charge – per kWh	\$0.1105	\$0.1259	\$0.1434
Demand Charge – per kWh	\$17.05	\$19.42	\$22.12

Industrial Service (IS-1)

	Current	11/1/2024	11/1/2025
Basic Service Charge – per meter	\$400	\$456	\$519
Energy Charge – per kWh	\$0.1010	\$0.1150	\$0.1310
Demand Charge – per kWh	\$14.50	\$16.52	\$18.81

Street Lighting Service (SL-1)

	Current	11/1/2024	11/1/2025
Per Street Light	\$8.45	\$9.62	\$10.96

Security Lighting Service (SL-2)

	Current	11/1/2024	11/1/2025
100 Watt Equivalent LED	\$9.72	\$11.07	\$12.61
250 Watt Equivalent LED	\$24.30	\$27.68	\$31.52
100 Watt Sodium Vapor	\$19.43	\$22.13	\$25.21
150 Watt Sodium Vapor	\$29.15	\$33.20	\$37.82
175 Watt Sodium Vapor	\$34.00	\$38.73	\$44.11
200 Watt Sodium Vapor	\$38.87	\$44.27	\$50.43
250 Watt Sodium Vapor	\$48.58	\$55.33	\$63.02
400 Watt Sodium Vapor	\$77.73	\$88.53	\$100.84
20 Foot or 35 Foot Wood Pole (City owned)	\$4.01	\$4.57	\$5.20

JUSTIFICATION:

Banning Electric Utility's ("BEU") cash balance has decreased significantly in recent years due to a combination of capital spending and inflationary pressures. Over Fiscal Years 2020-21 through 2022-23, BEU spent \$10 million per year on average toward capital projects. Additionally, while BEU has historically been able to generate sufficient operating revenues to cover operating expenses, in each of the last three fiscal years – 2022, 2023 and 2024 – operating expenses have been greater than operating revenues. One driver behind the increase in operating expenses is power purchase costs, which increased 31% from 2019 to 2023.

As a result, BEU's unrestricted cash and investment balance decreased significantly from over \$18 million in FY 2019 to negative \$9.5 million in FY 2024. Because operating expenses have been greater than revenues in the last three years and cash balances are negative, BEU has needed to borrow from

other City funds.

BEU's capital improvement plan has been drastically reduced with the intent of reducing expenditures and impacts the required electric rate increase, evident that the rate increases are not in excess of the revenue requirements reasonably necessary to operate the City's electric utility.

FISCAL IMPACT:

If approved, the first rate increase of 13.9% would become effective on November 1, 2024 and the second rate increase of 13.9% would become effective on November 1, 2025. The rate increase will generate sufficient revenue to cover all of Banning Electric Utility expenses including: general administrative services; services rendered by other city departments in support of the Banning Electric Utility; additions and betterments to the electric utility system; the amortization or depreciation of obsolete facilities within the electric utility system; any and all bonded indebtedness incurred in the construction or extension of the electrical utility system, including principal and interest thereof; and a reasonable reserve fund to provide for unforeseen contingencies.

The proposed electric rate increases will result in approximately \$2.5M in additional revenue in FY 2025 and \$4.1M in additional revenue in FY 2026.

ALTERNATIVES:

1. City Council could elect to reject staff's recommendation and no pursue an electric rate increase. This alternative would result in further degradation of BEUs cash balance as well as impact the City overall cash position. This alternative may also lead to further lowering of BEU's bond rating.
2. City Council could elect to reconsider the previous electric rate increase options or request another be explored. This alternative will result in further degradation of BEU's cash balance until rate increases are approved. This alternative may also lead to further lowering of BEU's bond rating.

BUDGETED?:

No

CONTRACT/AGREEMENT:

No

ATTACHMENTS:

1. [Resolution 2024-169, Electric Rates and Tariffs.docx](#)
2. [Exhibit A - Revised Electric Rates and Tariffs](#)
3. [6.25.24 Staff Report Lowering of Bond Rating.pdf](#)
4. [8.27.24 Electric Rate Increase Options Staff Report.pdf](#)
5. [8.27.24 Electric Rate Increase Power Point NHA Advisors.pdf](#)
6. [9.24.24 Electric Rate Options.pdf](#)
7. [Affidavit - Public Notice of Electric Rates Increase.pdf](#)