



## CITY OF BANNING STAFF REPORT

**TO:** CITY COUNCIL

**FROM:** Elizabeth Gibbs, City Manager

**PREPARED BY:** Jennifer Terry, Finance Director  
Elizabeth Gibbs, City Manager

**MEETING DATE:** June 23, 2026

**SUBJECT:** Consideration of Resolution No. 2026-102, Declaring a Fiscal Emergency Due to Extraordinary Financial Circumstances Threatening the City's Ability to Maintain Essential Municipal Services

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### **STAFF RECOMMENDATION:**

Adopt Resolution No. 2026-102 declaring a Fiscal Emergency, which publicly explains the City's fiscal predicament, acknowledges the severity of the crisis, and directs the City Manager to pursue a defined set of actions to immediately stabilize the City's financial condition.

### **BACKGROUND:**

The City's financial challenges have been developing over a number of years. Over the past six fiscal years, the City adopted budgets that were not structurally balanced, relying on one-time revenues to offset ongoing expenditures. As a result, the General Fund balance declined from a \$13.1 million beginning balance in FY 2019/2020 to a projected negative \$12.8 million by June 30, 2026. The adopted FY 2024/2025 and FY 2025/2026 operating budgets included unrealistic revenue assumptions and continued reliance on non-recurring resources, further exacerbating the City's financial position.

While staff was aware that the City's finances were in a distressed state, specifics were difficult to pin down due to wholesale turnover in the Finance Department and the lack of current accounting records. This context informed the phased approach now underway.

On February 24, 2026, the City Council adopted a Strategic Plan that included the top priority Strategic Initiative 4a — Banning's Workout Plan to Sustainability.

On May 14, 2026, the City Council conducted a budget workshop titled "Banning's Workout Plan to Sustainability," during which staff presented detailed General Fund and Internal Service Fund projections, including a 10-year fiscal forecast. Staff estimated that the current fiscal year will end with a General Fund negative fund balance of approximately \$12.8 million. Without immediate corrective action, that deficit is projected to grow to approximately negative \$26 million in FY 2026/2027. The magnitude of the structural deficit — approximately \$14 million relative to a \$37 million General Fund budget — requires immediate and decisive action.

The Workout Plan to Sustainability is structured in phases. Phase 1 focuses on stabilizing the General Fund through immediate budget reductions and other corrective measures — the equivalent of “stopping the bleeding.” All options are on the table. However, Banning’s economy is not robust enough to resolve this deficit through revenue increases alone. The ultimate solution is three-fold: (1) some tax and fee increases, (2) cost reductions, and (3) assertive actions to grow the local economy.

## **PURPOSE OF THE RESOLUTION:**

Declaring a fiscal emergency formally acknowledges the severity of the City’s financial condition and establishes a framework for implementing the necessary fiscal recovery strategies. The proposed Resolution serves two purposes.

First, it ensures transparency with Banning residents about a fiscal problem that has festered without clear public communication for six or more years. Residents deserve to understand what has happened, why difficult actions are necessary, and how they will be affected.

Second, it provides City Council’s explicit direction to the City Manager to pursue a defined set of corrective actions. It is important for residents to hear directly from their elected officials that the City Council and City Manager are aligned and moving in the same direction. The fiscal recovery measures authorized under the Resolution include:

- Development of a structurally balanced FY 2026/2027 General Fund budget
- Multi-year financial planning to eliminate negative fund balances
- Expenditure reductions and cost containment measures
- Evaluation of staffing levels and organizational restructuring
- Identification of new revenue opportunities and cost recovery strategies
- Pursuit of economic development initiatives
- Deferral or reprioritization of capital projects and non-essential spending
- Collaboration with labor groups in compliance with applicable laws
- Pursuit of grants and external funding sources

## **JUSTIFICATION:**

The City is experiencing a severe structural deficit that threatens its ability to maintain essential municipal services and protect public health, safety, and welfare. Declaring a fiscal emergency is necessary to acknowledge the urgency of the situation, to communicate transparently with the public, and to establish the formal authority needed to implement immediate corrective actions. The Resolution is a foundational step in the FY 2026/2027 budget process and the first phase of Banning’s path to long-term fiscal sustainability.

## **FISCAL IMPACT:**

Adoption of this resolution does not, by itself, have a direct fiscal impact. However, it authorizes and directs the implementation of fiscal recovery measures necessary to stabilize the City’s financial

condition and prevent further deterioration of the General Fund.

**ATTACHMENTS:**

1. [Resolution No. 2026-102\\_Declaraction of Fiscal Emergency 06.23.2026.pdf](#)
2. [Banning Revised\\_Fiscal\\_Policies\\_May 14 2026.pdf](#)