



CITY OF BANNING STAFF REPORT

TO: CITY COUNCIL

FROM: Arturo Vela, Acting City Manager

PREPARED BY: Fred Lyn, Deputy Director of Electric
Art Vela, Acting City Manager

MEETING DATE: September 9, 2025

SUBJECT: Presentation on the Banning Electric Utility Cost of Service Analysis and Rate Design Study prepared by NewGen Strategies and Solutions, LLC

RECOMMENDATION:

Discuss the Banning Electric Utility - Cost of Service Analysis and Rate Design Study and provide feedback to staff's recommended electric rate increases and next steps.

BACKGROUND:

The Banning Electric Utility's (BEU's) cash position had been in decline for several years. This downward trend accelerated between Fiscal Years 2020/21 and 2022/23, driven largely by increased capital expenditures that relied heavily on cash reserves. BEU's cash reserves fell below the threshold set by its reserve policy as of November 30, 2021, and became negative by December 31, 2022. By June 30, 2023, BEU reported an available cash balance of approximately negative \$9 million. This negative cash balance is primarily attributed to the utility's failure to secure external financing for major capital improvement projects, combined with the absence of necessary rate increases to keep up with the cost of service and shrinking operating margins.

Recognizing the urgency of BEU's financial challenges, the City Council approved Resolution 2024-169 on October 22, 2024, which implemented an emergency rate increase of 13.9% effective on November 1, 2024 for all rate classes (e.g., residential and commercial) and a second rate increase of 13.9% effective on November 1, 2025 for all rate classes (e.g., residential and commercial). Before this rate increase, BEU last implemented an electric rate increase in 2013.

On November 12, 2024, the City Council approved Resolution 2024-175, authorizing a Professional Services Agreement with NewGen Strategies and Solutions, LLC ("NewGen") to conduct a comprehensive Cost of Service Analysis and Rate Design. This effort officially launched in December 2024 and has progressed through key phases including data collection, rate strategy development, trend analysis, and multiple financial model reviews.

On May 20, 2025, City staff, in collaboration with the NewGen team, presented an update to the Budget and Finance Committee. The presentation outlined the rate study process, key revenue requirements and assumptions, current fund balances and financial metrics, proposed revenue adjustments, and the next steps moving forward. The Budget and Finance committee provided feedback and recommended a more detailed analysis for a 5-year rate scenario that would include rate revenue requirement increases of 20%, 20%, 3%, 3% and 3% and it was also recommended for staff to look at the potential cost savings to defer some capital expenditures.

On July 15, 2025, City staff, in collaboration with the NewGen team, presented a second update, which provided two recommended funding scenarios for a cash positive electric fund balance by either Fiscal Year (FY) 2027 or FY 2028 and the rate impacts and bill comparisons to BEU's different customer classes for both scenarios. The Budget and Finance committee provided feedback and recommended that the NewGen team move ahead with a rate design process where a positive cash electric fund balance will be met by FY 2028.

JUSTIFICATION:

This update will focus on the progress made from the feedback and recommendations that was requested from the July 15, 2025 Budget and Finance Committee and the proposed final draft of the recommended rate scenarios and the potential bill impacts. The attached presentation and the financial metrics will provide the City Council with a final update on BEU's Cost of Service/Rate Study.

In this workshop, staff is seeking feedback and final recommendations from the City Council regarding electric rate policy decisions and rate recommendations that will be presented to the City Council as a public hearing at its next scheduled meeting (i.e. 10/14/25).

FISCAL IMPACT:

The final Cost of Service/Rate Study will provide rate recommendations and corrective actions to restore BEUs future financial position and stability.

ALTERNATIVES:

Provide staff with alternative recommendations.

BUDGETED?:

No

CONTRACT/AGREEMENT:

No

ATTACHMENTS:

1. [Banning COS Rate Workshop 9-9-2025](#)
2. [Banning Draft Cash Flow Print-Out Full.pdf](#)
3. [Banning Draft Cost of Service Print-Out.pdf](#)
4. [Banning Draft Financial Forecast Print-Out.pdf](#)