



City of Del Mar Agenda Report

TO: Honorable Mayor and City Council Members

FROM: Martin Boyd, Principal Engineer
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DATE: November 18, 2024

SUBJECT: Citywide Undergrounding Program Financial Analysis and Potential Funding Options

REQUESTED ACTION/RECOMMENDATION:

Staff recommends the City Council: 1) Receive a presentation from City staff and NHA Advisors, LLC (NHA), based on NHA's Technical Memorandum (Attachment A); 2) Provide feedback and recommendations regarding an initial borrowing to fund Undergrounding Districts X1A and 1B construction and the overall preferred funding strategy for the City's Undergrounding Program; 3) Approve Task Order 2 with NHA for \$20,000 to further evaluate financing options and structure (Attachment B); 4) Authorize the City Manager to execute the Task Order and any amendments up to \$5,000; and 5) Amend the Fiscal Year 2024-2025 Operating and Capital Budget as described in the Fiscal Impact section of this report.

EXECUTIVE SUMMARY:

Citywide undergrounding has been a community goal since 2016, following approval of Measure Q by the voters. With the completion of the Tewa Court/10th Street pilot project and Utility Undergrounding District (UUD) 1A (Stratford Court South) construction underway, the City is working to identify viable and fiscally responsible potential funding strategies for undergrounding future districts, starting with the UUD X1A (Crest Canyon).

Staff and the City's financial consultant, NHA Advisors, have completed a comprehensive financial analysis and developed a dynamic model to assist the City Council with selecting a funding strategy that best addresses the community's goals and project challenges.

Three potential financing strategies will be discussed in this report that range from a "pay-as-you-go" model (no financing) to a "finance-as-you-go" model (periodic and strategic financing when needed). The timeline for completing the Undergrounding Program is 20 to 35 years depending on which strategy is ultimately pursued by the City. The current base total project cost is estimated to be \$105 million in today's dollars, which may increase to over \$200 million when applying inflation and financing costs over the life of the project.

In September and October, the City's Undergrounding Project Advisory Committee (UPAC) and Finance Committee received detailed presentations from staff and NHA Advisors and both committees recommended that the Council direct staff to further investigate public (bond) and private (bank loan) financing options to fund the next phase of undergrounding. In addition, UPAC

IT WAS MOVED BY DEPUTY MAYOR GAASTERLAND, SECONDED BY COUNCILMEMBER MARTINEZ TO APPROVE TASK ORDER 2 WITH NHA ADVISORS FOR \$20,000 TO FURTHER EVALUATE FINANCING OPTIONS AND STRUCTURE; AUTHORIZE THE CITY MANAGER TO EXECUTE THE TASK ORDER AND ANY AMENDMENTS UP TO \$5,000; AND AMEND THE FISCAL YEAR 2024-2025 OPERATING AND CAPITAL BUDGET AS DESCRIBED IN THE FISCAL IMPACT SECTION OF THE AGENDA REPORT. (VOTE 4-0)

recommended continued monitoring of cost variables for feasibility, particularly at each financing stage, continued efforts to assess cost efficiencies, and work with SDG&E to better understand and control costs.

If the City Council decides to proceed with further evaluating borrowing options to fund UUD X1A and 1B construction, staff will execute Task Order 2 with NHA (Attachment B) and return to the Finance and Undergrounding Committees with more detailed information about borrowing options, timing, and cost in early 2025, followed by a presentation and recommendation to the City Council.

BACKGROUND:

Measure Q, a 1% local transaction and use tax (sales tax) measure initiated by the City of Del Mar (City), was approved by voters in November 2016, and went into effect in April 2017. Measure Q is a general tax allowing for the funds to be used for any City governmental purpose and is derived from taxable purchases made in the City of Del Mar as well as online and vehicle purchases by Del Mar residents. As such, it is most comparable to sales tax revenues received by the City.

The ballot language for Measure Q stated that funding would be used for “*general city services and infrastructure projects, such as improvement of streets and sidewalks, utility undergrounding, public landscapes, improvement of community parks, trails and recreation facilities; police, crime prevention, fire protection and other public safety services.*”

In October 2017, the City Council prioritized use of Measure Q funds for Downtown Streetscape, undergrounding of utility poles citywide, and completion of the Shores Park Master Plan and future implementation. This was reaffirmed in September 2018, through adoption of Resolution 2018-63 (Attachment C). Since that time, citywide undergrounding efforts have been ongoing; Downtown Streetscape was completed in 2020; and the Shores Park Master Planning effort was placed on hold during COVID with next steps to be considered by the Council in early 2025.

The City’s Undergrounding Program Advisory Committee (UPAC) was established in 2017, and over the course of approximately two years, the Committee developed a project delivery plan, estimated project costs, assisted with prioritizing undergrounding districts, drafted communications plan, and provided policy recommendations for City Council consideration.

On August 5, 2019, the City Council adopted the UPAC recommended Project Delivery Plan (PDP) to achieve the citywide Undergrounding Program (UP), with the identified goals of improving overall public safety; reducing fire risks in fire critical areas; and improving property values and public/private views. The PDP includes prioritization of districts based on fire risk, density, and circuit logistics of San Diego Gas & Electric (SDG&E) utilities. Based on the information available at the time, UPAC anticipated the project timeframe could range anywhere from 12 to 26 years.

The key underlying assumptions for the PDP, as recommended by UPAC and supported by the City Council, are as follows:

- The City should remain committed to prioritizing and eventually undergrounding all overhead utilities.

- The City should cover all costs in the public right-of-way and on City property, with the exception of the cost for non-joint trenching for the telecommunications utilities infrastructure.
- Private property owners and other government agencies should cover all the costs associated with the undergrounding project that is on their property.
- The City should limit expenditures on the UP to using Measure Q money and do the best the City can with those funds, even if it means the City cannot underground its entire jurisdiction as fast as the citizens wish, consistent with commitments to Shores Park and the Downtown Streetscape projects.

The City Council agenda report from April 15, 2019, noted that if the costs from the bidding process exceeded expectations, the Council could consider various alternatives, including cost-sharing with private properties through the formation of an assessment district. However, this was not recommended by UPAC and pursuing this as an option at this point in the program implementation could create many potential issues. Some issues that may arise include things such as inequity among property owners with some having to pay toward their undergrounding work through an assessment and not others; assessments can only be formed through a majority vote of the affected property owners; potential impacts to Council approved district areas that were strategically scoped and prioritized based on the factors described above; and risk of creating an inefficient piecemeal design that results in higher overall project costs.

A copy of the [August 5, 2019, City Council agenda report](#) with more detailed information, including the PDP, can be found on the City's [undergrounding webpage](#).

With regard to undergrounding, to date, the City completed a small pilot project known as Tewa Court/10th Street in February 2023; started construction of Utility Undergrounding District (UUD) 1A with an expected completion date of August 2025; is finalizing design of UUD X1A with construction expected to begin in spring 2025 pending availability of financing; formed UUD 1B with 30% design complete and 60% design anticipated by year-end; and recently completed formation of UUD 2 with design on hold pending approval of a UP funding strategy.

Measure Q Financial Overview

Although Measure Q revenues are legally considered general fund revenues and reported as such in the City's Annual Comprehensive Financial Report (ACFR), they are internally set aside and tracked separately to ensure they are being used for Council designated purposes and in accordance with Council direction, which is reviewed and reported on annually by the City's Measure Q Citizen Oversight Committee.

To date, the City has collected \$20.9 million in Measure Q revenues (including interest earned), and a total of \$11.1 million has been spent. An additional \$3.5 million is anticipated in revenue in Fiscal Year 2024-2025, with an additional \$12.7 million allocated to fund upcoming UP expenditures. Below is a chart that provides more detailed Measure Q revenue and expenditure information.

Measure Q Funds	Amount (in millions)
Revenues Received to Date (FY24 preliminary)	\$20.9
Downtown Streetscape Expenditures	(\$7.0)
Undergrounding Expenditures	(\$3.9)
Shores Park Master Planning Expenditures	(\$0.02)
Maintenance of Effort Paving (MOE) Expenditures	(\$0.2)
Measure Q Balance (June 30, 2024)	\$9.8
Projected Revenue (FY 2025)	\$3.4
Projected Expenditures (FY 2025) including UUD 1A (full) & X1A (partial)	(\$12.7)
Projected Measure Q Balance (June 30, 2025)	\$0.5

Based on anticipated undergrounding expenditures in the current fiscal year, the projected fund balance at the end of FY 2024-2025 is approximately \$500K.

More detailed information regarding the history of Measure Q and accomplishments to date can be found at: <https://www.delmar.ca.us/DocumentCenter/View/9623/Item-12--Measure-Q-Overview>

Utility Undergrounding Process Overview

It is important to understand the different stages of a utility undergrounding project, starting with district formation through completion, as each of these stages include activities that generate project costs.

The process starts with district formation requiring the City Council to form an UUD before any design work can begin. Once the City Council has created a UUD, an approximately 30-to-38-month design process begins. There are many tasks during the project's design phase, such as surveying existing conditions, design by utility companies and City civil design, coordinating service lateral design with homeowners, easement coordination and recordation, and the City preparing California Environmental Quality Act (CEQA) documentation and permits.

Once the design process is complete, a construction bid package is prepared and the City undertakes a competitive public bidding process in accordance with State law. The City Council is then asked to consider awarding a construction contract to the lowest responsive and responsible bidder.

After the selected contractor is awarded a contract and issued a notice to proceed, construction of the underground utility systems and the subsequent removal of overhead utility systems in the public right-of-way commences and is anticipated to take between 12 to 24 months for each district. This construction process consists of four phases: trenching/conduit by the City and property owners, cable & connections by utility companies, service cutovers by utility companies, and pole removals by utility companies.

UP General Cost Estimates

Since 2016, the City has engaged specialized consultants, Utility Specialists and Lee & Ro, City Finance and Undergrounding Program advisory committees, and SDG&E, in an ongoing process to understand and forecast UP general costs.

Prior to placing Measure Q on the ballot for voter consideration, the concept of undergrounding utility lines throughout the City was preliminarily evaluated by the City's Finance Committee, who recommended in April 2016 the City Council consider a one-cent sales tax measure that could be used to amortize debt related to citywide undergrounding with an estimated total project cost of \$25-30 million. The basis for this early Finance Committee estimate is not entirely clear.

Additionally, Utility Specialists provided an early 2016, pre-Measure Q, estimate of \$18 million for total undergrounding costs. This estimate was incomplete in that it only considered construction costs and did not capture all project costs as further described below.

Before true project costs were known through completion of UUD Tewa Court/10th Street and UUD 1A bidding process, Rough Order of Magnitude (ROM) estimates were used to predict UP costs, which have evolved over time, as described below, based on the best information available.

Utility Specialists Original Program Estimate Incomplete

In 2019, Utility Specialists developed an incomplete program cost estimate of \$26.5 million based primarily on a \$323 per linear foot cost of overhead conversion. Cost of overhead conversion refers to the estimated cost per linear foot to relocate overhead electrical line underground. Unfortunately, Utility Specialists' estimate was very preliminary and incomplete as it did not take into consideration many important cost factors, as further described below. In comparison to current project estimates, the initial Utility Specialists cost estimate was deficient in that it:

- Was for hard construction costs only. It did not include necessary "soft costs" for utility and environmental consultants, project management, homeowner communication and coordination, civil engineering and surveying, protected tree surveys, bidding and construction management, etc.
- Assumed simple trench patch work only for restoration and did not include additional repair for curbs, gutters, concrete sidewalk/pedestrian ramp, concrete or paver driveways, and retaining walls.
- Was based on previous historical cost data mostly from private land development projects, not public projects completed in existing streets.
- Did not include estimated cost escalation to the anticipated year of construction.

Lee & Ro, UPAC, and SDG&E Program Estimates

On August 5, 2019, City Council approved recommendations made by UPAC and City staff pertaining to the preliminary undergrounding district boundary map (i.e., blocks) and prioritization of the blocks related to the PDP.

As part of this process, Lee & Ro developed a program cost estimate of \$51.6 million at a cost of \$719 per linear foot of overhead conversion. As part of developing the PDP, the City Council instructed staff and UPAC to complete a deeper review of the costs to reconcile the differences in the program cost estimates provided by Utility Specialists and Lee & Ro.

Through this review, UPAC developed their own program cost estimate of \$32-\$42 million which is a cost of \$464-\$609 per linear foot of overhead conversion. UPAC also stated in their

recommendation that the cost for the project, including construction cost escalation and financing costs where applicable, could range from \$61 to \$95 million.

At that time, UPAC and staff also received an estimated cost range of \$700-\$1,000 per linear foot of overhead line conversion from SDG&E (who was actively completing undergrounding projects and is most familiar with this work), for a total estimated project of \$52.8 to \$75.4 million.

A summary of program cost estimates from 2019 through the present is provided below.

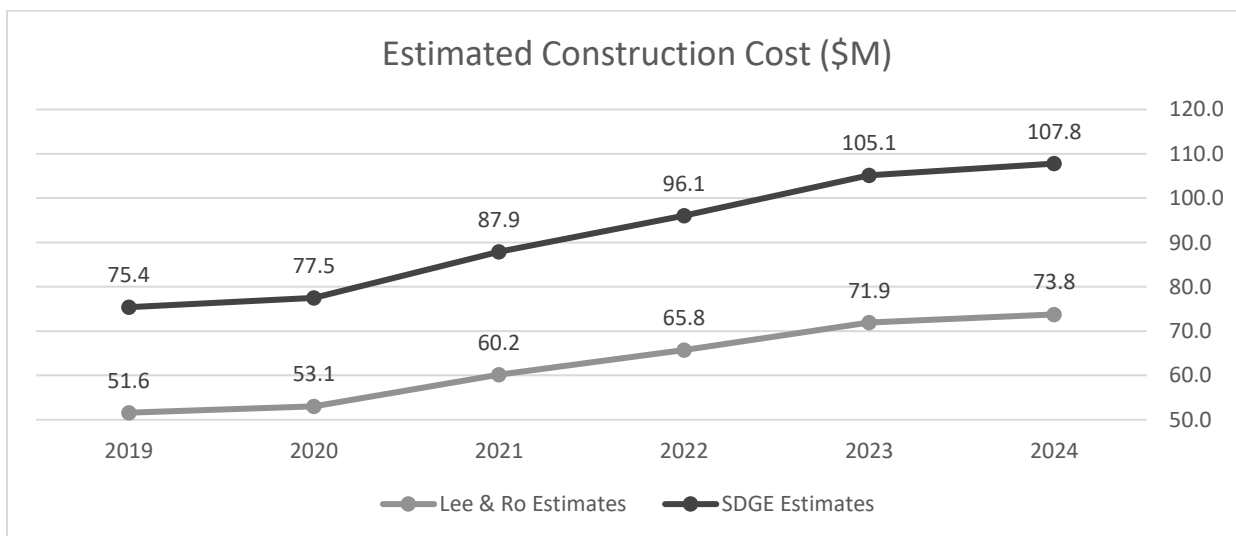
	Utility Specialists (2019)	UPAC (2019)	Lee & Ro (2019)	SDG&E (2019)	Current (2024)
Program Estimate	\$26.5M*	\$32-42M	\$51.6M	\$52.8-\$75.4M	\$105.6M
Cost Per Linear Ft of Overhead	\$323	\$464-\$609	\$719	\$700-\$1000	\$1,400

*Incomplete estimate as described above

Impact of Inflation on Project Cost

The City’s actual and future projected undergrounding costs have been significantly impacted by construction cost inflation and SDG&E costs, both of which are factors outside of the City’s control. According to the California Construction Cost Index (CCCI), construction cost inflation was low and stable at around 3% annually on average from 2009-2020. From 2019-2024, the CCCI index increased about 43% total for the period, with the highest three-year period (2021-2023) having increased about 11% on average annually.

When applied to the prior estimates provided by Lee & Ro and SDG&E in 2019, as shown in the table below, the current base project cost estimate of \$105.6 million is around the higher end of the 2019 SDG&E stated range after accounting for inflation.



Current Base Project Cost Estimate

The current base project cost estimate in today’s dollars is \$105.6 million. Key components informing the project cost estimate, which are subject to change over time based on market conditions, include the following:

- Pre-construction Services: Estimated based on the data from current projects. Pre-construction services include surveying existing conditions, design coordination with utility companies, City civil design, coordinating service lateral design with homeowners, easement coordination and recordation, and the City preparing CEQA documentation and permits. This work takes approximately 30 to 38 months, depending on district size, design complexity, and homeowner lateral and easement coordination.
- SDG&E and AT&T Costs: Estimated based on the latest UUD 1A costs on a per linear foot basis for overhead or trench, if available. SDG&E and AT&T work includes engineering designs, cable and connections, service cutovers, and pole removals. Per Rule 20B, SDG&E bills the City for all work except for overhead removals, and the City also receives a credit for “overhead equivalent value”. AT&T bills the City for design and inspection. This work takes approximately 6 to 20 months, depending on district size and construction complexity.
- City Construction Costs: Estimated based on the latest UUD 1A costs on a per linear foot for overhead or trench, if available. City construction activities include trenching and installation of conduit and substructures, hand digging within proximity of protected trees and parallel existing utilities, exploratory potholes, asphalt resurfacing, concrete driveways and curbs restoration, installation of retaining walls, pedestrian ramp installation, hydroseed, irrigation repairs, traffic control and safety for vehicles and pedestrians, construction staging, storm water pollution prevention and erosion control, construction management services, geotechnical services, environmental monitoring services, and other required construction activities. This work takes approximately 6 to 20 months, depending on district size and construction complexity.
- Estimating Contingency: Estimated based on design variables, some of which, such as final quantities and project complexities, are unknown until the final design is complete.

As an example, the approximate breakdown of costs for UUD 1A based on the latest cost estimate, as more fully described below, is as follows:

UUD 1A	Cost (in millions)
Pre-Construction Activities	\$0.67 (7%)
SDG&E Costs	\$3.58 (36%)
AT&T Costs	\$0.15 (1%)
City Construction	\$4.63 (46%)
City Construction Support Services	\$0.49 (5%)
Project Contingency	\$0.51 (5%)
Total	\$10.03

These percentages of costs will change for each district depending on the complexity of the design, scope of construction, and overall size of area, but this provides a general understanding of how costs are allocated for the undergrounding projects and the primary cost drivers.

City Construction Bids for UUD 1A – Stratford Court South

On July 8, 2024, the City Council awarded the City construction contract for UUD 1A. The total project cost for UUD 1A is now estimated to be \$10.03 million based on cost increases related to City construction and SDG&E. The prior total project cost estimate provided on December 4, 2023, was \$5.40 million based on costs from UUD Tewa Court/10th Street. The estimated project cost at that time did not reflect SDG&E's final reconciliation invoice and did not include a standard 10% project contingency during construction.

Based on updated final cost information for UUD Tewa Court/10th Street, the cost per linear foot of overhead conversion is now estimated at \$1,312, and the cost per linear foot of joint trench is estimated at \$899. This includes the cost of required professional services during the design phase in preparation for the bid process, cost for construction, costs paid to the utility companies for their engineering fees and construction work, and the cost for third party construction management services during construction.

As part of the City's legally required competitive bidding process, the lowest base bid received for UUD 1A was \$4.71 million, which is \$1.67 million higher than the engineer's estimate of \$3.04 million. The following are some reasons for cost differences between the engineer's estimate and actual bids received according to the UP consultants and selected contractor:

- Inflation of 20% since UUD Tewa Court/10th Street bids, according to the California Construction Cost Index. The UUD 1A bid is 22% higher than the UUD Tewa Ct/10th St bid on a linear foot of trench basis;
- The project location is difficult for construction and traffic/pedestrian control since it is located within congested streets containing several utilities and is near the beach;
- Hand digging within proximity of protected trees, parallel existing utilities, and for exploratory potholes when crossing existing utilities;
- Shoring for deep trenches when crossing existing utilities; and
- Anticipated effort for scheduling and coordination with SDG&E during construction.

The UUD 1A bid results have enhanced the City's understanding of UP costs and provided necessary information to update the projected base costs for the entirety of the UP.

SDG&E Costs

The California Public Utilities Commission (CPUC) regulates the requirements for electric utilities with regards to their participation in utility undergrounding pursuant to tariff rules, specifically Rule 20. As such, completion of the UP necessitates coordination with utility companies, including SDG&E, AT&T, Charter Communications/Spectrum, and Crown Castle.

Specifically, the City must rely on SDG&E to complete certain portions of undergrounding projects, such as installation of cables and connections, pole removals, service cutovers, and engineering design. SDG&E has informed the City that these portions of the undergrounding project must be performed by SDG&E, and cannot be done by the City. SDG&E has allowed the City to assume responsibility for trenching and installation of conduit and substructures.

Unfortunately, limited information regarding SDG&E costs is publicly available and costs have varied significantly from project to project. The following sections below discuss the evolution of SDG&E costs related to UUD Tewa Court/10th Street and UUD 1A.

Staff is actively working to obtain more detailed cost information from SDG&E. Additionally, to better understand the City's rights and entitlements to information under the CPUC rules and regulations, the City has engaged special legal counsel.

Based on a recent City meeting with SDG&E executive staff, the City and SDG&E management will begin meeting quarterly starting in December 2024, to address any issues that may arise, and SDG&E has committed to providing the City with more detailed cost information along with timely updates regarding changes in costs to ensure the City can properly plan financially for the project. Additional actions to memorialize the partnership between the City and SDG&E regarding the City's Undergrounding Program are underway.

UUD Tewa Court/10th Street

On February 8, 2023, the UUD Tewa Court/10th Street project was officially completed, with the removal of the final pole as part of a neighborhood pole removal ceremony. Through the City's contract with SDG&E, the City is billed for the actual cost of installation of cable and connections, pole removals, service cutovers, and engineering fees.

As part of the actual cost billing process, SDG&E provides the City with an initial estimated cost invoice prior to construction and then a final reconciliation invoice based on the actual costs after construction is complete. SDG&E's initial estimated invoice for UUD Tewa Court/10th Street was \$147,595, and the final reconciliation invoice was for an additional \$97,002 (66% increase), resulting in a final SDG&E cost of \$244,597.

The final reconciliation invoice was sent to the City in March 2024, one-year after project construction completion. SDG&E explained that the significant increase in the final reconciliation invoice was the result of enterprise-wide cost increases due to labor costs, inflation, and supply chain challenges.

It is important to note that due to the small size of the Tewa Court/10th Street project, SDG&E billed the City on a time and materials basis. However, UUD 1A and future districts are large enough that SDG&E will obtain fixed bids for these projects (SDG&E bids this work out, as it is not done in-house). The fixed bid process will provide more control over reconciliation costs as the only expected changes in costs would be for change orders due to unforeseen field conditions, need for specialty inspections, or any other unanticipated costs during construction.

SDG&E's final cost to the City of \$244,597 for UUD Tewa Court/10th Street, represents \$182 per linear feet of trench. The final overall total project cost is \$928,879, which is \$691 per linear feet of trench. The total project cost includes all pre-construction, City construction, SDG&E, and telecom costs for the project.

UUD 1A – Stratford Court South

The City originally budgeted \$1 million for SDG&E costs for the UUD 1A, which was based on SDG&E's initial estimate of \$148 per linear foot of overhead for UUD Tewa Court/10th Street. However, applying SDG&E's final UUD Tewa/10th Street cost of \$182 per linear foot of trench to the 11,165 linear feet of trench for UUD 1A, brings the estimated SDG&E cost to \$2 million.

Upon design completion in March 2024, SDG&E provided a much higher than anticipated initial estimate of \$3.56 million for UUD 1A. This estimate is 77% higher than the UUD Tewa Ct/10th Street final costs on a linear foot of trench basis. For comparison, the City's construction costs (excluding SDG&E) have only increased 21%, which is in line with the California Construction Cost Index (20%) from receiving the bids for UUD Tewa Ct/10th Street in December 2021 and UUD 1A in May 2024.

In summary, increased costs associated with the UP are primarily related to economic inflation and unanticipated SDG&E cost escalation.

DISCUSSION/ANALYSIS:

Starting in mid-2023, City staff and the UPAC financing subcommittee began work on a Measure Q cash-flow analysis to understand when financing for the project may be needed based on a preliminary project schedule and projected costs. At that time, it was determined that project financing would not need to be further explored until 2025 in order to receive funds in 2026.

However, based on updated SDG&E costs in March 2024 and UUD 1A construction bids received in May 2024, staff identified the need to engage a specialized financial consultant much sooner than originally anticipated and initiated a Request for Qualifications (RFQ) process in June 2024.

On July 8, 2024, the City Council awarded a contract for financial advisory services to NHA, who have extensive experience providing financial consulting services, including developing financing programs for utility undergrounding projects and working on municipal revenue measures, to over 170 public agencies in California. The Council's direction to staff at the time of the contract award was to proceed with a financial analysis and identify potential funding options to continue moving forward with the UP.

The initial scope of work to be completed by NHA includes completing a due diligence and debt capacity analysis that considers the City's goals and challenges; developing comprehensive financing options; and assessing feasibility to fund the City's UP. Should financing all or some of the project be the selected strategy supported by the City Council, NHA and staff would return with more detailed information about public and private financing options for consideration.

It is important to note that the financial analysis was conducted with the assumption that the City will proceed with the UP as directed by the City Council. However, there is no legal obligation for the City to do so, as utilizing Measure Q funds for undergrounding was a City Council policy decision based on strong support from the community. Should the City Council decide at some point not to proceed with the UP, staff would evaluate the status of active projects at that time and advise on any sunk costs that would be lost if the City did not move forward. Maintenance and repair of the existing overhead electrical and telecom lines and infrastructure is the sole responsibility of SDG&E and the telecom companies.

Financing Model Considerations

Immediately following Council approval of the agreement, staff began work with NHA to complete due diligence and debt capacity analyses, assess overall project financial feasibility and create a dynamic financial model that analyzes different funding strategies and alternatives.

The financial model created by NHA includes multiple assumptions and inputs including pay-as-you-go (Pay-Go) versus financing; reserve fund balance tracking; Measure Q revenue growth

projections; project inflation; financing terms (amortization); interest rates; and timing of program costs. Included as Attachment A is a technical memorandum from NHA that explains the details behind the methodology used to develop the model assumptions.

The analysis also took into consideration the City's debt capacity. Traditionally, the City has maintained low debt and currently has only two governmental long-term debts. One of which is secured and paid for using the City's annual TransNet revenue allocations and is held and managed by the San Diego Association of Governments (SANDAG) debt financing program. This loan does not have any impact on the City's General Fund. The second loan was secured in 2017 to finance construction of the Civic Center, which is paid for with General Funds and has a remaining balance of \$13.5 million. The loan will mature on August 1, 2045.

Potential Project Funding Approaches

In modeling potential funding strategies, NHA and staff looked at several scenarios including Pay-Go (no borrowing); issuing debt incrementally to fund district projects while keeping debt service within the Measure Q revenue flow; and a hybrid of the two. Pay-Go models utilize reserves and/or ongoing revenues and require ample cash reserves to fund projects. Issuing debt can accelerate phased projects and capture project cost savings by limiting inflation impacts but does result in additional administrative borrowing costs and interest.

Funding Scenarios

The model created by NHA allows the City to run an unlimited number of funding scenarios. Since the model is based on current assumptions, it was determined that a funding strategy could be decided by providing three funding scenarios, which are described in detail in the technical memo and summarized below. In all cases, the funding source for any costs related to the UP is Measure Q.

An Undergrounding Funding Analysis Summary showing each of the three scenarios side-by-side is included as Attachment D. An individual overview of each scenario is included as Attachment E, which provides a summary of the funding scenario, cash flow analysis, and project timeline.

The base assumptions are consistent across all three scenarios and are as follows:

- Base project cost estimate: \$105.6 million
- Annual Measure Q Revenue Growth: 2.5%
- Annual Cost inflation: 3.5%
- Annual Earnings Rate on Reserves: 2.0%
- Financing assumptions
 - 30-year term; 4.50% interest rate
 - 15-year term; 4.15% interest rate

To determine the assumptions for inflation, revenue growth, and earnings on reserves, staff performed various analyses to determine the appropriate base assumptions, which are further described below.

Measure Q Revenue Growth

The model assumes annual Measure Q revenue growth of 2.5%. The 2.5% annual revenue growth assumption is supported by factors including: average annual growth of 4.13% since Measure Q's inception (2017) and average sales tax annual revenue growth of 2.7% from 2004-2023. Since there are only seven full years of Measure Q revenue data, of which two of those

years were impacted by the pandemic, staff also evaluated annual average growth of sales tax revenue to determine the base assumption of 2.5%.

Project Cost Inflation

The model assumes an annual project cost inflation of 3.5%. CCCI average annual growth was 4.96% annually over the last 10-years and 4.41% for a 20-year period. This includes the high inflation period from 2019-2023 when inflation was approximately 11% on average. Excluding the outlier high inflation period, the rate changes to 3.06% for a 10-year period to 4.09% for a 20-year period.

Annual Interest Rate on Reserves

Since Measure Q reserves are liquid funds that should be available as soon as funds are needed, the base annual interest rate on reserves of 2% was based on Local Agency Investment Fund (LAIF) average annual yields. Although current LAIF rates are favorable, the 10-year average annual yield from 2015-2024 is 1.4% and 1.0% for a 20-year period. Based on the recent 3-year average annual yield of 2.2%, staff has included a 2% assumption for the initial model input. Although an interest rate sensitivity analysis was not performed on all scenarios, staff ran the model with a 3% and 1% earnings rate, and inputs indicate that project timeline would shorten or extend by 1-2 years if the performance is better or worse than anticipated.

Financing Assumptions

Financing assumptions used in the model were based on offerings that were available at the time when the model was created. Since then, rates have slightly decreased, which may only have a positive impact to the timeline of the entire project. If Council decides to proceed with the initial borrowing, rates in the model will be updated with offerings that are available at that time.

District start and end dates included in the model are based on the base assumptions listed above. Actual results of assumptions (i.e., cost inflation, revenue growth, interest earned on reserves) will impact project timelines with positive results shortening the project timeline and unfavorable results extending the project timeline. A sensitivity analysis was performed by NHA which is further described in their technical memorandum (Attachment A) and included for each individual scenario summary listed below.

Although the true total project cost is unknown, included in the analysis for each scenario is the estimated total project cost presuming all assumptions remain unchanged.

Scenario 1: Pay-Go/No Financing Strategy (35-Year Funding Program)

This scenario does not include any borrowing and anticipates a project completion time of 35 years (2059) for all districts. This scenario indicates that sufficient funds will not be available in Measure Q reserves to construct UUD X1A until 2029, resulting in having to delay the project construction by three years. This delay will result in increased project costs related to redesign and cost inflation based on the current annual cost inflation assumption of 3.5%. It will also defer pole removal for a top priority fire hazard area. Since this scenario does not include any financing, there are no expenses related to cost of issuance and interest expense.

As reported in the cash flow analysis, based on an assumed earned interest on reserves of 2%, this scenario would generate more interest income in comparison to Scenario 3 described below. However, the 35-year timeline of this scenario results in an increase in inflation cost adjustment

when compared to the other two scenarios. The total project cost summary below assumes a 3.5% annual inflation cost adjustment.

Summary of Project Cost

Base Project Cost	\$105.6 million
Inflation Cost Adjustment	<u>99.5 million</u>
Total Project Cost (inflation-adjusted)	\$205.1 million
Net Present Value	\$105.5 million

Sensitivity Analysis

NHA Advisors completed a sensitivity analysis for each scenario. The sensitivity analysis is intended to “stress test” the model and provide “bookend” best-case and worst-case assumptions for revenue and inflation, to demonstrate how the project will be impacted by changes to these assumptions.

- Baseline: 2.50% revenue growth and 3.50% inflation – Total project completion 2059
- Negative Outcomes: 0.5% lower revenue and 0.5% higher inflation – Total project completion in 2069
- Positive Outcomes: 0.5% higher revenue and 0.5% lower inflation – Total project completion in 2052

Scenario 2: Minimal Financing Strategy (35-Year Funding Program)

This scenario involves an initial borrowing of \$17 million to finance UUDs X1A and 1B to maintain the existing project schedule beginning construction for UUD X1A in early 2025.

UUD X1A is nearing final design completion and almost all necessary easements for the project have been obtained. UUD X1A is identified as a high fire risk area for the City and was prioritized in the PDP for early completion.

UUD 1B is a small district with a lower overall cost compared to other districts and is already at 30% design completed. Financing the project would allow the City to take advantage of today’s cost and avoid inflation associated with delaying the project. All remaining projects would be funded through a Pay-Go model.

Scenario 2 is a 35-year project with an estimated completion date for all UP districts by 2059. This scenario represents a minimal financing strategy that includes one 15-year term loan/bond with lower interest costs. Financing terms are not within the scope of this report; however, if this option is selected, the City Council may determine that a 30-year term bond is more beneficial as it will lower the debt payment and free up Measure Q revenue to begin UUD 2 as soon as sufficient Measure Q reserves are available.

Although the inflation cost adjustment for this scenario is slightly lower than Scenario 1, this scenario does not delay UUD X1A and UUD 1B, which will avoid redesign costs. The total project cost summary below assumes a 3.5% annual inflation cost adjustment and a 15-year term loan/bond at a 4.15% rate.

Summary of Project Cost

Base Project Cost	\$105.6 million
Inflation Cost Adjustment	97.7 million

Financing Cost	<u>6.6 million</u>
Total Project Cost (inflation-adjusted)	\$209.8 million
Net Present Value	\$106.7 million

Sensitivity Analysis

- Baseline: 2.5% revenue growth and 3.5% inflation – Total project completion 2059
- Negative Outcomes: 0.5% lower revenue and 0.5% higher inflation – Total project completion in 2069
- Positive Outcomes: 0.5% higher revenue and 0.5% lower inflation – Total project completion in 2053

Scenario 3: Finance As You Go/Accelerated Financing Strategy (20-Year Funding Program)

This scenario involves an initial borrowing of \$17 million to finance UUDs X1A and 1B with the intent to continue to borrow for the remaining districts over time to accelerate the project timeline. The speed of the borrowings can be determined based on the actual results received.

Staff provides Council annual updates related to Measure Q revenue growth and reserves. If Scenario 3 is the selected funding strategy, following the initial borrowing, staff would return to Council in 2027 with updated financial information seeking direction on whether to proceed with designing UUD 2, which would occur in preparation for the next expected required borrowing in 2029 to cover district construction costs. At that time, the Council could decide to proceed or hold off on initiating design/financing for the District based on current finances and market conditions. The City would continue to use this approach until all districts are completed.

Scenario 3 allows for a potentially 20-year project with an estimated completion date for all UP districts of 2044. This accelerated financing strategy requires all borrowing terms to be 30-years to keep annual debt service payments within the projected Measure Q revenues.

Accelerating the project timeline reduces inflation costs, but also increases financing costs. Based on current assumptions, this scenario is projected to have the highest total project cost but will allow the City to complete the total project 15 years earlier than Scenarios 1 and 2. The total project cost summary below assumes a 3.5% annual inflation cost adjustment and 30-year term bond at a 4.50% rate for all borrowings.

Summary of Project Cost

Base Project Cost	\$105.6 million
Inflation Cost Adjustment	37.9 million
Financing Cost	<u>80.1 million</u>
Total Project Cost (inflation-adjusted)	\$223.7 million
Net Present Value	\$115.2 million

Sensitivity Analysis

- Baseline: 2.5% revenue growth and 3.5% inflation – Total project completion 2044
- Negative Outcomes: 0.5% lower revenue and 0.5% higher inflation – Total project completion in 2061
- Positive Outcomes: 0.5% higher revenue and 0.5% lower inflation – Total project completion in 2039

Included with this report as Attachment E is an Undergrounding Project Funding Summary, Cash Flow Analysis, and UP project timeline for all three scenarios.

If the Council decides to pursue a strategy that involves financing (Scenario 2 or 3) a Debt Policy can be created to place additional guardrails on Measure Q funds to ensure sufficient Measure Q revenues are available to pay current undergrounding debt, even during a recession or unforeseen economic crisis such as the COVID-19 pandemic. The recommended initial borrowing of \$17 million to proceed with UUDs X1A and 1B will result in a debt service payment that utilizes no more than 45% of anticipated Measure Q revenue collected throughout the term of the loan.

UPAC Recommendation

On September 24, 2024, following a presentation and thorough discussion, UPAC recommended the City proceed with Scenario 3 (Accelerated Financing Strategy) to accelerate undergrounding to be completed in 20 years or as soon as feasible by borrowing funds to construct each district. In addition, UPAC further recommended continued monitoring of cost variables for feasibility, particularly at each financing stage, continued efforts to assess cost efficiencies, and work with SDG&E to better understand and control costs.

Finance Committee Recommendation

On October 22, 2024, the Finance Committee received a presentation from staff and NHA Advisors and recommended the City Council authorize staff to further explore financing options, including 15-year, 20-year, and 30-year loan options, and return to the Finance Committee. The Finance Committee also requested the City Council direct staff to analyze the impact of separating the financing of UUDs X1A and 1B.

The Finance Committee raised the question of financing only UUD X1A for Scenario 2. As part of evaluating potential funding scenarios for consideration, staff already evaluated a scenario of financing only UUD X1A and not including 1B, which was not deemed favorable.

While financing only UUD X1A would reduce borrowing by \$3 million from an initial borrowing of approximately \$17 million to \$14 million which would decrease interest cost for the life of the loan by \$1.1 million. However, not including UUD 1B in the initial borrowing would delay the project by two years as well as delay UUD 2 by one year, resulting in an increase in inflation adjustment of \$1.2 million.

Since the net cost of removing UUD 1B from the initial borrowing resulted in a higher total project cost and a delay in project construction, staff decided not to include financing only UUD X1A as an option for potential financing scenarios. Additionally, separating the financing for UUD 1B, which is expected to be 60% designed by year end, and delaying the project by two years will likely result in a partial re-design process with SDG&E, the cost of which is roughly estimated to range from \$100,000 to \$400,000.

Key Takeaways

The model will serve as a critical tool for the City Council and community when considering important future funding decisions over the life of the UP. Since the model includes completion of UP districts in a 20 to 35-year span, assumptions for future years above the initial borrowing are less reliable.

The model variables including revenue growth, annual cost inflation, earnings on reserves, interest rate on the borrowing, and project costs will continue to be updated annually based on changing conditions. The model will also be updated when actual information, such as project costs for a given district or interest rates on borrowing, is known. The model can be reassessed in detail prior to each future borrowing decision by the City Council.

Financing \$17 million is necessary to complete UUDs X1A and 1B to remain on the current schedule. Overall, a 20 to 35-year program funding plan for remaining districts is feasible assuming 3.5% annual inflation and 2.5% revenue growth. Higher inflation or lower revenue growth could extend project timelines, whereas lower inflation and higher revenue growth could expedite the project timeline.

Next Steps

If the City Council directs staff to proceed with further evaluating borrowing options to fund UUD X1A and 1B construction, staff will work with NHA to complete the necessary work and return to the Finance and Undergrounding Committees with more detailed information about borrowing options, timing, and cost in January 2025. A presentation to Council along with recommendations from the UPAC, Finance Committee and staff would occur shortly thereafter. In order to keep the existing schedule to begin UUD X1A construction in early 2025, the City will need to initiate the borrowing process as quickly as possible if that is how the Council decides to proceed.

FISCAL IMPACT:

Approval of the recommended action will result in an approved Task Order with NHA totaling up to \$25,000, which requires amending the Fiscal Year 2024-2025 Operating and Capital Budget as follows:

PROJECT	FUND	ACCOUNT	AMOUNT
Undergrounding Project - General	Measure Q	02.7000.7001	\$25,000
Total			\$25,000

ENVIRONMENTAL IMPACT:

The proposed City Council action does not constitute a “project” under the definition set forth in California Environmental Quality Act (CEQA) Guidelines Section 15378 because it will not have a potential to result in a direct or indirect physical change in the environment and is, therefore, not subject to CEQA. No further action under CEQA is required.

NEXUS TO CITY COUNCIL GOALS AND PRIORITIES:

Utility Undergrounding is listed as a Tier 1 City Council priority for FYs 2023-2024 and 2024-2025.

ATTACHMENTS:

- Attachment A – NHA Advisors Technical Memo Debt Capacity Analysis and Financial Mode
- Attachment B – Task Order 2 NHA Advisor
- Attachment C – Resolution 2018-63 Designating use of Measure Q Funds
- Attachment D – Undergrounding Project Summary (all scenarios)
- Attachment E – Funding Summary, Cash Flow Analysis, and Project Timeline for Proposed Scenarios 1-3

MEMORANDUM

Date: October 16, 2024

To: City of Del Mar

From: NHA Advisors, LLC

RE: Del Mar Undergrounding Project – Debt Capacity Analysis and Financial Model

Background and Overview

The City of Del Mar (the “City”) has embarked on the Del Mar Undergrounding Project to underground the City’s utilities. The City formed several undergrounding districts (the “Undergrounding Districts” or the “Projects”) which prioritized the Projects based on density and fire safety.

In 2016 the City approved Measure Q, a 1% local transaction and use tax (a general tax requiring a simple majority approval). Measure Q is considered a general fund revenue and is unrestricted (i.e., may be used for any City governmental purpose). The City Council has prioritized application of Measure Q revenues for funding the Utility Undergrounding Program. City staff estimates that Measure Q revenues for 2025 will be \$3.5M.

The City has established the following Undergrounding Districts:

Project	Tewa	1A	X1A	1B	2	3	4	5	Total (\$)
Total Project Funding Costs	0.9M	10.0M	17.8M	5.5M	16.4M	28.6M	17.3M	9.1M	105.6M

Projects completed to date

- Tewa Court (Funded through Measure Q Revenues)

Projects underway

- Project 1A (Funded through Measure Q Revenues)
- Project X1A (Funding Solution)
- Project 1B (Preliminary Design)

Project Engagement

NHA Advisors, LLC was engaged by the City to evaluate and provide funding recommendations for the City's Utility Undergrounding Program. Specifically, the City requested a debt capacity analysis and financial model to run various financing scenarios.

The primary approaches to funding the City's projects are to use 1) Measure Q revenues; 2) debt proceeds; or 3) a combination of both Measure Q revenues and debt proceeds. The model restricts all funding options (and Project phasing) to solutions only requiring Measure Q revenues (for either Project expenditures, debt service or "banking" for future year needs). No general fund subsidy or other funding source is considered.

The model projects the cash flow and financial impact for various scenarios based on the following primary structures and assumptions:

- Pay-as-you-go vs. financing
- Reserve fund balance tracking
- Measure Q revenue growth
- Project Inflation
- Financing term (amortization) & debt interest rates

The concept of the model & analysis is to 1) maintain Measure Q revenues (fund balance) sufficient to either fund Project expenditures on a timely basis or 2) cover debt service payments when due. Where financing is included, a portion of the Project costs are covered by debt proceeds in addition to projected available Measure Q revenues (Measure Q revenues are always applied to each Project phase). In addition, debt service payments are constrained to available Measure Q revenues (net of allocated Project costs). *The overall objective of the analysis is to estimate the impact on the timing of each Project phase under different funding strategies.*

Financial Analysis

The model assumptions include:

- 2024 Measure Q Beginning Balance – \$9,005,836
- 2024 Measure Q Revenues – \$3.13M
- 2025 Projected Measure Q Revenues – \$3.5M

- Measure Q Revenue Growth – 2.50%
- Project Cost Inflation – 3.50%
- Measure Q Revenue Earnings (Investment Return) – 2.00%
- Debt Interest Rate (Tax-Exempt) – 4.50%
- Measure Q Revenue Allocation – \$75K/year Street Project Expenditures, 100% of remaining revenues applied to the Projects
- Project Expenditure Timing based on available cash flow (per scenario)

Based on the model assumptions and outputs, the assumptions impacting the overall Project implementation include (1) Measure Q Revenue growth and (2) Project Expenditure inflation. Sensitivity analyses were completed for all three scenarios.

The sensitivity analysis examines scenarios where both Measure Q revenues and Project Cost inflation are impacted by either 1) negative economic outcomes or 2) positive economic outcomes, as described below. To establish parameters that materially impact timing for each scenario, growth rates were adjusted within a ±0.50% band.

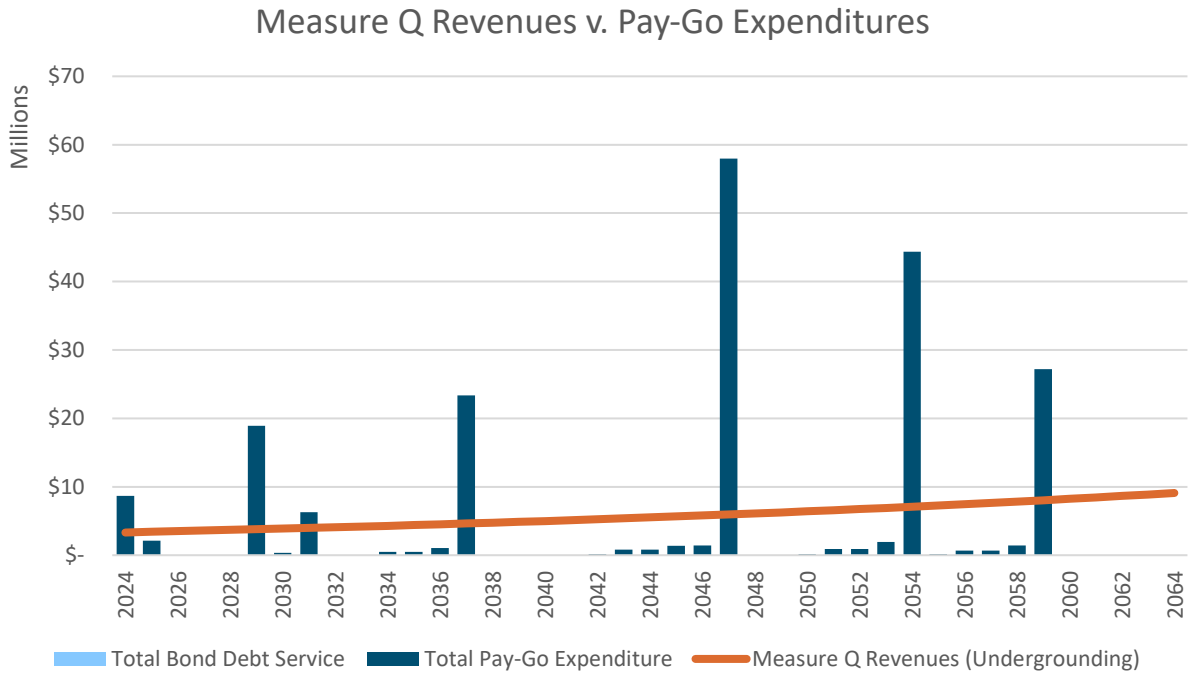
- Negative economic outcomes:
 - 0.50% lower revenue
 - 0.50% higher inflation
- Positive economic outcomes:
 - 0.50% higher revenue
 - 0.50% lower inflation

Scenario 1: Pay-Go All Projects

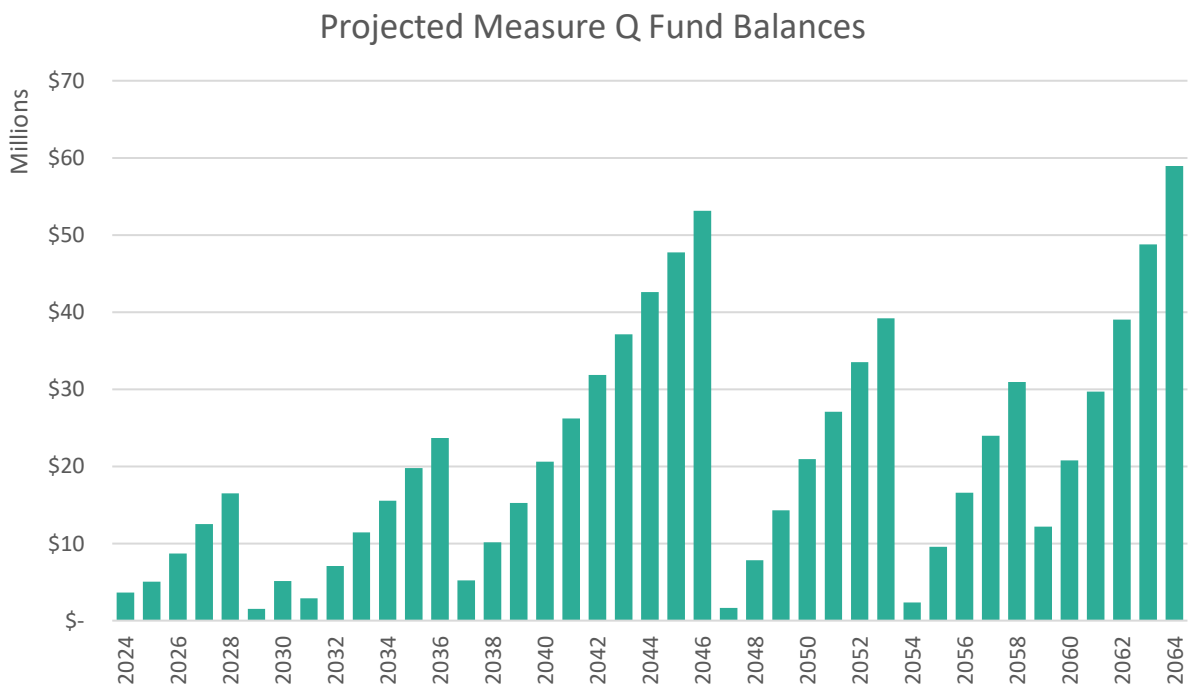
The first scenario assumes all projects are funded with accumulated Measure Q revenues and does not incorporate any financing. To facilitate a pay-go program, the City will need to accumulate cash over time to pay for design and construction costs. Accumulated cash is assumed to earn interest to apply to project costs. Under this scenario, and based on the inputs outlined in the previous section, the City projects to accumulate enough Measure Q revenues to fully fund Project X1A in 2029 with pre-construction design costs occurring prior to that date. Upon funding of Project X1A, the City then accumulates enough Measure Q revenues to fund Project 1B, which could be fully funded in 2031. If the model inputs were to materialize over the next 35 years, then Project 5 could be fully funded in 2059. The following table summarizes the base costs for all Projects. Also included is the estimated inflation cost, applying 3.50% annual inflation. There are no financing interest costs related to this scenario.

Project	Tewa	1A	X1A	1B	2	3	4	5	Total (\$)
Total Base Project Cost (Design + Construction)	0.9M	10.0M	17.8M	5.5M	16.4M	28.6M	17.3M	9.1M	105.6M
Total Inflation Cost Adjustment	0.0M	0.0M	3.0M	1.4M	9.1M	34.0M	31.0M	21.0M	99.5M
Total Bond/Loan Interest Cost	0.0M	0.0M	0.0M	0.0M	0.0M	0.0M	0.0M	0.0M	0.0M
Total Project Funding Costs	0.9M	10.0M	20.7M	7.0M	25.5M	62.6M	48.3M	30.1M	205.1M
Estimated Funding Timeline for Project Construction			2029	2031	2037	2047	2054	2059	

The following chart demonstrates graphically Measure Q annual revenues, increasing by 2.50% annually, against pay-go project expenditures. Scenario 1 includes no financing debt service.



The following chart below demonstrates graphically Measure Q accumulated balances. Cash balances peak and drop off periodically as projects are funded. Specifically, in each year where pay-go expenditures in the above chart are shown (navy bars), the Measure Q fund balance is reduced accordingly in the chart below.



Applying the sensitivity analysis to Scenario 1 impacts the projected outcome by several years. If negative economic outcomes occur (demonstrated by 0.50% lower revenue and 0.50% higher inflation), the project funding timeline could be 10 years longer. However, if positive economic outcomes materialize (demonstrated by 0.50% higher revenue and 0.50% lower inflation) the timeline could be 7 years shorter. The sensitivity outcomes can be used to assess the magnitude of such impacts; actual timing will be determined over time as economic conditions shift.

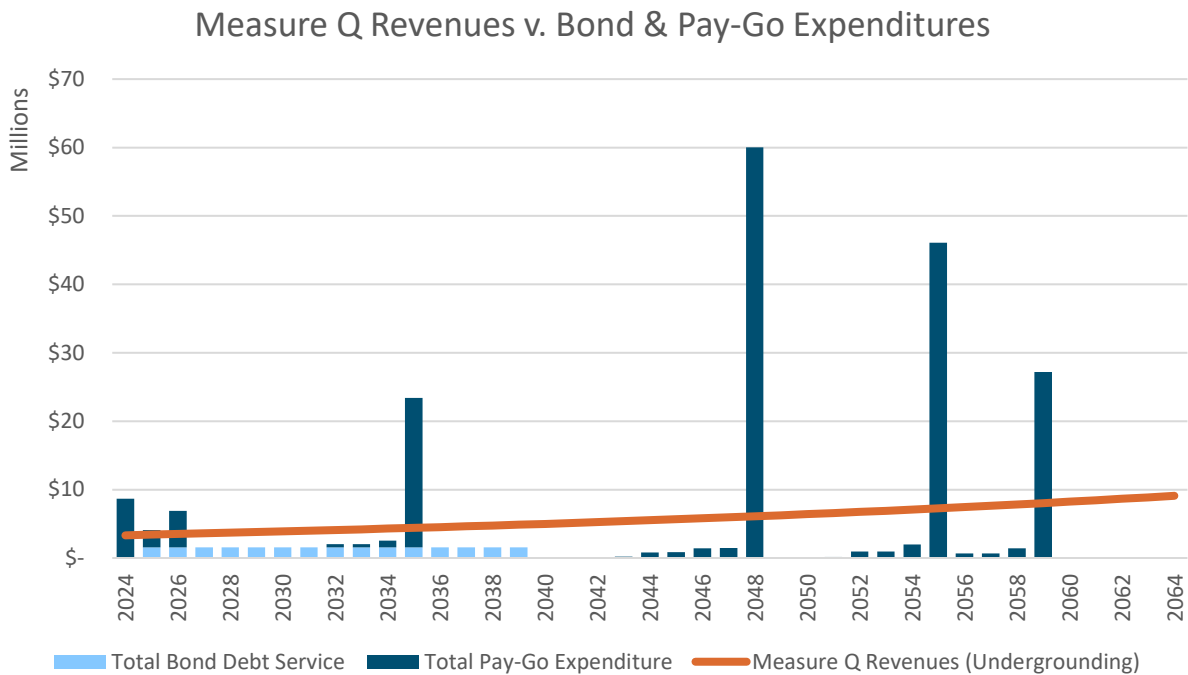
Scenario	Positive Outcomes	Baseline	Negative Outcomes
Total Program Funding Timeline (Year)	2052	2059	2069

Scenario 2

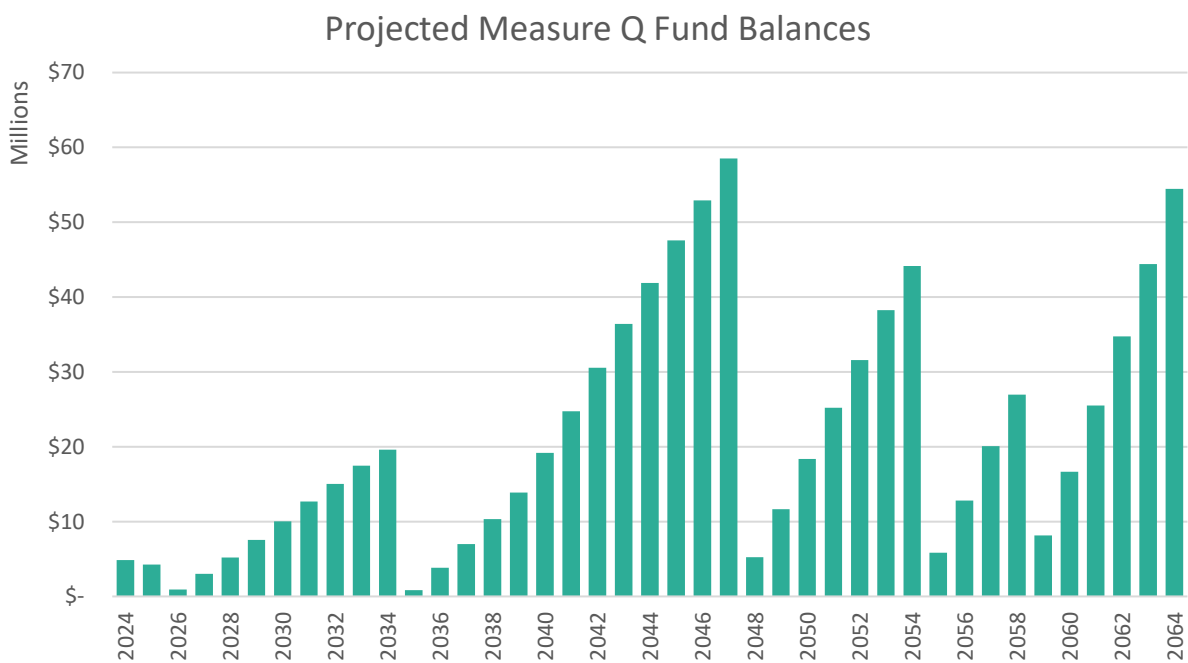
The second scenario assumes that the City finances \$17 million to facilitate the completion of Project X1A and Project 1B. All remaining projects are cash funded on a pay-go basis. As with Scenario 1, the timing of future projects (Projects 2 – 5) is determined based on the accumulation of Measure Q annual revenues plus interest earned. Under this scenario, Project X1A is funded in the near-term and Project 1B is funded in 2026. Upon the funding of Project X1A and 1B, the City then accumulates enough Measure Q revenues to fund Project 2, which could be fully funded in 2035. If the model inputs were to materialize over the next 35 years, then Project 5 could be fully funded in 2059. The following table summarizes the base costs for all Projects. Also included is the estimated inflation cost, applying 3.50% annual inflation. The City would incur financing (interest) costs on the \$17 million borrowing. Such costs are estimated to be approximately \$6.6 million.

Project	Tewa	1A	X1A	1B	2	3	4	5	Total (\$)
Total Base Project Cost (Design + Construction)	0.9M	10.0M	17.8M	5.5M	16.4M	28.6M	17.3M	9.1M	105.6M
Total Inflation Cost Adjustment	0.0M	0.0M	0.0M	0.4M	7.4M	36.2M	32.7M	21.0M	97.7M
Total Bond/Loan Interest Cost	0.0M	0.0M	6.6M	0.0M	0.0M	0.0M	0.0M	0.0M	6.6M
Total Project Funding Costs	0.9M	10.0M	24.3M	5.9M	23.8M	64.8M	49.9M	30.1M	209.8M
Estimated Funding Timeline for Project Construction			2024	2026	2035	2048	2055	2059	

The following chart demonstrates graphically Measure Q annual revenues, increasing by 2.50% annually, against pay-go project expenditures. The light blue bars show estimated annual debt service payments for the funding of Project X1A and Project 1B.



The following chart below demonstrates graphically Measure Q accumulated balances. Cash balances peak and drop off periodically as projects are funded. Specifically, in each year where pay-go expenditures in the above chart are shown (navy bars), the Measure Q fund balance is reduced accordingly in the chart below.



Applying the sensitivity analysis to Scenario 2 impacts the outcome by 6-10 years. If negative economic outcomes occur (demonstrated by 0.50% lower revenue and 0.50% higher inflation), the timeline for project funding and completion could be 10 years longer. However, if positive economic outcomes materialize (demonstrated by 0.50% higher revenue and 0.50% lower inflation) the timeline could be 6 years shorter. As previously mentioned, the sensitivity analysis is used to demonstrate the magnitude of such impacts and actual results will vary.

Scenario	Positive Outcomes	Baseline	Negative Outcomes
Total Program Funding Timeline (Year)	2053	2059	2069

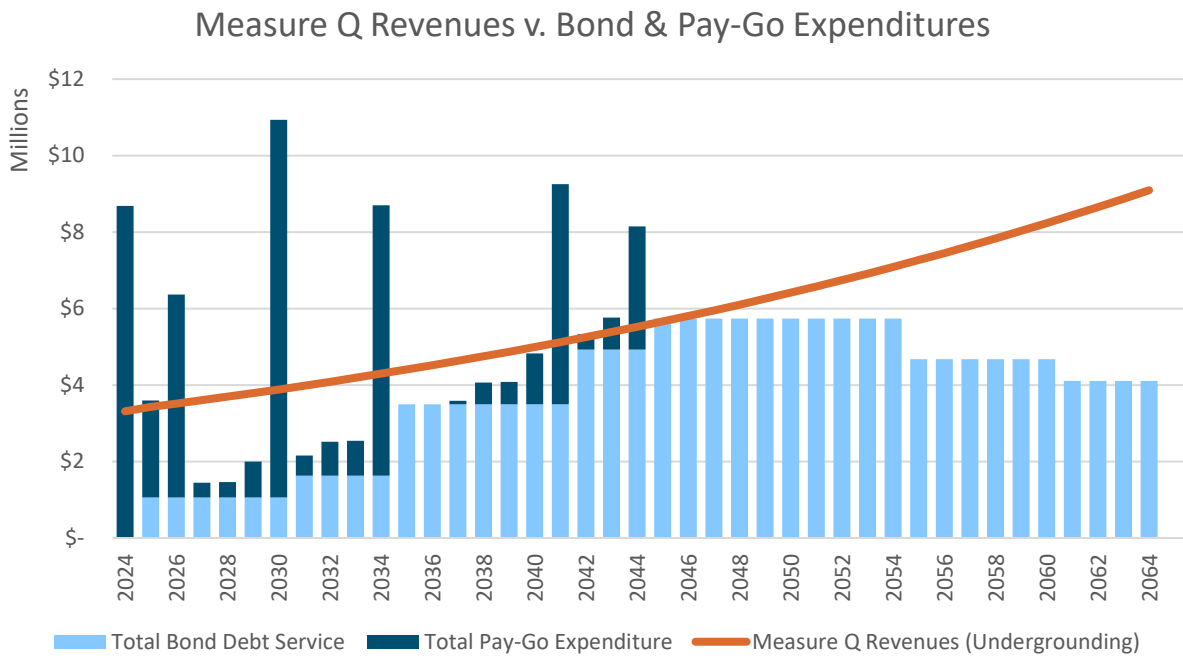
Scenario 3: Finance all districts + cash reserves applied

The third scenario assumes that the City finances \$17 million to facilitate the completion of Project X1A and Project 1B. All remaining projects are funded with financing and accumulated cash is used to offset the amount financed. Under this scenario, Project X1A is funded in the near-term and Project 1B funded in 2026. Upon completion and funding of Project X1A and 1B, the City then implements a pay-go and financing plan. Over time, the City would borrow approximately \$92 million and would fund the remaining project costs with accumulated Measure Q funds.

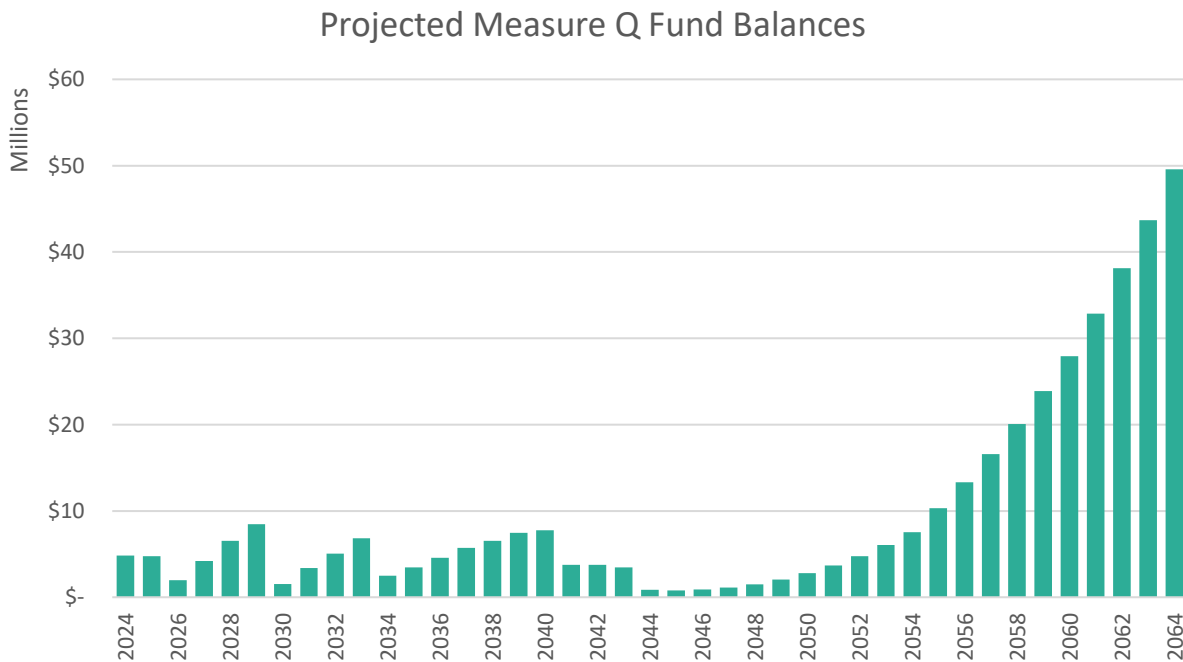
If the model inputs were to materialize over the next 20 years, then Project 5 could be fully funded in 2044. Debt service payments would continue until 2074, unless the City were to apply accumulated cash after the projects are fully funded to pay off outstanding debt. The following table summarizes the base costs for all Projects. Also included is the estimated inflation cost, applying 3.50% annual inflation. The City would incur financing (interest) costs on the \$92 million borrowing. Such costs are estimated to be approximately \$80.1 million.

Project	Tewa	1A	X1A	1B	2	3	4	5	Total (\$)
Total Base Project Cost (Design + Construction)	0.9M	10.0M	17.8M	5.5M	16.4M	28.6M	17.3M	9.1M	105.6M
Total Inflation Cost Adjustment	0.0M	0.0M	0.0M	0.4M	3.6M	11.5M	13.6M	8.9M	37.9M
Total Bond/Loan Interest Cost	0.0M	0.0M	14.8M	0.0M	8.0M	25.9M	19.9M	11.4M	80.1M
Total Project Funding Costs	0.9M	10.0M	32.6M	5.9M	28.1M	65.9M	50.8M	29.4M	223.7M
Estimated Funding Timeline for Project Construction			2024	2026	2030	2034	2041	2044	

The following chart demonstrates graphically Measure Q annual revenues, increasing by 2.50% annually, against debt service (light blue bars) and pay-go project expenditures (navy bars). Annual debt service is structured to keep within annual Measure Q revenues.



The following chart below demonstrates graphically Measure Q accumulated balances. As the City would implement multiple financings with Scenario 3, Measure Q funds do not peak and drop as with prior scenarios since annual revenues are applied to pay annual debt service payments. Upon completion of all projects, accumulated funds could be used to pay off debt, if desired by the City.



Applying the sensitivity analysis to Scenario 3 impacts the outcome by 5-15 years. If negative economic outcomes occur (demonstrated by 0.50% lower revenue and 0.50% higher inflation), the timeline for project funding and completion could be 15 years longer. However, if positive economic outcomes materialize (demonstrated by 0.50% higher revenue and 0.50% lower inflation) the timeline could be 5 years shorter. As previously mentioned, the sensitivity analysis is used to demonstrate the magnitude of such impacts and actual results will vary.

Scenario	Positive Outcomes	Baseline	Negative Outcomes
Total Program Funding Timeline (Year)	2039	2044	2061

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Discounted Cashflow:
Detailed in the table to the right is the net present value of the cashflow expenditures from each Scenario.

	Total Cashflow Expenditures (\$)		
	Scenario 1	Scenario 2	Scenario 3
	Pay-Go	Pay-Go + Financing	Pay-Go + Financing
2024	8,681,048	8,681,048	8,681,048
2025	2,110,070	4,104,891	3,595,033
2026	0	5,676,338	5,166,479
2027	0	1,571,073	1,445,323
2028	0	1,571,073	1,458,767
2029	18,926,424	1,571,073	1,994,959
2030	335,520	1,571,073	10,936,833
2031	6,302,097	1,571,073	2,158,957
2032	0	2,027,273	2,513,048
2033	0	2,043,240	2,543,995
2034	488,694	2,548,460	8,704,569
2035	505,798	23,381,066	3,492,135
2036	1,047,002	1,571,073	3,492,135
2037	23,363,410	1,571,073	3,586,403
2038	0	1,571,073	4,065,368
2039	0	1,571,073	4,085,431
2040	0	0	4,824,774
2041	0	0	9,250,373
2042	173,304	0	5,329,722
2043	801,043	179,369	5,764,337
2044	829,079	829,079	8,146,803
2045	1,382,861	858,097	5,737,961
2046	1,431,262	1,431,262	5,737,961
2047	57,984,811	1,481,356	5,737,961
2048	0	60,014,279	5,737,961
2049	0	0	5,737,961
2050	147,430	0	5,737,961
2051	896,511	152,590	5,737,961
2052	927,889	927,889	5,737,961
2053	1,920,730	960,365	5,737,961
2054	44,362,852	1,987,955	5,737,961
2055	175,101	46,090,653	4,676,746
2056	657,484	657,484	4,676,746
2057	680,496	680,496	4,676,746
2058	1,408,627	1,408,627	4,676,746
2059	27,179,625	27,179,625	4,676,746
2060	0	0	4,676,746
2061	0	0	4,109,120
2062	0	0	4,109,120
2063	0	0	4,109,120
2064	0	0	4,109,120
2065	0	0	2,245,825
2066	0	0	2,245,825
2067	0	0	2,245,825
2068	0	0	2,245,825
2069	0	0	2,245,825
2070	0	0	2,245,825
2071	0	0	2,245,825
2072	0	0	814,420
2073	0	0	814,420
2074	0	0	814,420
Total Cashflow Expenditures	202,719,168	207,441,099	221,277,096
Discount Rate	3.5%	3.5%	3.5%
Discounted Cashflow	103,129,906	104,304,445	112,773,907
Prior Project Expenditures*	2,393,285	2,393,285	2,393,285
Total Estimated Costs**	105,523,191	106,697,730	115,167,192

*Prior project expenditures are expenditures that are not in the cashflow analysis because such expenditures occurred prior to 2024, however, are included in the City's total Project cost of \$105.6 million.

Prior project expenditures are not discounted.

**Estimated costs based on the analysis inputs, which may differ significantly over time.

Findings

Based on Project cost estimates and projected Measure Q Revenue growth, the City's ability to implement all Project phases will be dependent on available funds (including Measure Q, debt proceeds and interest earnings). The three scenarios illustrate that Project completion between 2039 and 2069 can be feasible depending on (1) growth and cost inflation assumptions and (2) the funding strategy (scenario) that is selected. NHA makes no representation on the appropriate scenario to implement without the City's weighting of benefit for undergrounding sooner rather than later (excluding Project cost estimates).

Based on the scenarios evaluated, a funding strategy to complete the Project phases by 2044 can be viable using a combination of Measure Q Revenues and debt to accelerate the Projects (minimizing inflation).

NHA Advisors, LLC is registered as a Municipal Advisor with the SEC and Municipal Securities Rulemaking Board (“MSRB”). As such, NHA Advisors, LLC has a Fiduciary duty to the public agency and must provide both a Duty of Care and a Duty of Loyalty that entails the following.

Duty of Care

- a) exercise due care in performing its municipal advisory activities;
- b) possess the degree of knowledge and expertise needed to provide the public agency with informed advice;
- c) make a reasonable inquiry as to the facts that are relevant to the public agency’s determination as to whether to proceed with a course of action or that form the basis for any advice provided to the public agency; and
- d) undertake a reasonable investigation to determine that NHA Advisors, LLC is not forming any recommendation on materially inaccurate or incomplete information; NHA Advisors, LLC must have a reasonable basis for:
 - i. any advice provided to or on behalf of the public agency;
 - ii. any representations made in a certificate that it signs that will be reasonably foreseeably relied upon by the public agency, any other party involved in the municipal securities transaction or municipal financial product, or investors in the public agency securities; and
 - iii. any information provided to the public agency or other parties involved in the municipal securities transaction in connection with the preparation of an official statement.

Duty of Loyalty

NHA Advisors, LLC must deal honestly and with the utmost good faith with the public agency and act in the public agency’s best interests without regard to the financial or other interests of NHA Advisors, LLC. NHA Advisors, LLC will eliminate or provide full and fair disclosure (included herein) to Issuer about each material conflict of interest (as applicable). NHA Advisors, LLC will not engage in municipal advisory activities with the public agency as a municipal entity, if it cannot manage or mitigate its conflicts in a manner that will permit it to act in the public agency’s best interests.

SCOPE OF WORK TASK ORDER 2

Evaluation of Financing Options for Citywide Undergrounding Program

The scope of work will include the following services:

- Evaluate and advise City on financing options and structure, including financing terms, debt service schedules, call provisions, covenants and method of sale (public or private)
- Develop Financing 101 presentation materials describing debt structures, terminology, fiscal obligations and process
- Evaluate current market conditions for public offering and bank private placement and the impact to City's potential debt payments (15, 20, and 30-years)
- Assuming City consideration of a general fund secured financing structure, evaluate City real property assets for inclusion in financing
- As directed, prepare and present (2-3 in-person meetings) materials, including staff reports and presentations to City committee (Finance and Undergrounding) and City Council

RESOLUTION 2018-63

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF DEL MAR, CALIFORNIA, ADOPTING A STRATEGY FOR USE OF MEASURE Q FUNDS AND INTERNAL CONTROLS AND AMENDING THE FISCAL YEARS 2018-2019 OPERATING AND CAPITAL BUDGET.

WHEREAS, in November 2016, the Del Mar voters approved Measure Q, which established an additional 1% general sales tax, which became effective April 1, 2017; and

WHEREAS, in October 2017, the City Council directed the priority projects for use of Measure Q monies are the Downtown Streetscape project, undergrounding of utility poles, and completion and implementation of the Shores Park Master Plan; and


WHEREAS, staff and the Finance Committee have discussed and recommended to the City Council a proposed strategy for use of Measure Q funds and a series of internal controls.

NOW, THEREFORE, BE IT RESOLVED by the City Council of the City of Del Mar, California, that the above recitals are true and correct.

BE IT FURTHER RESOLVED that the City Council hereby authorizes:


- 1) Establishment of a Measure Q Fund, separate from the General Fund, in order to track all revenues and expenditures related to Measure Q; and
- 2) Designation of Measure Q funds for costs associated with the Downtown Streetscape project, Citywide utility pole undergrounding, and development and implementation of the Shores Park Master Plan, until these projects are completed, at which time additional uses of Measure Q funds may be directed by City Council; and
- 3) Implementation of the following internal controls for the Measure Q Fund:
 - a. Maintain projected cash flow model to include all Measure Q revenue and project costs;
 - b. Maintain a cash reserve minimum of \$500,000 in the Fund; and
 - c. Minimize debt whenever possible.
- 4) Amendment of the Fiscal Years 2018-2019 Operating and Capital Budget to appropriate use of Measure Q monies in Fiscal Year 2018-2019 in accordance with the Measure Q Fund FY 2018-2019 Budget attached as Exhibit 1; and
- 5) Authorization to the City Manager to issue debt for the purposes of funding the Downtown Streetscape Project.

PASSED, APPROVED AND ADOPTED by the City Council of the City of Del Mar, California, at a Regular Meeting held on the 17th day of September 2018.



DWIGHT WORDEN, Mayor
City of Del Mar

APPROVED AS TO FORM:



LESLIE E. DEVANEY, City Attorney
City of Del Mar

ATTEST AND CERTIFICATION:

STATE OF CALIFORNIA
COUNTY OF SAN DIEGO
CITY OF DEL MAR

I, Ashley Jones, Administrative Services Director/City Clerk of the City of Del Mar, California, DO HEREBY CERTIFY that the foregoing is a true and correct copy of Resolution 2018-63, adopted by the City Council of the City of Del Mar, California, at a Regular Meeting held the 17th day of September 2018, by the following vote:

AYES: Mayor Worden, Deputy Mayor Druker, Council Members Haviland, Parks and Sinnott

NOES: None

ABSENT: None

ABSTAIN: None



ASHLEY JONES
Administrative Services Director/City Clerk
City of Del Mar

CITY OF DEL MAR		
MEASURE Q FUND FORECAST		
SEPTEMBER, 2018		
	FY2019	FY2020
REVENUE		
Dist Tax (Measure Q)	\$ 2,154,000	\$ 2,154,000
Financing Proceeds	2,530,000	1,304,000
TOTAL REVENUE	\$ 4,684,000	\$ 3,458,000
PROJECT EXPENSES		
STREETSCAPE	\$ 7,100,000	\$ -
Downtown Streetscape		
UNDERGROUNDING	424,500	2,504,000
Utility Undergrounding 20A		
SHORES PARK	268,000	300,000
Shores Park Master Plan		
DEBT SERVICE	\$ 89,007	\$ 223,889
Loan/Debt Principal	44,732	114,085
Loan/Debt Interest	44,275	109,804
TOTAL EXPENSES	\$ 7,881,507	\$ 3,027,889
NET REVENUE/(EXPENSES)	\$ (3,197,507)	\$ 430,111
RESERVE	2,387,690	14,333
SET ASIDE RESERVE	(500,000)	
Streetscape CIP Carryover	1,324,150	
FISCAL YEAR END FUND BALANCE	\$ 14,333	\$ 444,444

	Scenario 1: Pay-Go	Scenario 2: Finance X1A & 1B, Pay-Go Remaining Projects	Scenario 3: Financing All Projects to Accelerate Development
PROJECT TIMELINE	35 Years (Construction completed in 2059)	35 Years (Construction completed in 2059)	20 Years (Construction completed in 2044)
CONSTRUCTION YEAR & BORROWINGS	2024-2025: 1A 2028-2029: X1A 2030-2031: 1B 2036-2037: 2 2045-2047: 3 2053-2054: 4 2059: 5	2024-2025: 1A 2025-2026: X1A (Borrowing: \$17.0M) 2027: 1B 2034-2035: 2 2046-2048: 3 2054-2055: 4 2059: 5	2024-2025: 1A 2025-2026: X1A (Borrowing #1: \$17.0M) 2027: 1B 2030-2031: 2 (Borrowing #2: \$9.0M) 2034-2036: 3 (Borrowing #3 \$30.0M) 2041-2042: 4 (Borrowing #4 \$23.0M) 2044: 5 (Borrowing #5 \$13.0M)
BASE PROJECT COST	\$105.6M	\$105.6M	\$105.6M
INFLATION COST ADJUSTMENT	99.5M	\$97.7M	\$37.9M

PROJECT FUNDING:

MEASURE Q RESERVES	205.1M	\$186.2M	\$51.6M
FINANCING:			
Principal		\$17.0M	\$92.0M
Interest/Issuance cost		\$6.6M	\$80.1M
TOTAL FINANCING PAYOUT	\$0	\$23.6M	172.1M
TOTAL PROJECT COST ESTIMATE	\$205.1M	\$209.8M	\$223.7M
NET PRESENT VALUE	\$105.5M	\$106.7M	\$115.2M
ANNUAL DEBT SERVICE PAYMENT	None	2025-2039: \$1.6M	2025-2030: \$1.1M 2031-2034: \$1.6M 2035-2041: \$3.5M 2042-2044: \$4.9M 2045-2054: \$5.7M 2055-2060: \$4.7M 2061-2064: \$4.1M 2065-2071: \$2.2M 2072-2074: \$0.8M
PROS	-No borrowing -Lowest total project cost	-Minimal borrowing -Debt service paid off in 2039 -Minimal interest expense -Low total project cost	-Accelerated project timeline -Lowest inflation cost adjustment
CONS	-Long project timeline -Highest inflation cost adjustment -Delay construction of X1A until 2028 -Delay construction of 1B until 2031	-Long project timeline -High inflation cost adjustment	-Highest debt -Highest loan interest expense -Highest total project cost -Debt service paid off in 2074

COST SUMMARY:

Base Project Cost	\$105.6M	\$105.6M	\$105.6M
Inflation Cost Adjustment	\$99.5M	\$97.7M	\$37.9M
Total	\$205.1M	\$203.3M	\$143.5M
Project paid with:			
Measure Q Reserves	\$205.1M	\$186.2M	\$51.6M
Financing Payout*	\$0	\$23.6M	\$172.1M
Total Project Cost	\$205.1M	\$209.8M	\$223.7M
*Includes Financing Cost			

NOTE: Amounts on this Summary are based on current base project cost and assumptions. Project cost may change based on variable updates.

Scenario 1: Pay-Go, Delay Projects until Cash is Available

Project Timeline	TEWA	1A	X1A	1B	2	3	4	5
Project Start Year	2021	2021	2021	2023	2033	2042	2050	2055
Project End Year	2023	2025	2029	2031	2037	2047	2054	2059

Financing Years	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Project Area	TEWA	1A	X1A	1B	2	3	4	5

Base Model Assumptions								
Base Year	2024							
Measure Q Growth (Annual)	2.50%							
Reserves Annual Earnings Rate	2.00%							
Annual Cost Inflation	0.00%	0.00%	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%

Project Cost									Totals
Base Project Cost	.9 M	10. M	17.8 M	5.5 M	16.4 M	28.6 M	17.3 M	9.1 M	105.6 M
Inflation Cost Adjustment	0	0	3. M	1.4 M	9.1 M	34. M	31. M	21. M	99.5 M
Total Project Cost	.9M	10.M	20.7M	7.M	25.5M	62.6M	48.3M	30.1M	205.1M

Project Financing									Totals
Measure Q Reserves	.9 M	10. M	20.7 M	7. M	25.5 M	62.6 M	48.3 M	30.1 M	205.1 M
Outside Financing	0	0	0	0	0	0	0	0	-
Financing Cost	0	0	0	0	0	0	0	0	-
Total Project Cost	.9 M	10. M	20.7M	7.M	25.5M	62.6M	48.3M	30.1M	205.1M

Financing Assumptions								
Bond Term (Years)	0	0	0	0	0	0	0	0
Interest Rate	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Est. Annual Debt Service	0	0	0	0	0	0	0	0

Base Project Cost	105.6 M
Inflation Cost Adjustment	99.5 M
Total	205.1 M
Measure Q Reserves	205.1 M
Outside Financing	-
Total Project Cost	205.1 M
Net Present Value	105.5 M

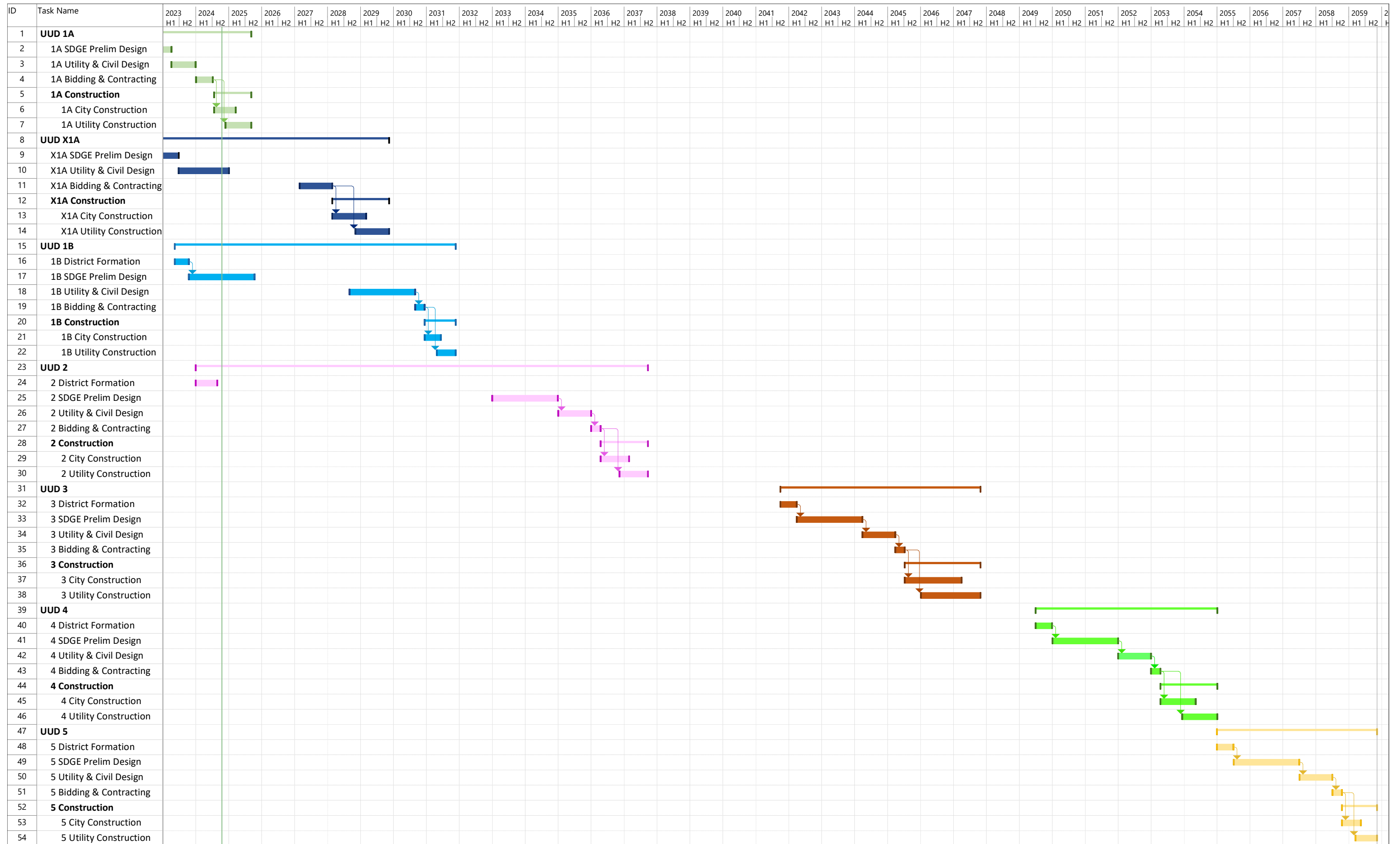
City of Del Mar
Undergrounding Financing
Cash Flow Analysis
(in millions)

Scenario #1 - Pay Go

Revenue Growth	2.5%
Interest Earnings Rate	2.0%
Cost Inflation	3.5%

	Projected Measure Q Revenue	Non- Undergrounding MQ Costs	Undergrounding Undergrounding Costs	Debt Financing	Annual Debt Payment	Interest Earned on Reserves	Measure Q Reserves (Ending)
Beginning Bal							.
2017-2023	18.46	-7.15	-2.39	.	.	.08	9.
2024	3.06	-.08	-8.68	.	.	.33	3.64
2025	3.5	-.08	-2.11	.	.	.09	5.04
2026	3.59	-.08	.	.	.	.14	8.69
2027	3.68	-.08	.	.	.	.21	12.5
2028	3.77	-.08	.	.	.	.29	16.48
2029	3.86	-.08	-18.93	.	.	.18	1.52
2030	3.96	-.08	-.34	.	.	.07	5.14
2031	4.06	-.08	-6.3	.	.	.08	2.9
2032	4.16	-.08	.	.	.	.1	7.08
2033	4.26	-.08	.	.	.	.18	11.46
2034	4.37	-.08	-.49	.	.	.27	15.53
2035	4.48	-.08	-.51	.	.	.35	19.78
2036	4.59	-.08	-1.05	.	.	.43	23.68
2037	4.71	-.08	-23.36	.	.	.29	5.24
2038	4.82	-.08	.	.	.	.15	10.14
2039	4.95	-.08	.	.	.	.25	15.26
2040	5.07	-.08	.	.	.	.36	20.61
2041	5.2	-.08	.	.	.	.46	26.19
2042	5.33	-.08	-.17	.	.	.57	31.84
2043	5.46	-.08	-.8	.	.	.68	37.11
2044	5.6	-.08	-.83	.	.	.79	42.59
2045	5.74	-.08	-1.38	.	.	.89	47.76
2046	5.88	-.08	-1.43	.	.	1.	53.13
2047	6.03	-.08	-57.98	.	.	.54	1.64
2048	6.18	-.08	.	.	.	.09	7.84
2049	6.33	-.08	.	.	.	.22	14.31
2050	6.49	-.08	-.15	.	.	.35	20.93
2051	6.65	-.08	-.9	.	.	.48	27.08
2052	6.82	-.08	-.93	.	.	.6	33.49
2053	6.99	-.08	-1.92	.	.	.72	39.21
2054	7.16	-.08	-44.36	.	.	.41	2.34
2055	7.34	-.08	-.18	.	.	.12	9.55
2056	7.53	-.08	-.66	.	.	.26	16.6
2057	7.71	-.08	-.68	.	.	.4	23.96
2058	7.91	-.08	-1.41	.	.	.54	30.93
2059	8.1	-.08	-27.18	.	.	.43	12.2
Totals		-9.85	-205.11	.	.	13.4	

SCENARIO 1: PAY-GO



City of Del Mar

Undergrounding Project Funding Analysis: 35-Year Funding Program

Scenario 2: Finance X1A & 1B, Pay-Go Remaining Projects

<i>Project Timeline</i>	TEWA	1A	X1A	1B	2	3	4	5
<i>Project Start Year</i>	2021	2021	2021	2023	2031	2043	2051	2055
<i>Project End Year</i>	2023	2025	2026	2027	2035	2048	2055	2059

<i>Financing Years</i>	N/A	N/A	2025	2025	N/A	N/A	N/A	N/A
<i>Project Area</i>	TEWA	1A	X1A	1B	2	3	4	5

Base Model Assumptions								
Base Year	2024							
Measure Q Growth (Annual)	2.50%							
Reserves Annual Earnings Rate	2.00%							
Annual Cost Inflation	0.00%	0.00%	0.00%	3.50%	3.50%	3.50%	3.50%	3.50%

Project Cost									Totals
Base Project Cost	.9 M	10. M	17.8 M	5.5 M	16.4 M	28.6 M	17.3 M	9.1 M	105.6 M
Inflation Cost Adjustment	0	0	0	.4 M	7.4 M	36.2 M	32.7 M	21. M	97.7 M
Total Project Cost	.9M	10.M	17.8M	5.9M	23.8M	64.8M	49.9M	30.1M	203.3M

Project Financing									Totals
Measure Q Reserves	.9 M	10. M	.8 M	5.9 M	23.8 M	64.8 M	49.9 M	30.1 M	186.2 M
Outside Financing	0	0	17. M	0	0	0	0	0	17.M
Financing Cost	0	0	6.6 M	0	0	0	0	0	6.6M
Total Project Cost	.9 M	10. M	24.3M	5.9M	23.8M	64.8M	49.9M	30.1M	209.8M

Financing Assumptions								
Bond Term (Years)	0	0	15	0	0	0	0	0
Interest Rate	0.00%	0.00%	4.15%	0.00%	0.00%	0.00%	0.00%	0.00%
Est. Annual Debt Service	0	0	1.6M	0	0	0	0	0

Base Project Cost	105.6 M
Inflation Cost Adjustment	97.7 M
Total	203.3 M

Measure Q Reserves	186.2 M
Outside Financing	23.6 M
Total Project Cost	209.8 M

Net Present Value 106.7 M

**City of Del Mar
Undergrounding Financing
Cash Flow Analysis**

Scenario #2 - Finance X1A & 1B - Pay Go Remaining Projects

Revenue Growth 2.5%
Interest Earnings Rate 2.0%
Cost Inflation 3.5%

FY	Projected Measure Q Revenue	Non-Undergrounding MQ Costs	Undergrounding Costs	Debt Financing	Annual Debt Payment	Interest Earned on Reserves	Measure Q Reserves (Ending)
Beginning Bal							.
2017-2023	18.46	-7.15	-2.39	.	.	.08	9.
2024	3.06	-0.08	-24.48	17.	.	.33	4.84
2025	3.5	-0.08	-2.53	.	-1.57	.09	4.25
2026	3.59	-0.08	-5.31	.	-1.57	.05	.94
2027	3.68	-0.08	.	.	-1.57	.04	3.01
2028	3.77	-0.08	.	.	-1.57	.08	5.21
2029	3.86	-0.08	.	.	-1.57	.13	7.55
2030	3.96	-0.08	.	.	-1.57	.17	10.04
2031	4.06	-0.08	.	.	-1.57	.23	12.68
2032	4.16	-0.08	-.46	.	-1.57	.27	15.01
2033	4.26	-0.08	-.47	.	-1.57	.32	17.48
2034	4.37	-0.08	-.98	.	-1.57	.37	19.59
2035	4.48	-0.08	-21.81	.	-1.57	.2	.82
2036	4.59	-0.08	.	.	-1.57	.05	3.81
2037	4.71	-0.08	.	.	-1.57	.11	6.98
2038	4.82	-0.08	.	.	-1.57	.17	10.33
2039	4.95	-0.08	.	.	-1.57	.24	13.87
2040	5.07	-0.08	.	.	.	.33	19.19
2041	5.2	-0.08	.	.	.	.44	24.75
2042	5.33	-0.08	.	.	.	.55	30.55
2043	5.46	-0.08	-.18	.	.	.66	36.41
2044	5.6	-0.08	-.83	.	.	.78	41.88
2045	5.74	-0.08	-.86	.	.	.89	47.57
2046	5.88	-0.08	-1.43	.	.	1.	52.93
2047	6.03	-0.08	-1.48	.	.	1.1	58.51
2048	6.18	-0.08	-60.01	.	.	.63	5.22
2049	6.33	-0.08	.	.	.	.17	11.65
2050	6.49	-0.08	.	.	.	.3	18.36
2051	6.65	-0.08	-.15	.	.	.43	25.21
2052	6.82	-0.08	-.93	.	.	.56	31.59
2053	6.99	-0.08	-.96	.	.	.69	38.23
2054	7.16	-0.08	-1.99	.	.	.82	44.15
2055	7.34	-0.08	-46.09	.	.	.49	5.82
2056	7.53	-0.08	-.66	.	.	.18	12.8
2057	7.71	-0.08	-.68	.	.	.33	20.08
2058	7.91	-0.08	-1.41	.	.	.47	26.97
2059	8.1	-0.08	-27.18	.	.	.35	8.16
Totals		-9.85	-203.27	17.	-23.57	14.08	

City of Del Mar

Undergrounding Project Funding Analysis: 20-Year Funding Program

Scenario 3: Finance All Projects to Accelerate Development

<i>Project Timeline</i>	TEWA	1A	X1A	1B	2	3	4	5
<i>Project Start Year</i>	2021	2021	2021	2023	2027	2031	2038	2040
<i>Project End Year</i>	2022	2025	2026	2027	2031	2036	2042	2044

<i>Financing Years</i>	N/A	N/A	2025	2025	2030	2034	2041	2044
<i>Project Area</i>	TEWA	1A	X1A	1B	2	3	4	5

Base Model Assumptions								
Base Year	2024							
Measure Q Growth (Annual)	2.50%							
Reserves Annual Earnings Rate	2.00%							
Annual Cost Inflation	0.00%	0.00%	0.00%	3.50%	3.50%	3.50%	3.50%	3.50%

Project Cost									Totals
Base Project Cost	.9 M	10. M	17.8 M	5.5 M	16.4 M	28.6 M	17.3 M	9.1 M	105.6 M
Inflation Cost Adjustment	0	0	0	.4 M	3.6 M	11.5 M	13.6 M	8.9 M	37.9 M
Total Project Cost	.9M	10.M	17.8M	5.9M	20.M	40.M	30.9M	18.M	143.5M

Project Financing									Totals
Measure Q Reserves	.9 M	10. M	.8 M	5.9 M	11. M	10. M	7.9 M	5. M	51.5 M
Outside Financing	0	0	17. M	0	9. M	30. M	23. M	13. M	92.M
Financing Cost	0	0	14.8 M	0	8. M	25.9 M	19.9 M	11.4 M	80.1M
Total Project Cost	.9 M	10. M	32.6M	5.9M	28.1M	65.9M	50.8M	29.4M	223.7M

Financing Assumptions								
Bond Term (Years)	0	0	30	0	30	30	30	30
Interest Rate	0.00%	0.00%	4.50%	0.00%	4.50%	4.50%	4.50%	4.50%
Est. Annual Debt Service	0	0	1.1M	0	.6M	1.9M	1.4M	.8M

Base Project Cost	105.6 M
Inflation Cost Adjustment	37.9 M
Total	143.5 M
Measure Q Reserves	51.5 M
Outside Financing	172.1 M
Total Project Cost	223.7 M
Net Present Value	115.2 M

City of Del Mar
Undergrounding Financing
Cash Flow Analysis

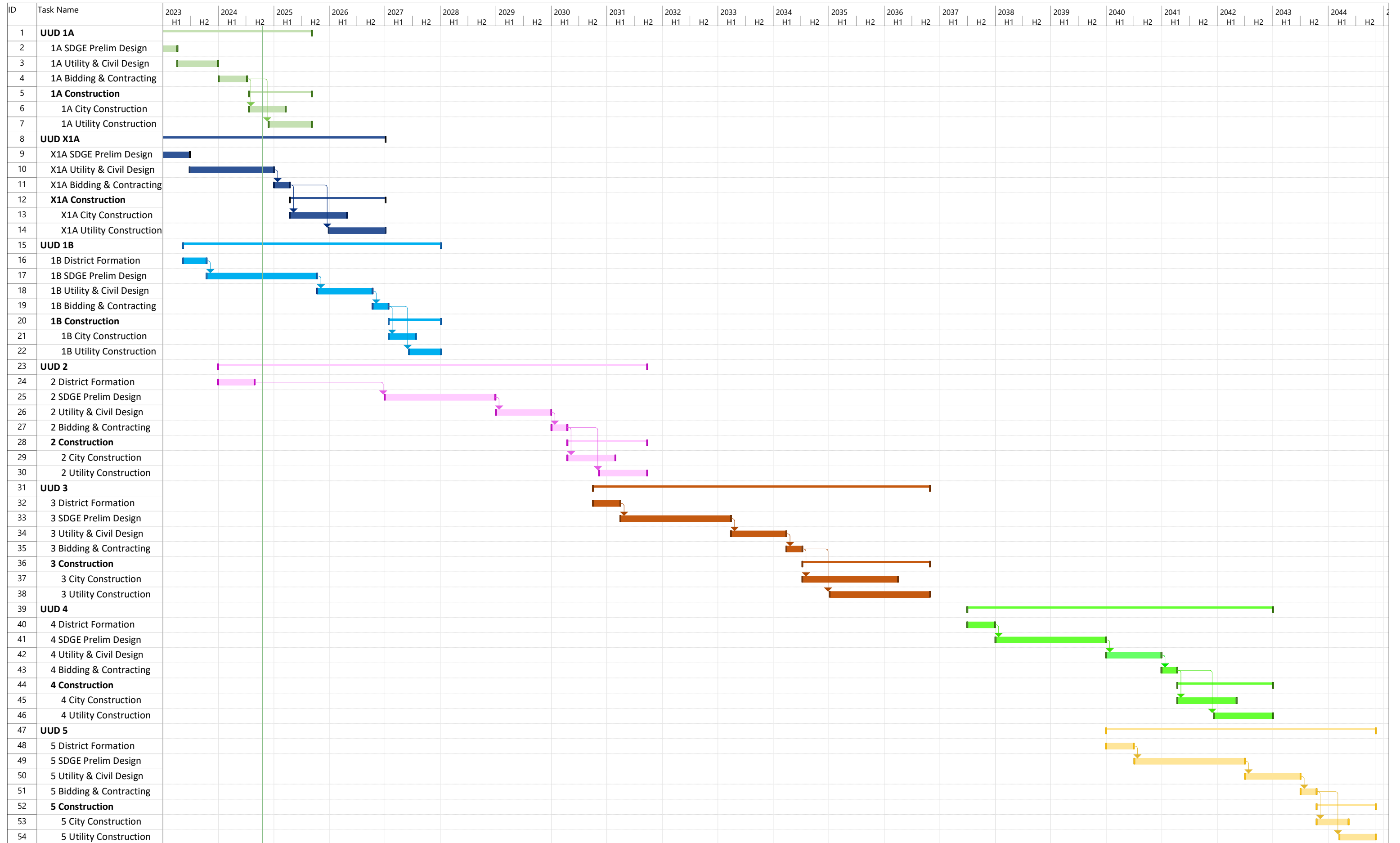
Scenario #3 - Finance all Remaining Districts

Revenue Growth 2.5%
Interest Earnings Rate 2.0%
Cost Inflation 3.5%

FY	Projected Measure Q Revenue	Non-Undergrounding MQ Costs	Undergrounding Costs	Debt Financing	Annual Debt Payment	Interest Earned on Reserves	Measure Q Reserves (Ending)
Beginning Bal							.
2017-2023	18.46	-7.15	-2.39	.	.	.08	9.
2024	3.06	-.08	-24.48	17.	.	.33	4.84
2025	3.5	-.08	-2.53	.	-1.06	.1	4.76
2026	3.59	-.08	-5.31	.	-1.06	.07	1.98
2027	3.68	-.08	-.38	.	-1.06	.06	4.19
2028	3.77	-.08	-.4	.	-1.06	.11	6.53
2029	3.86	-.08	-.93	.	-1.06	.15	8.48
2030	3.96	-.08	-18.88	9.	-1.06	.1	1.52
2031	4.06	-.08	-.53	.	-1.63	.05	3.4
2032	4.16	-.08	-.88	.	-1.63	.08	5.05
2033	4.26	-.08	-.92	.	-1.63	.12	6.82
2034	4.37	-.08	-37.08	30.	-1.63	.09	2.5
2035	4.48	-.08	.	.	-3.49	.06	3.47
2036	4.59	-.08	.	.	-3.49	.08	4.58
2037	4.71	-.08	-.09	.	-3.49	.1	5.73
2038	4.82	-.08	-.57	.	-3.49	.12	6.53
2039	4.95	-.08	-.59	.	-3.49	.14	7.45
2040	5.07	-.08	-1.33	.	-3.49	.15	7.77
2041	5.2	-.08	-28.76	23.	-3.49	.11	3.76
2042	5.33	-.08	-.41	.	-4.92	.07	3.75
2043	5.46	-.08	-.84	.	-4.92	.07	3.45
2044	5.6	-.08	-16.22	13.	-4.92	.04	.86
2045	5.74	-.08	.	.	-5.74	.02	.8
2046	5.88	-.08	.	.	-5.74	.02	.88
2047	6.03	-.08	.	.	-5.74	.02	1.11
2048	6.18	-.08	.	.	-5.74	.03	1.5
2049	6.33	-.08	.	.	-5.74	.04	2.06
2050	6.49	-.08	.	.	-5.74	.05	2.78
2051	6.65	-.08	.	.	-5.74	.06	3.68
2052	6.82	-.08	.	.	-5.74	.08	4.77
2053	6.99	-.08	.	.	-5.74	.11	6.05
2054	7.16	-.08	.	.	-5.74	.13	7.54
2055	7.34	-.08	.	.	-4.68	.18	10.3
2056	7.53	-.08	.	.	-4.68	.23	13.31
2057	7.71	-.08	.	.	-4.68	.3	16.57
2058	7.91	-.08	.	.	-4.68	.36	20.08
2059	8.1	-.08	.	.	-4.68	.44	23.87
2060	8.31	-.08	.	.	-4.68	.51	27.94
2061	8.51	-.08	.	.	-4.11	.6	32.87

FY	Projected Measure Q Revenue	Non-Undergrounding MQ Costs	Undergrounding Costs	Debt Financing	Annual Debt Payment	Interest Earned on Reserves	Measure Q Reserves (Ending)
2062	8.73	-0.08	.	.	-4.11	.7	38.12
2063	8.94	-0.08	.	.	-4.11	.81	43.69
2064	9.17	-0.08	.	.	-4.11	.92	49.59
2065	9.4	-0.08	.	.	-2.25	1.06	57.73
2066	9.63	-0.08	.	.	-2.25	1.23	66.27
2067	9.87	-0.08	.	.	-2.25	1.4	75.23
2068	10.12	-0.08	.	.	-2.25	1.58	84.61
2069	10.37	-0.08	.	.	-2.25	1.77	94.43
2070	10.63	-0.08	.	.	-2.25	1.97	104.72
2071	10.9	-0.08	.	.	-2.25	2.18	115.48
2072	11.17	-0.08	.	.	-0.81	2.41	128.17
2073	11.45	-0.08	.	.	-0.81	2.67	141.4
2074	11.74	-0.08	.	.	-0.81	2.94	155.18
Totals		-10.97	-143.53	92.	-172.14	27.11	

SCENARIO 3 - FINANCE ALL DISTRICTS



Undergrounding Program Financial Analysis

City Council

November 18, 2024



CITY OF
DELMAR™

Overview

- Measure Q Overview
- Undergrounding Program History
- Utility Undergrounding Process Overview
- UP General Cost Estimates
- SDG&E Costs and City Construction Bids
- NHA Presentation of Financial Analysis and Scenarios
- Key Takeaways and Next Steps

Measure Q Overview

- A 1% local transaction and use tax measure initiated by the City, was approved by voters in November 2016
- “General tax” are unrestricted and may be used for any City governmental purpose
- Derived from taxable purchases made in the City as well as online and vehicle purchases by Del Mar residents
- Annual revenues expected to be \$3.5 million in FY 2024-25
- City prioritized uses for Measure Q revenues for citywide utility undergrounding (in progress); Downtown Streetscape (completed in 2020); and development and future implementation of a Shores Park Master Plan (on hold with Council to consider 2025)

Measure Q Financial Overview

Although Measure Q is legally a general fund revenue, funds are internally set aside, tracked separately, and reviewed by an oversight committee to ensure they are being used for Council designated purposes

Measure Q Funds	Amount (in millions)
Revenues Received to Date (FY24 preliminary)	\$20.9
Downtown Streetscape Expenditures	(\$7.0)
Undergrounding Expenditures	(\$3.9)
Shores Park Master Planning Expenditures	(\$0.02)
Maintenance of Effort Paving (MOE) Expenditures	(\$0.2)
Measure Q Balance (June 30, 2024)	\$9.8
Projected Revenue (FY 2025)	\$3.4
Projected Expenditures (FY 2025) including UUD 1A (full) & X1A (partial)	(\$12.7)
Projected Measure Q Balance (June 30, 2025)	\$0.5

Undergrounding Program History

- Undergrounding Project Advisory Committee (UPAC) established in 2017
- Developed a project delivery plan (PDP), estimated project costs, assisted with prioritizing undergrounding districts, drafted a communications plan, and provided policy recommendations to City Council
- PDP adopted by City Council in 2019
- Prioritization based on fire risk, density, and SDG&E circuit logistics
- Estimated project timeframe of 12 to 26 years

Key Assumptions for the PDP

- The City should remain committed to prioritizing and eventually undergrounding all overhead utilities.
- The City should cover all costs in the public right-of-way and on City property, with the exception of the cost for non-joint trenching for the telecommunications utilities infrastructure.
- Private property owners and other government agencies should cover all the costs associated with the undergrounding project that is on their property.
- The City should limit expenditures on the UP to using Measure Q money and do the best the City can with those funds, even if it means the City cannot underground its entire jurisdiction as fast as the citizens wish, consistent with commitments to Shores Park and the Downtown Streetscape projects.

Assessment District Discussion

- If project costs exceed expectations, Council could consider cost-sharing through an assessment district.
- UPAC recommended not to pursue this option.
- Potential issues
 - Inequity among property owners
 - Majority vote requirement
 - Impacts to approved district areas
 - Inefficient design

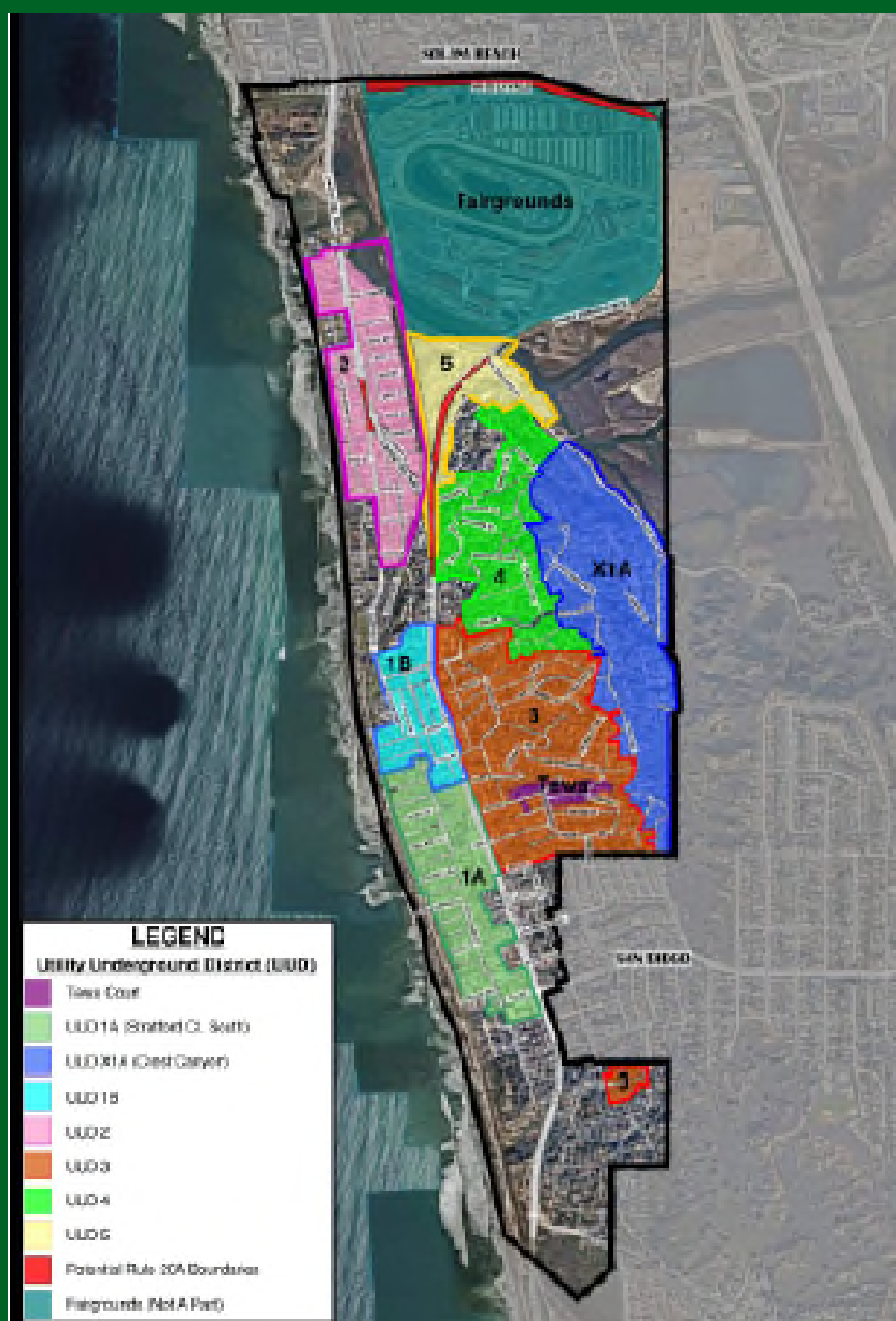
Community Benefits

- Improve overall public safety
- Reduce fire risks in fire critical areas
- Improve property values
- Improve public and private views



Completed/Active Projects

- UUD Tewa Court/10th Street – Completed February 2023
- UUD 1A – City construction started; with August 2025 estimated project completion
- UUD X1A – In process, with construction expected spring 2025 pending availability of financing
- UUD 1B – In process, with 30% design complete.
- UUDs 2 and 25th St – Formed in August 2024 with design on hold.



Utility Undergrounding Process Overview

1. District Formation
(4-6 months)
2. Design
(30-38 months)
3. Public Bidding
(3 months)
4. Construction
(12-24 months)



Public Bidding Process

- In accordance with the City's Municipal Code and State Public Contract Code, the City follows a competitive public bidding process for the City's construction activities.
- A notice inviting bids is posted to the City's website, contractor's notification web platform Bidnet.com, and published in the newspaper.
- The bid package consists of a notice inviting bids; bid instructions; standard construction contract; project specifications and plans; required compliance forms; and important bid submittal requirements.
- Includes a pre-bid meeting and site visit. Addenda or changes to the bid can be issued by the City during the bidding period at any time.
- Public Contract Code Section 20162 requires that the City award the contract to the lowest responsive and responsible bidder based on their base bid.
- SDG&E also follows a bidding process for their construction activities.

Construction Process

1. Trenching and conduit by City and Laterals by property owners
2. Cable & connections by utility companies
3. Service cutovers by utility companies
4. Pole removals by utility companies

Cost Estimate History

- Since 2016, the City has engaged consultants, SDG&E, City Finance and Undergrounding committees in an ongoing process to understand and forecast UP general costs.
- Very rough preliminary cost estimates in 2016, ranged from \$18M (Utility Specialists) and \$25-30 million (Finance Committee)
- Finance Committee provided a recommendation to Council in April 2016 to consider a one-cent sales tax measure that could be used to amortize debt related to undergrounding.

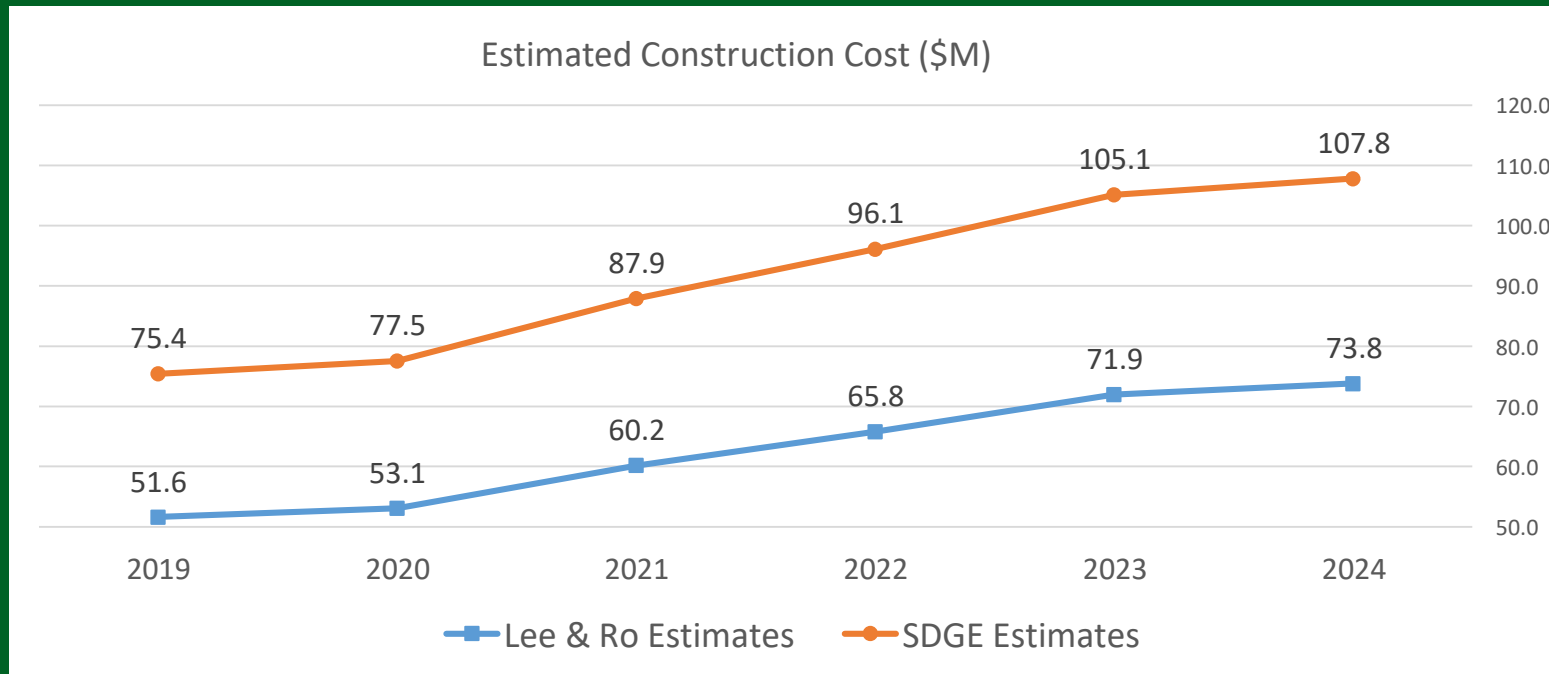
General Cost Information

	Utility Specialists (2019)	UPAC (2019)	Lee & Ro (2019)	SDG&E (2019)	Current (2024)
Program Estimate	\$26.5 M**	\$32 - \$42 M	\$51.6M	\$52.8 - \$75.4M	\$105.6 M
Cost per Linear Feet of Overhead	\$323	\$464 - \$609	\$719	\$700 - \$1,000	\$1,400

** Incomplete estimate

General Cost Information

- 2019-2024 43% total inflation with ~11% average annual inflation during highest three years.
- Applied to 2019 Lee & Ro and SDG&E projected costs



Source: California Construction Cost Index (CCCI)

Current Base Project Cost Estimate

- Current Base Project Cost = \$105.6M (today's dollar)
- Pre-Construction Services estimated from current projects
- SDG&E and AT&T costs estimated from UUD 1A per linear foot of overhead or trench (if available)
- City Construction costs estimated from UUD 1A per linear feet of overhead or trench (if available)
- Estimating Contingency included based on design variables

Breakdown of Costs for UUD 1A

UUD 1A	Cost
Pre-Construction Activities	\$0.67 M (7%)
SDG&E Costs	\$3.58 M(36%)
AT&T Costs	\$0.15 M(1%)
City Construction	\$4.63 M(46%)
City Construction Support Services	\$0.49 M(5%)
Project Contingency	\$0.51 M(5%)
Total	\$10.03 M

SDG&E Costs

- California Public Utilities Commission (CPUC) regulates the requirements for electric utilities specifically for Rule 20
- SDG&E responsibilities – Installation of cables and connections, pole removals, service cutovers, and engineering design
- City responsibilities – Trenching and installation of conduit and substructures
- Limited public information on SDG&E costs and costs vary significantly by project.

SDG&E Costs

- Staff is actively working to obtain more detailed cost information from SDG&E
- City has engaged special legal counsel
- Starting December 2024, the City and SDG&E management will meet quarterly to address project issues.
- SDG&E has committed to providing the City with more detailed cost information and timely updates
- Actions underway to formalize the partnership between the City and SDG&E for the Undergrounding Program.

SDG&E Billing Process

- SDG&E bills the City for the actual cost of installation of cable and connections, pole removal, service cutovers, and engineering fees.
- SDG&E provides the City with an initial estimated cost invoice prior to construction and then a final reconciliation invoice based on the actual costs after construction is complete.
- SDG&E explained that the significant cost increase between Tewa Court/10th Street and UUD 1A, was the result of enterprise-wide increases due to labor costs, inflation, and supply chain challenges.

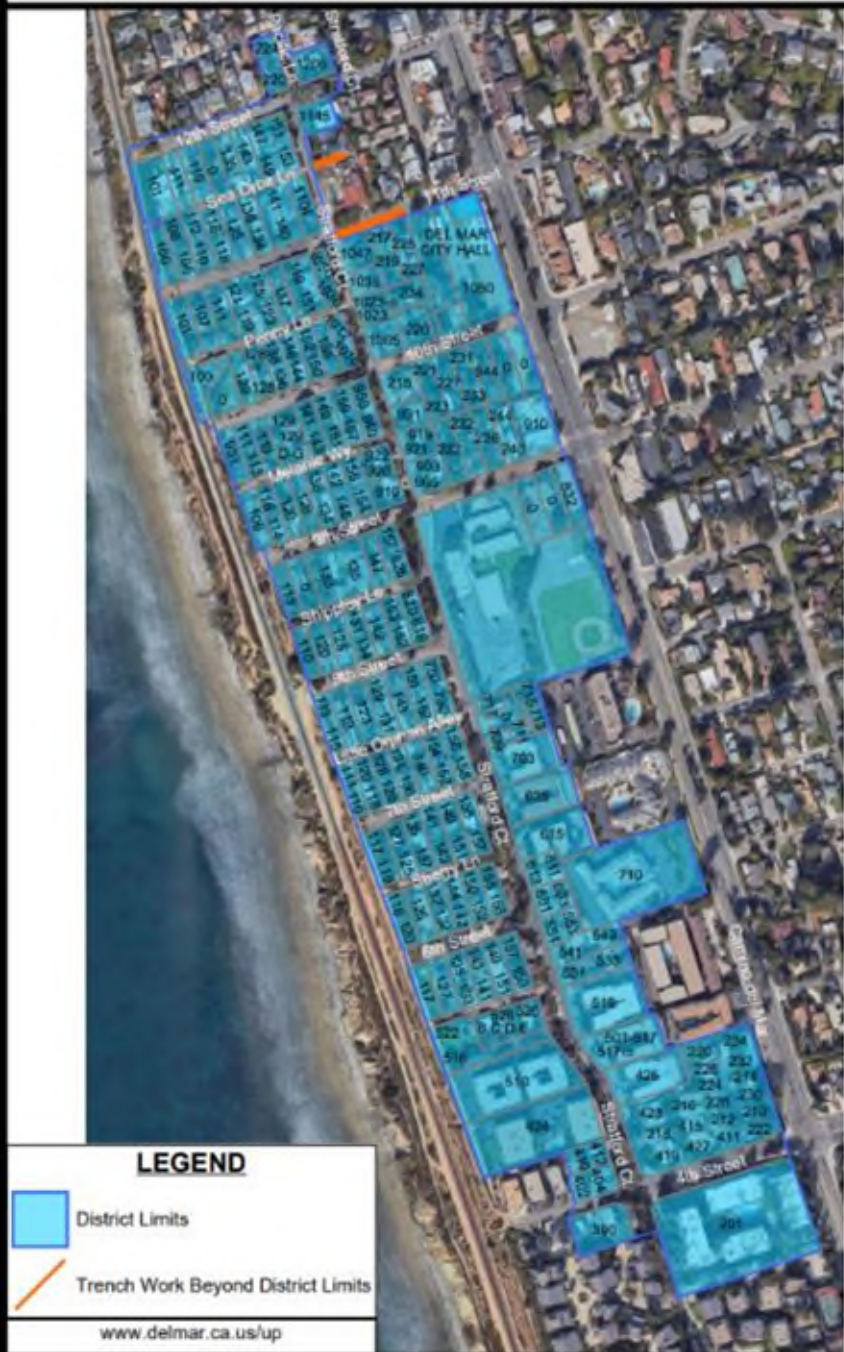
SDG&E Costs - UUD Tewa Court/10th Street



SDG&E Costs - UUD Tewa Court/10th Street

- Initial estimate of \$147,595 prior to construction
- Final reconciliation invoice of \$97,002 (66% increase) for total of \$244,597; received 1 year after construction completion
- Billing was on a time and material basis with future larger projects being billed on a fixed bid basis.
- Final overall total project cost = \$928,879

SDG&E Costs - UUD 1A (Stratford Ct South)



SDG&E Costs - UUD 1A (Stratford Ct South)

- City originally budgeted \$1 million for SDG&E costs (based on SDG&E's initial estimate for UUD Tewa Ct/10th St) (March 2022)
- SDG&E's final costs for UUD Tewa Ct/10th St brings estimate to \$2 million (March 2024)
- Upon design completion, SDG&E provided a much higher cost estimate of \$3.56 million (March 2024)
- SDG&E costs are 77% higher than UUD Tewa Ct/10th St final costs compared to City construction costs increase of 21%
- Increased costs associated with the UP are primarily related to economic inflation and unanticipated SDG&E cost escalation

City Construction Bids for UUD 1A

- July 8, 2024, Council awarded construction contract for UUD 1A.
- Dec. 2023, the total project cost was estimated to be \$5.4 million based on costs from UUD Tewa Court/10th Street.
 - This estimate did not reflect SDG&E's final reconciled invoice or include the standard 10% project construction contingency.
- Total project cost is now estimated to be \$10.03 million based on cost increases related to City construction and SDG&E.
- The lowest bid received was \$4.71 million which was \$1.67 higher than the engineer's estimate.
 - 20% inflation since Tewa bids; difficult project location; hand digging; shoring for deep trenches; scheduling and coordination with SDG&E



Financial Analysis & NHA Advisors

- Staff and UPAC Financing Subcommittee began a Measure Q cash-flow analysis in mid-2023
- At that time, project financing was to be further explored in 2025, with funds received in 2026
- Based on the UUD1A cost info received in 2024, staff identified the need to engage a financial consultant sooner and initiated the RFQ process
- City Council approved an agreement with NHA Advisors to assist with financial planning for the undergrounding program (July 2024)
- NHA has worked with over 170 public agencies in California including developing financing programs for utility undergrounding projects

NHA Advisors Scope of Work

- Since July, NHA Advisors has:
 - Complete due diligence and debt capacity analyses that considers the City's goals and challenges
 - Assess overall project financial feasibility
 - Create a dynamic financial model assessing funding strategies/alternatives
- Financial analysis was conducted with the assumption that the City will proceed with UP as directed by the City Council.



CITY OF DEL MAR

FUNDING OF UNDERGROUNDING PROJECTS

NHA | ADVISORS
Financial & Policy Strategies.
Delivered.

October 22, 2024

Undergrounding Districts/Projects and Project Costs

- ▶ The City has established eight Undergrounding Districts; the total cost estimate to complete all projects is \$105.6 million

Project	Tewa	1A	X1A	1B	2	3	4	5	Total (\$)
Total Project Funding Costs	0.9M	10.0M	17.8M	5.5M	16.4M	28.6M	17.3M	9.1M	105.6M

- Projects completed to date
 - Tewa Court (Funded through Measure Q Revenues)
- Projects underway
 - Project 1A (Funded through Measure Q Revenues)
 - Project X1A (Funding Solution)
 - Project 1B (Preliminary Design)

Undergrounding Projects Funding Analysis and Timeline

- The primary approach to funding include:
 - Measure Q revenues
 - Debt funds
 - Combination of both Measure Q revenues and debt proceeds
- Financial Model was developed to analyze:
 - Pay-as-you-go vs. financing
 - Reserve fund balance tracking
 - Measure Q revenue growth projections
 - Project Inflation
 - Financing term (amortization) & interest rates

Undergrounding Projects Funding Analysis and Timeline

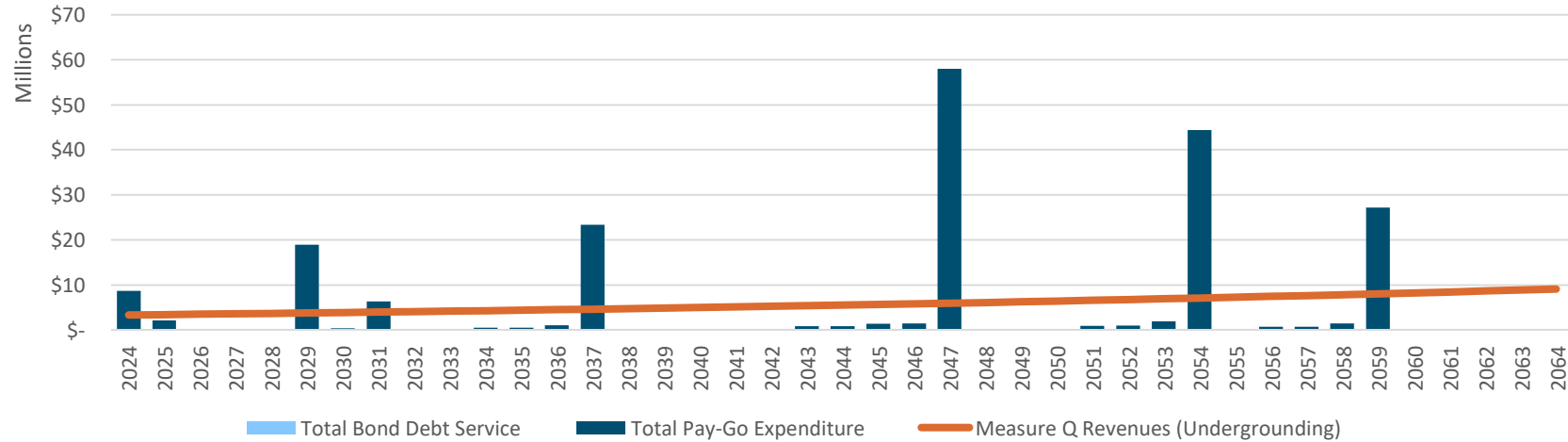
- Concept and Objectives of Financial Model Include:
 - Maintain Measure Q revenues (fund balance) sufficient to either fund Project expenditures on a timely basis or 2) cover debt service payments when due
- *The overall objective of the analysis is to estimate the impact on the timing of each Project phase under different funding strategies*

Scenario 1: Revenues, Expenditures & Fund Balances

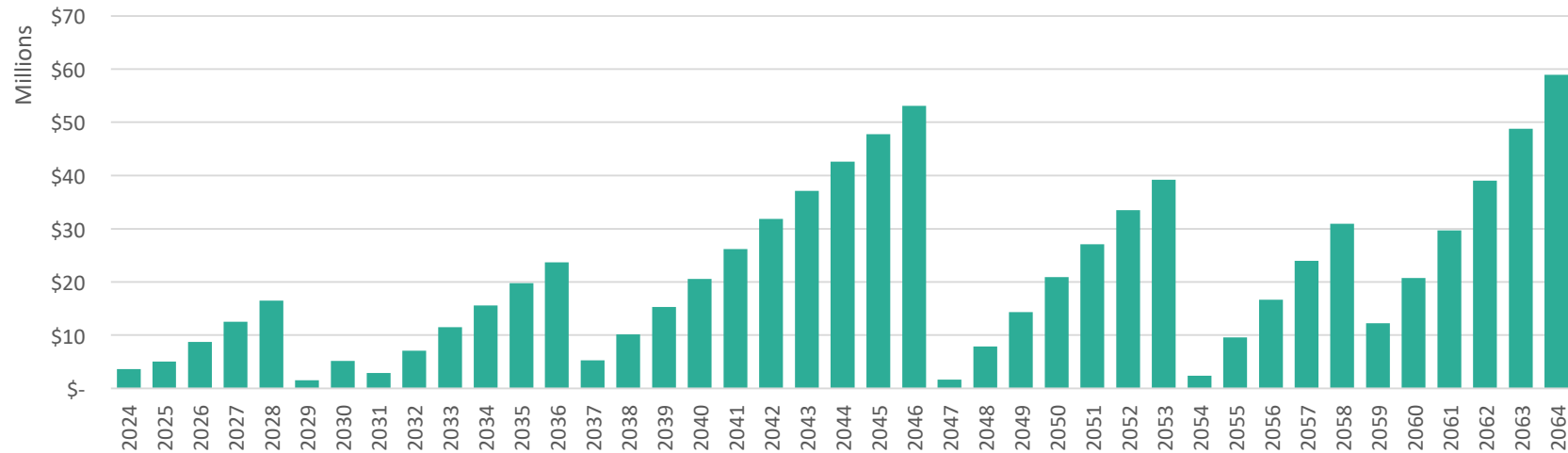
- Base Assumptions
 - All projects are funded with accumulated Measure Q revenues
 - No financing incorporated
 - 2.5% Measure Q revenue growth
 - 3.5% annual cost inflation
 - 2.0% earnings rate on reserves
- City will need to accumulate cash over time to pay for design and construction costs of all projects
 - Cash balances peak and drop off periodically as projects are funded
 - Applying base model assumptions, the final Project (5), could be fully funded in 2059
- Sensitivity of revenue and inflation evaluates magnitude of shifts in timeline

Scenario 1: Revenues, Expenditures & Fund Balances

Measure Q Revenues v. Pay-Go Expenditures



Projected Measure Q Fund Balances



Scenario 1: Preliminary Cost & Timing Considerations

Project	Tewa	1A	X1A	1B	2	3	4	5	Total (\$)
Total Base Project Cost (Design + Construction)	0.9M	10.0M	17.8M	5.5M	16.4M	28.6M	17.3M	9.1M	105.6M
Total Inflation Cost Adjustment	0.0M	0.0M	3.0M	1.4M	9.1M	34.0M	31.0M	21.0M	99.5M
Total Bond/Loan Interest Cost	0.0M	0.0M	0.0M	0.0M	0.0M	0.0M	0.0M	0.0M	0.0M
Total Project Funding Costs	0.9M	10.0M	20.7M	7.0M	25.5M	62.6M	48.3M	30.1M	205.1M
Estimated Funding Timeline for Project Construction			2029	2031	2037	2047	2054	2059	

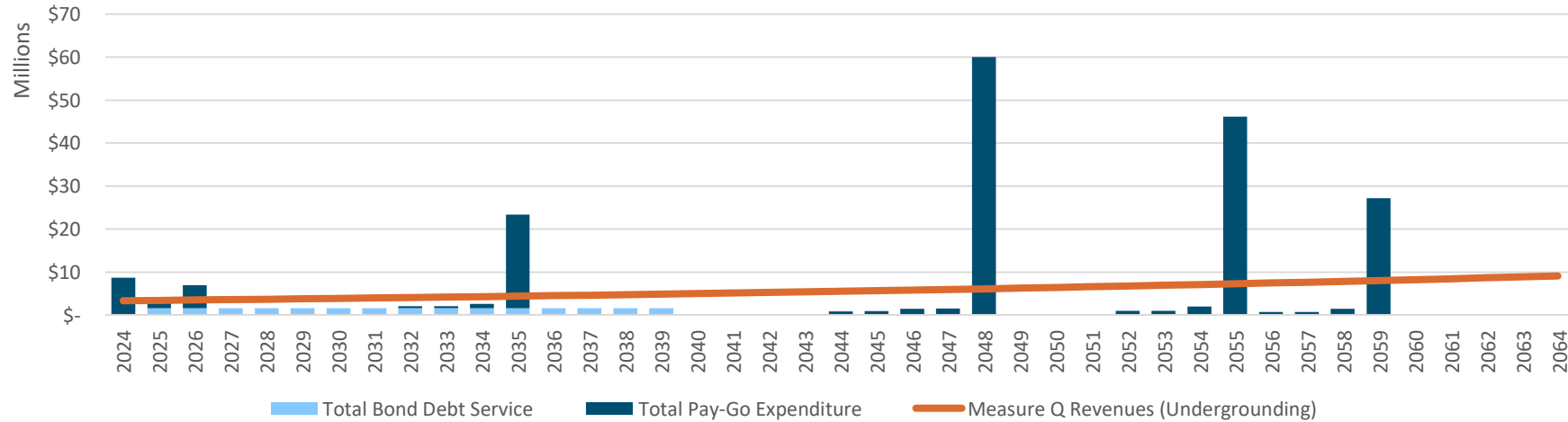
Scenario	Positive Outcomes	Baseline	Negative Outcomes
Total Program Funding Timeline (Year)	2052	2059	2069

Scenario 2: Revenues, Expenditures & Fund Balances

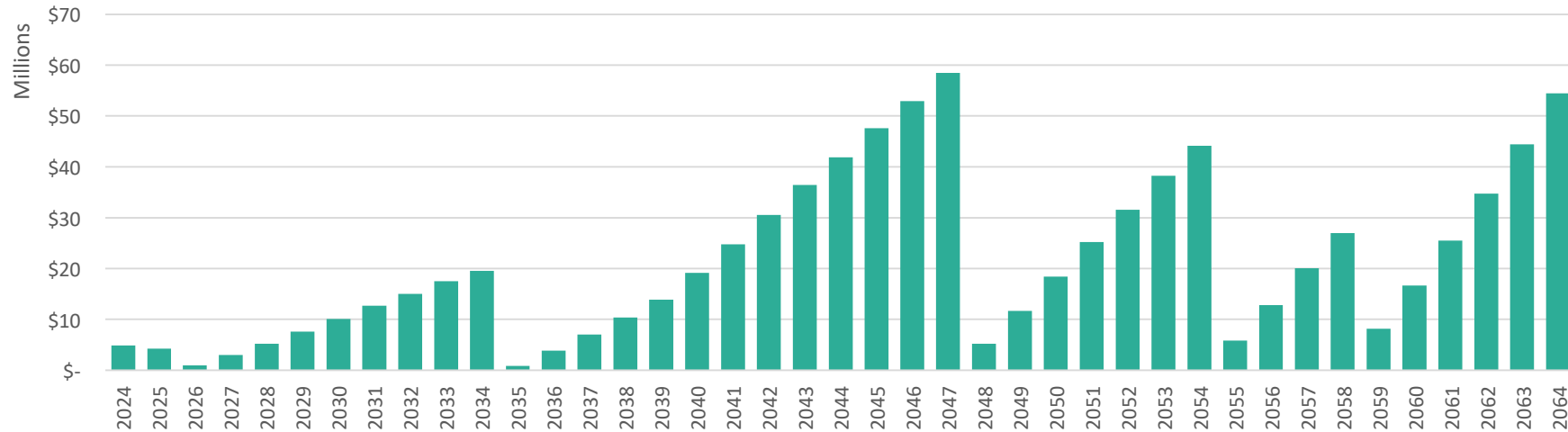
- Base Assumptions
 - \$17 million of bonds issued to fund Projects X1A & 1B
 - 2.5% Measure Q revenue growth
 - 3.5% annual cost inflation
 - 2.0% earnings rate on reserves
- Remaining projects funded on pay-go basis
 - No further debt issued after X1A & 1B projects are funded
 - Applying base model assumptions, the final Project (5), could be fully funded in 2059
- Sensitivity of revenue and inflation evaluates magnitude of shifts in timeline

Scenario 2: Revenues, Expenditures & Fund Balances

Measure Q Revenues v. Bond & Pay-Go Expenditures



Projected Measure Q Fund Balances



Scenario 2: Preliminary Cost & Timing Considerations

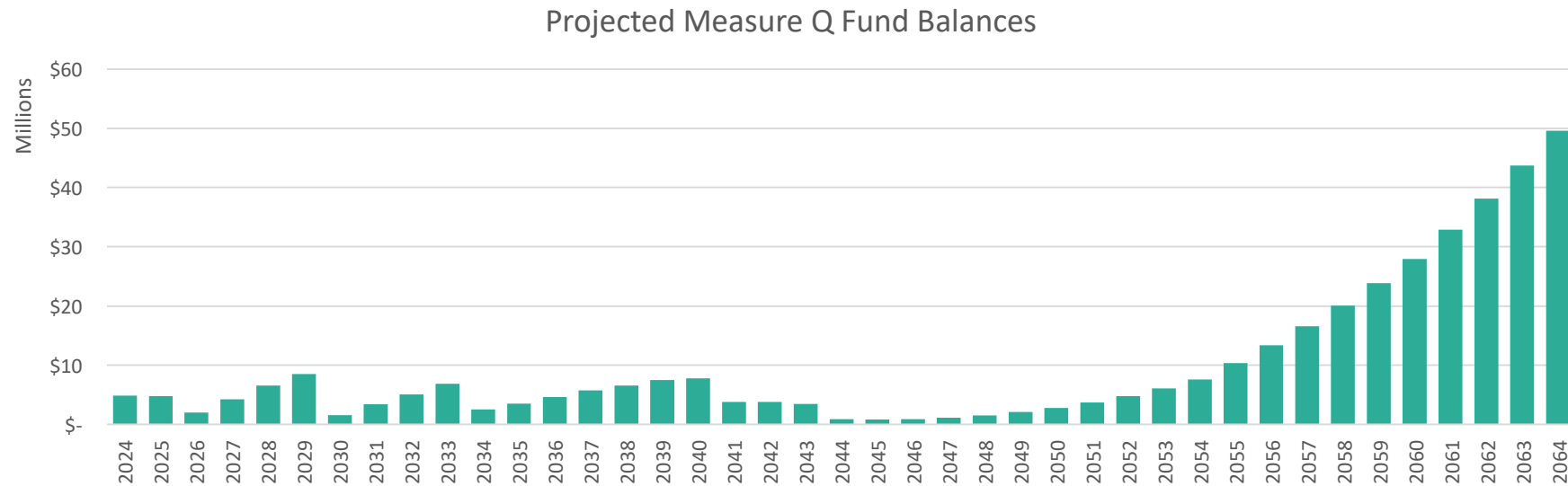
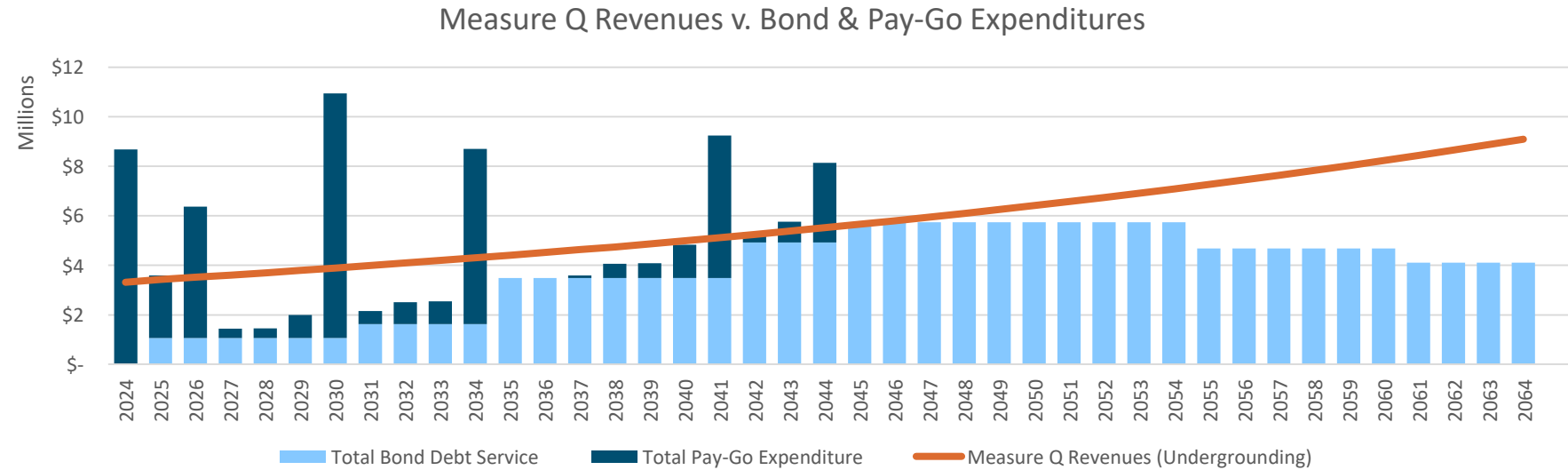
Project	Tewa	1A	X1A	1B	2	3	4	5	Total (\$)
Total Base Project Cost (Design + Construction)	0.9M	10.0M	17.8M	5.5M	16.4M	28.6M	17.3M	9.1M	105.6M
Total Inflation Cost Adjustment	0.0M	0.0M	0.0M	0.4M	7.4M	36.2M	32.7M	21.0M	97.7M
Total Bond/Loan Interest Cost	0.0M	0.0M	6.6M	0.0M	0.0M	0.0M	0.0M	0.0M	6.6M
Total Project Funding Costs	0.9M	10.0M	24.3M	5.9M	23.8M	64.8M	49.9M	30.1M	209.8M
Estimated Funding Timeline for Project Construction			2024	2026	2035	2048	2055	2059	

Scenario	Positive Outcomes	Baseline	Negative Outcomes
Total Program Funding Timeline (Year)	2053	2059	2069

Scenario 3: Revenues, Expenditures & Fund Balances

- Base Assumptions
 - \$17 million of bonds issued to fund Projects X1A & 1B
 - 2.5% Measure Q revenue growth
 - 3.5% annual cost inflation
 - 2.0% earnings rate on reserves
- Remaining projects funded with both financing + pay-go
 - Annual revenues are be applied to pay annual debt service payments with accumulation of remaining annual Measure Q funds to apply to each project
 - Total debt service is funded with annual projected Measure Q revenues
 - Applying base model assumptions, the final Project (5), could be fully funded in 2044 with debt service payments continuing to 2074, unless paid off early
- Sensitivity of revenue and inflation evaluates magnitude of shifts in timeline

Scenario 3: Revenues, Expenditures & Fund Balances



Scenario 3: Preliminary Cost & Timing Considerations

Project	Tewa	1A	X1A	1B	2	3	4	5	Total (\$)
Total Base Project Cost (Design + Construction)	0.9M	10.0M	17.8M	5.5M	16.4M	28.6M	17.3M	9.1M	105.6M
Total Inflation Cost Adjustment	0.0M	0.0M	0.0M	0.4M	3.6M	11.5M	13.6M	8.9M	37.9M
Total Bond/Loan Interest Cost	0.0M	0.0M	14.8M	0.0M	8.0M	25.9M	19.9M	11.4M	80.1M
Total Project Funding Costs	0.9M	10.0M	32.6M	5.9M	28.1M	65.9M	50.8M	29.4M	223.7M
Estimated Funding Timeline for Project Construction			2024	2026	2030	2034	2041	2044	

Scenario	Positive Outcomes	Baseline	Negative Outcomes
Total Program Funding Timeline (Year)	2039	2044	2061

Observations

- Project cost estimates & timing are largest variables
- Measure Q revenue growth second-most important variable
- Three scenarios illustrate that Project completion between 2039 and 2069 can be feasible depending on (1) growth and Project cost inflation assumptions and (2) the funding strategy that is selected
- Based on the scenarios evaluated, a funding strategy to complete the Project phases by 2044 could be viable using a combination of Measure Q Revenues and debt to accelerate the Projects, assuming model inputs materialize

Committee Recommendations

- UPAC recommended Scenario 3 (Accelerated Financing Strategy) with continued monitoring of cost variables for feasibility, particularly at each financing stage, continued efforts to assess cost efficiencies, and work with SDG&E to better understand and control costs.
- Finance Committee recommended to further explore financing options, including 15-year, 20-year, and 30-year loan options, and return to the Finance Committee. The Finance Committee also requested the City Council direct staff to analyze the impact of separating the financing of UUDs X1A and 1B.

Removing UUD 1B from Initial Borrowing

Financing only X1A was previously evaluated by staff:

Pros:

- Reduce initial borrowing by \$3 million and interest cost for life of the loan by \$1.1 million.

Cons:

- Delay District 1B project by 2 years until Measure Q funds are available, and would also delay District 2 by one year, resulting in an increase in inflation adjustment of \$1.2 million.

*Not favorable to do an initial borrowing to only fund X1A.

Key Takeaways

- The model will serve as a critical tool and will be updated based on actual information
- Financing \$17 million is necessary to complete X1A and 1B on current schedule
- A 20- to 35-year program funding plan for remaining districts is feasible assuming 3.5% annual inflation & 2.5% revenue growth
 - Higher inflation or lower revenue growth could extend timeline
 - Lower inflation and higher revenue growth could reduce timeline
- Assumes Measure Q is used solely for undergrounding projects, except \$75,000 annually required toward street project expenditures

Next Steps

- If directed by City Council, staff will work with NHA to complete detailed information about borrowing options, timing, and cost.
- Return to Finance and Undergrounding Committees with more detailed information in January 2025.
- A presentation to Council would occur shortly thereafter.
- The City will need to initiate the borrowing process as quickly as possible to proceed with existing UUD X1A schedule

Requested Action/Recommendation:

- 1) Provide feedback regarding an initial borrowing to fund Undergrounding Districts X1A and 1B construction and the overall preferred funding strategy for the City's Undergrounding Program;
- 2) Approve Task Order 2 with NHA for \$20,000 to further evaluate financing options and structure (Attachment B) and authorize the City Manager to execute the Task Order and any amendments up to \$5,000; and
- 3) Amend the Fiscal Year 2024-2025 Operating and Capital Budget as described in the Fiscal Impact section of this report.

History of Undergrounding Cost Estimates in Del Mar

	2016 City-Wide Estimate		2019 City-Wide Estimate		Tewa - Actual July 2022		Stratford - July 2021		Stratford - Dec 2023		Stratford - June 2024	
	Total City Cost/Foot	City-Wide Total	Total City Cost/Foot	City-Wide Total	Tewa Cost/Foot	Tewa Total	Stratford Cost/Foot	Stratford Total	Stratford Cost/Foot	Stratford Total	Stratford Cost/Foot	Stratford Total
Linear Feet- Overhead				72,000		1,100		7,650		7,650		7,650
Linear Feet - Trenched		65,200		82,000		1,345		11,165		11,165		11,165
# of Laterals	839	834		834		7		64		64		64
Pre-Construction & Design Total	-		15	1,200,000	128	172,062	73	555,900	86	656,403	87	665,381
Construction Total	74	7,183,900	74	6,070,000	378	508,943	148	1,130,275	468	3,580,314	747	5,713,574
SDG&E Cost	95	6,193,550	165	13,521,000	112	150,995	118	904,842	131	1,004,850	469	3,585,756
SDG&E Cost #2					72	97,002					-	-
Spectrum/Charter	30	1,986,000	31	2,580,800	-	-	-	284,297	-	-	-	-
AT&T	42	2,716,500	38	3,133,400	-	-	89	678,632	21	163,944	20	156,816
Total Utility Company's Cost	167	10,896,050	235	19,235,200	184	247,997	244	1,867,771	153	1,168,794	489	3,742,572
Total Cost	277	18,079,950	323	26,505,200	691	929,002	465	3,553,946	707	5,405,511	1,323	10,121,527
Construction Cost at 82,000 Feet	74	7,183,900	74	6,070,000	378	31,028,495	148	12,115,366	468	38,377,222	747	61,243,538
Design Cost at 82,000 Feet	-	-	15	1,200,000	128	10,490,025	73	5,958,667	86	7,035,954	87	7,132,188
SDG&E/Utilities Cost at 82,000 Feet	167	10,896,050	235	19,235,200	184	15,088,000	244	20,020,552	153	12,528,249	489	40,116,458
Total Cost at 82,000 Feet	277	18,079,950	323	26,505,200	691	56,606,520	465	38,094,585	707	57,941,425	1,323	108,492,185

Observations & Questions About SDG&E's Costs?

- Of the \$10.3 million total cost for the Stratford project, the SDG&E portion is \$3.6 million.
- SDG&E's cost went from \$1 million in December to \$3.6 million in June of 2024.

- The Stratford project includes approximately 20 transformers and 20,000 feet of electrical cable.
- It is my understanding that transformers cost about \$20,000 and that cable costs about \$3 per foot.
- As such, the cost of SDG&E's materials is approximately \$460,000, which means that the labor is about \$3 million.

- SDG&E bids out its work to third party contractors.
- SDG&E's work consists of:
 - pulling cable through conduits and connecting to transformers and laterals/residences/buildings
 - removing overhead wires and pulls
 - This work should take a few weeks for the Stratford project. For \$3 million.

- Does Del Mar get a credit for the existing overhead lines and transformers that SDG&E will remove? Presumably, this has substantial value and be reused by SDG&E elsewhere. How is this calculated?

- SDG&E must provide greater transparency on its costs. If not, Del Mar should consider filing a lawsuit and partnering with the City of San Diego, which has also had substantial challenges with SDG&E.

San Diego Council Member Marni Von Wilpert on SDG&E Undergrounding Costs.

<https://www.sandiegoreader.com/news/2023/jul/03/strisan-diegos-cost-undergrounding-utilities-takes/>

"This cost is insane, this increase in one year," said Councilmember Marni von Wilpert at a meeting last week of the environmental committee, where an update was given on the progress.

Borrowing/Financing Analysis of the Crest Project.

If the Crest project costs \$16.6 million and Measure Q generates \$3.5 million per year, it will require approximately 5 years of Measure Q funds

(Note: $5 * \$3.5 \text{ million} = \17.5 million.)



**City of Del Mar
City Council and Staff
1050 Camino Del Mar
Del Mar, CA 92014**

November 14, 2024

**Red Dot for Item 11
Subject: Financial Safeguards and Oversight for the Undergrounding
Project**

Dear Mayor, City Council Members, and Staff,

For disclosure, I live in UUD X1A, scheduled to be undergrounded next year.

The Citywide Undergrounding Project presents both opportunities and significant financial risks. As stewards of public funds and its future, it is imperative that the City implements robust financial guidelines to address the potential long-term burden this project may impose, including risks to future generations. The Finance Committee must play a central role in reviewing these risks and presenting clear financial safeguards for Council consideration and resident approval.

Why Financial Oversight Is Critical

- **Significant Risk:** Project costs exceed **\$105 million (base)**, with inflation potentially increasing total obligations to **\$172 million** over 30+ years.
- **Future Generational Impact:** Long-term financing could burden future residents with substantial debt for infrastructure they may not directly benefit from.
- **Revenue Vulnerabilities:** Measure Q revenues, while steady, are dependent on economic stability and face risks from recessions or regional projects like tunneling through Del Mar.
- **Reduced Options:** A commitment of this magnitude significantly limits the City's ability to respond to future crises, which history shows are likely over a 30-year horizon.
- **Forecasting Uncertainty:** The project's history makes it clear that it is not prudent to rely on SDG&E forecasts as sound. Cost estimates have consistently escalated due to inflation, labor shortages, and design complexities. Committing to substantial debt without robust safeguards leaves the City exposed to even higher future costs.
- **Inadequate Analysis for example Sensitivity Analysis:** The limited sensitivity analysis only extends the timeline with a 0.5% change in costs but fails to provide updated net present value or total project costs. This implies the

project is advancing regardless of expense. Separately, I have written to request that common financial analysis tools, including probability models, be used to capture and fairly present the risks and costs.

Role of the Finance Committee

To protect the City's fiscal health and uphold fiduciary responsibility, we must pause this project and allow the Finance Committee ample time to lead a comprehensive review of financial risks and propose formal guidelines for Council and resident consideration. These guidelines should include:

1. Debt Limits and Reserve Requirements:

- Cap annual debt service at no more than a set percentage of projected Measure Q revenues.
- Maintain a reserve fund equivalent to a set ratio of debt service to ensure stability during economic downturns.
- Establish clear guardrails, codified as government code, to restrict this and future Councils from incurring excessive debt or continuing the project if fundamental assumptions change, such as:
 - Costs exceeding a defined threshold.
 - Measure Q revenues dropping by a set percentage.

2. Phased Financing Strategy:

- Borrow incrementally, aligning expenditures with available revenues to reduce interest costs and mitigate financial risks.

3. Alternative Options:

- Evaluate Pay-Go funding, scaling back the project scope, or ceasing Measure Q taxation and refunding unspent funds if the project proves financially untenable.
-

Public Engagement and Transparency

Given the magnitude of this decision, residents must have a direct voice. I strongly recommend that all financial commitments, including debt issuance and taxation changes, be placed on a ballot for voter approval. Transparent communication through workshops and forums will foster community trust and alignment with shared priorities.

Conclusion

This project's success depends on thoughtful financial oversight. By tasking the responsible and most appropriate committee—made up of citizens with Council liaisons—the Finance Committee can develop comprehensive guidelines that allow the City to address risks proactively and establish safeguards that protect Del Mar's fiscal future while honoring its commitment to residents.

Pause this project to allow for more informed dialogue and consideration by the appropriate committee—the Finance Committee.

Thank you for prioritizing financial prudence in this critical initiative.

Sincerely,
W. Tate Scott
1200 Oribia Rd
Del Mar, CA 92014
AREA X1A



Robert Silva

From: CHARLES PINNEY <captlaw@aol.com>
Sent: Friday, November 15, 2024 3:11 PM
To: City Clerk Mail Box
Subject: Underground Section UX1A

Follow Up Flag: Follow up
Flag Status: Flagged

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Time is of the essence. The initial impetus for city wide underground projects was the high fire danger to Crest Road (X1A) and environs during Santa Ana wind conditions. The additional benefit is to reduce electrical outages due to wind and trees falling. Delay has increased the cost projection dramatically. The city should figure out cost cutting measures as much as possible and finance the Crest Canyon project immediately. This phase should have been first on the list of projects.

If anyone would like to interview me about our private project on Kalamath Drive some 8-10 years ago, I would be happy to offer advice.

Thank you,

Charles Pinney
727 Kalamath Drive
Del Mar



Melinda Gould

From: Dolores Davies <doloresdj@gmail.com>
Sent: Friday, November 15, 2024 4:05 PM
To: City Clerk Mail Box
Cc: David Druker; Tracy Martinez; Terry Gaasterland; Dan Quirk
Subject: Red Dot ●—Nov. 18 Council Meeting, Item #11

Follow Up Flag: Follow up
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**City of Del Mar
City Council Agenda
November 18, 2024
Item #11, City Undergrounding Financing
Red Dot ● Letter**

Note: This letter has been signed by 45 Del Mar residents.

Dear Mayor Druker & Council Members:

As residents of Crest Road and the adjacent streets within and near Utilities Undergrounding District (UUD) X1A, we urge you to please direct staff to move forward with an accelerated financing option so that our utilities in this critical area can be undergrounded as soon as possible. While we certainly support the continued undergrounding of utilities in all Del Mar neighborhoods, the project that is ready to go and has the greatest urgency is clearly the construction of UUD X1A.

Because of the wildfire-related public safety issues, the Crest Road/Crest Canyon UUD was deemed a high priority by the Council in August 2019. In December 2023, the Council voted unanimously to authorize City construction of UUD 1A and X1A on a go-when-ready basis. Both the City's UPAC and Finance committees have recommended that the City explore financing options to keep X1A undergrounding on a go-when-ready schedule. At the City's recent Finance Committee meeting, Laura De Marco, chair of the City's Finance Committee, pointed out that the additional financing costs incurred in completing UUD X1A pale in comparison to the economic devastation that could occur if utilities were to cause a wildfire that engulfed Del Mar.

We realize that the City is facing challenges in terms of funding the undergrounding of utilities in Del Mar neighborhoods, due to the unanticipated inflation of construction and SDG&E costs. But, the costs of delaying this important project are not only risky from a public safety perspective, they could also add significant new costs, since engineering design plans have a limited life and environmental studies are tied to the engineering design. It could also be possible that the categorical exemption to CEQA that X1A is receiving might not be achievable again if the current engineering design is allowed to lapse and new environmental studies are required.

Thank you for considering our perspective and our sense of urgency.

Sincerely,

**Richard & Dolores Davies Jamison
Crest Road**

**Barbara & Joe Harper
Crest Road**

**Shirley King & Art Olson
Avenida Primavera**

**Beth Levine
Crest Road**

**Judy & Marc Schuckit
Kalamath Drive**

**Sally & Ron Taylor
Crest Road**

**Rosanne Holliday
Crest Road**

**Tom & Jackie Bruskotter
Crest Road**

**Ula Tuszewicka
Crest Road**

**Linda & Frank Chisari
Crest Road**

**Mark Raby
Crest Road**

**John Graybill
15th Street**

**Joan & Craig Brown
Crest Road**

**Suzi & Stan Resnik
Crest Road**

**River Cohen
Crest Road**

**John Winfield
Crest Road**

**Scott & Lisa Renner
Via Alta**

**Steve & Ellen Mitgang
Crest Road**

**Barb & Tim Davis
Kalamath Drive**

**Howard Appel
Crest Road**

**Susan & Don Instone
Crest Road**

**Gloria Sandvik & Harold Feder
Crest Road**

**Judd & Susan Halenza
15th Street**

**Julie Singletary
Crest Road**

**Allan & Susan Wegner
Crest Road**

**Tom Hollander & Delene St. John
Crest Road**

**Jason Dempsey
Crest Road**

**Fran & Nick Frost
Crest Road**

Melinda Gould

From: Ann Williamson <ann.williamson@gmail.com>
Sent: Friday, November 15, 2024 7:38 PM
To: City Clerk Mail Box
Subject: November 18 Red Dot Item 11

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Dear City Council:

Please vote to find a way to fund Undergrounding District X1A. We are counting on that as a part of San Dieguito Drive improvements which have been approved by the City.

Thank you.

Gill and Ann Williamson
1352 Oribia Road

Melinda Gould

From: Caitlin Rae <caitlinerae@yahoo.com>
Sent: Sunday, November 17, 2024 10:32 AM
To: City Clerk Mail Box
Subject: Red Dot Item 11 11/18/24

CAUTION: This email originated from outside of the organization. Do not click links or open attachments unless you recognize the sender and know the content is safe.

Dear City Council Members,

It is clear the City is at a crossroads and must choose a path and stick to it in order to complete the entire undergrounding project. It is also clear the costs of the undergrounding project will only continue to increase making a decision on 11/18/24 even more imperative.

Besides the scenarios outlined in the agenda item, I would like to remind the Council Members of other unintended ancillary costs associated with all of the options.

Just a few months ago, the residents of San Dieguito Drive and Oribia Road voted to create an assessment district to bring SDD into the public road system for the City of Del Mar on the expressed promise that the road will be reimaged at the conclusion of the Canyon Crest undergrounding project set to begin in fall 2024 and completed in 2025. In October of 2024, we all received our property bills with the first installment of the assessment district fee included. All of the materials, public meetings, and expressed opinions of the Council Members and staff communicated to the SDD residents that the undergrounding would be completed and the road fixed at the completion of the undergrounding. At no time was there mention (all the way up to the voting period in August 2024) that the City did not have enough money to move forward with the Canyon Crest undergrounding project. Based on this expressed promise of a new road, the residents relied on that promise and created the assessment district.

If the City Council chooses scenario 1 (pay as you go), the undergrounding for UUDX1A (Canyon Crest) will not begin until 2027 to be completed in 2029. We residents will require the City fix and repair SDD prior to 2027. This will cost the City additional money because the assessment district was formed under the guise the road repair will cost 1.3 million total. As you have seen with the undergrounding project, inflation, supply, and costs will continue to cause projects to increase in cost.

If the City Council chooses scenario 2 or 3, the UUDX1A project will not begin until 2025 and be completed by the end of 2026. As mentioned above, the residents believed and were not told otherwise that the undergrounding will be complete by 2025 and SDD will be repaired in 2025. Paying assessment fees for 2 years (through 2026) without seeing a repaired and drivable SDD is unacceptable. What if someone decides to sell their house during that time, they will never realize any benefit from the assessment district. Again, under any of these last two scenarios, the cost to make a new SDD at the end of 2026 rather than early 2025 will cost the city more money.

So as you set your course on November 18, I implore you to make good on the promises to the SDD residents that whichever course you choose, that repairs be made to SDD immediately. Now that the assessment district has been formed, the road is public, it is total disrepair (as mentioned in all of the written materials provided by the City) putting all of the residents and users of the road on notice that it is in a dangerous condition should there be an accident or some other casualty.

Sincerely,

Caitlin Laipenieks
1340 Oribia Road

Melinda Gould

From: amyacheshire@gmail.com
Sent: Sunday, November 17, 2024 1:32 PM
To: City Clerk Mail Box
Subject: Red Dot Letter for Agenda Item #11 - City Council Meeting - 18 Nov 2024

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Red Dot Letter for Agenda Item #11 - City Council Meeting – 18 Nov 2024

Citywide Undergrounding Program Financial Analysis and Potential Funding Options

Dear Del Mar City Councilmembers:

As a member of the UPAC Finance sub-committee for the last 18 months, I've attended six meetings with City Staff as we've worked together to fine tune the UP financial plan. A potential future shortfall of measure Q revenues was identified by Staff, reviewed by the UPAC Finance sub-committee, and presented to UPAC on 14 Sep 2023. At that time, the shortfall was estimated to occur in 2027 at the earliest. City Staff began exploring financing options that could be considered if the DMCC determined that expedited completion of the UP was a priority for the City. The official UP webpage states, "The City is committed to advance the UP as quickly as possible."

After receiving much higher-than-expected construction estimates for UUD 1A from SDG&E in Mar 2024 and from the city contractors in May 2024, the UP financing forecasts were re-calculated by Staff and it became clear that in order to complete construction of UUD X1A (Crest Canyon) in 2025/2026, financing would have to be approved by DMCC. City Staff, in collaboration with the UPAC Finance sub-committee, presented three potential financing scenarios to UPAC on 24 Sep 2024. UPAC voted unanimously to recommend Scenario 3 (Accelerated Financing) to the City Council. This option makes it possible to complete the city-wide undergrounding of our utilities as soon as possible. This is the fairest and best option for the residents of Del Mar.

The residents voted for Measure Q in 2016 because they knew it was the best way to accomplish city-wide undergrounding. In Apr 2018, when the City Council evaluated the City's goals and priorities, residents again expressed their support for city-wide utility undergrounding with Red Dot letters and oral statements. The City Council affirmed the UP as a priority in Sep 2018.

All the residents of Del Mar have been contributing financially to Measure Q since 2017. We have finished construction of a small pilot project (Tewa) and started construction on the first major district (1A – Stratford South – 464 residences). It would be unfair to the rest of the city to put the brakes on the UP at this point. We should aim to finish the city-wide project as soon as possible so that everyone can benefit without further delay. With 30-year terms for loans, Measure Q funds can handle debt service and construction costs so that we can potentially complete the entire city in 20 years. Because of the staging of the UP over time, we can aim for the fairest, fastest plan and re-evaluate the assumptions of our financial plan at four more future decision points as further facts emerge before beginning the design and construction of Districts 2-5.

The decision before the City Council today is whether to recommend that the City further explore financing the construction costs of UUD X1A and UUD1B so that both districts can be completed as soon as possible.

Reducing wildfire risk in Crest Canyon is one of the more obvious benefits of the UP. Choosing to finance UUD X1A now would underground the utility poles in the canyon and up on the ridge four years sooner. The design for X1A is now complete and postponing construction for four years would also require an expensive re-design.

The scenic beauty of Del Mar will be dramatically improved by utility undergrounding. Once a utility pole is removed, the scenic benefits never depreciate. The unobstructed views will benefit future generations of residents and visitors forever.

What's harder to quantify is the value of expediting our enjoyment of this improved scenic beauty. A simple calculation illustrates the potential benefits of Scenario 3 using the objective criterion of "Residence Years" – the number of years earlier that each residence in Del Mar will be undergrounded if the City chooses Scenario 3 instead of Scenario 1.

This choice would save 11K residence years. This means that – on average - each affected residence in Del Mar will enjoy the benefits of undergrounding about 6 years earlier if the City proceeds with Scenario 3. When comparing the NPV (Net Present Value) of Scenario 1 vs. Scenario 3, the projected cost of accelerated financing is \$10 million in exchange for 11K residence years of added scenic beauty. This amounts to \$875 per residence year.

I hope the DMCC will join UPAC in recommending that financing the UP construction costs should be considered as part of our community plan for completion of the UP "as quickly as possible." Everyone in Del Mar is already contributing to the Measure Q fund and utility undergrounding is already under construction. It would be unfair to delay the completion of the UP when we have the income stream from Measure Q available to complete the project 15 years earlier. Opportunities to re-evaluate financing decisions before future districts begin the design process significantly reduce the financial risk for the City.

Sincerely,

Amy Cheshire

San Dieguito Drive

Melinda Gould

From: berthaleone01@gmail.com
Sent: Monday, November 18, 2024 6:46 AM
To: City Clerk Mail Box
Subject: Red Dot November 18, 2024 - Item 11 - Utility Undergrounding

CAUTION: This email originated from outside of the organization. Do not click links or open attachments unless you recognize the sender and know the content is safe.

Dear Council Members:

As residents of Crest Road within Utilities Undergrounding District X1A, we support all the reasons outlined in the red dot submitted by Richard and Dolores Davies Jamison “to move forward with an accelerated financing option so that the utilities in this critical area can be undergrounded as soon as possible. This project is ready to go and has the greatest urgency.”

In a visit to our property by several members of the Del Mar Fire Department to assess our property’s fire risk before the last fire season, we were advised that our greatest risk was from Crest Canyon.

Thank you for your consideration and appreciation of the sense of urgency.

Respectfully,

Bertha and Robert Leone
728 Crest Rd



Melinda Gould

From: mark rittenbaum <mark.rittenbaum@gmail.com>
Sent: Monday, November 18, 2024 10:02 AM
To: City Clerk Mail Box
Subject: Red Dot comments to Financing of Undergrounding

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At the last Finance Committee meeting, a number of comments, questions and concerns were raised by committee members and the public, which were not addressed.

Some of these questions/comments follow, and are meant to assist the City Council and the public in making informed decisions on financing options (including continue to pay as we go):

- 1) Background: Mitigation of Fire hazard vs public views- for each of the under grounding zones, please identify the relative fire hazard safety risk using an independent rating system. Is the next phase indeed an extremely highly rated risk? Are there other areas of extreme risk, where there will be a greater sense of urgency to complete on something other than pay as you go.
- 2) Financial overview - please provide a current and pro forma balance sheet, debt maturity schedule, credit rating, and credit capacity for the City. Address how adding debt under either option 2 or 3 affects the City's credit rating and ability to incur additional debt for other potential needs.
- 3) Since the debt will an obligation of the City (and not just recourse to Measure Q funds), please explain the guardrails that ensure that only monies from Measure Q will be used to service debt or otherwise fund under grounding . Are there any potential negative scenarios, where funds beyond Measure Q could be required to service debt, under the currently contemplated financing schemes ?
- 4) Sensitivity analyses and downside scenarios- please provide more extreme scenarios, and their implications. Things can be far worse than illustrated, and with a reasonable likelihood of it being so. For instance, under option 2, assume the cost is say \$20 million, and we have a number of years of negative tax revenue growth (another pandemic, city severely impacted by rail realignment). Under scenario 3, assume inflation is 2.5% greater than the model, and a few years of negative tax growth per the above.
- 5) Observations, personal impressions- Hopefully the finance committee can explore some non traditional or public/private options. Under the currently contemplated structure, where the debt is 100% financed by the city and an obligation recourse to city, it is hard for me to imagine a scenario where it is prudent for the city to continue to study or incur the magnitude of debt contemplated under option 3.
- 6) The tail or the dog- It appears there is a sense of urgency to reach a decision related to option 2 . A decision to put on close to \$20 million of debt, with significant downside risks to both the cost and revenue assumptions, and where existential threats to the City exist, should not be taken lightly. Let's be sure the Finance Committee and City Council are allowed to do its diligence before taking on any debt, even if it were to potentially delay the next phase. Let's not have the tail wag the dog.
- 7) Stop, Look, Listen ? Is there any merit in better understanding the our costs and ways to control them before proceeding full steam ahead?

I realize the hour is late to receive and address all the above comments at the meeting. Yet I would appreciate that staff and our financial advisors attempt to do.

Respectfully,
Mark Rittenbaum

Sent from my iPhone



Melinda Gould

From: amyacheshire@gmail.com
Sent: Monday, November 18, 2024 10:28 AM
To: City Clerk Mail Box
Subject: Red Dot Letter # 2 for Agenda Item #11 - City Council Meeting - 18 Nov 2024

Follow Up Flag: Follow up
Flag Status: Flagged

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Red Dot Letter # 2 for Agenda Item #11 - City Council Meeting – 18 Nov 2024

Agenda Item #11 - Citywide Undergrounding Program Financial Analysis and Potential Funding Options

Dear Del Mar City Councilmembers:

This is my 2nd Red Dot letter on this agenda item. I wrote a detailed Red Dot letter yesterday expressing my support for obtaining financing to expedite the completion of the Undergrounding Project.

This second letter is to protest Dan Quirk’s disappointing e-blast yesterday. It is full of misinformation about the UP that seems to be designed to cause concern and turmoil in Del Mar. A lot of what Dan wrote is misleading at best and untrue at worst. I have communicated several times with Dan in private about changing the tone of his e-blasts. I believe they are contributing to a negative atmosphere of paranoia and distrust in our community.

From my personal experience working on three UPAC sub-committees over the last two years, Del Mar City Staff is extremely competent, hard-working and collaborative. When Dan insinuates that the City is “being deceptive” and “putting out misleading information,” he is unfairly maligning Staff. In our working meetings, the highest priority has always been placed on clear, transparent communication of the facts surrounding the UP. Unfortunately, Dan is not communicating in his e-blasts with the same respect for accuracy that Staff has put into their agenda report for this meeting.

Before the 24 Sep 2024 UPAC meeting, Cit Manager Ashley Jones suggested to the members of the UPAC finance sub-committee that it might be best to present the newly updated and extremely complicated UPAC financial plan for the first time at the public UPAC meeting. The purpose was to make sure the presentation could be reviewed in its entirety without interruption and then discussed publicly before a recommendation was made by UPAC to the DMCC. We all agreed.

Dan stated in his e-blast that Michael Minter resigned in protest the day before the September UPAC meeting because the Staff financial report wasn’t released until the day of the meeting. That is not what Michael wrote in the surprising and baffling resignation letter we received the day before the UPAC meeting. He wrote, “Good evening, I am resigning from the UPAC Committee following tomorrow's meeting. I don't feel that I am receiving the level of detail to be able to add any value to this committee and frankly, I can't handle the pace of the undergrounding initiative. Furthermore, I was removed from the UPAC finance subcommittee through a contrived scheme made to look organic which was really weird to say the least.” Michael didn’t attend the UPAC meeting the next day.

In fact, it was Michael who made the motion to resign from the UPAC finance sub-committee in June. After receiving dramatically higher cost estimates from SDG&E in late March, Terry Gaasterland suggested at the public meeting that UPAC would benefit from having Shirli Weiss, a lawyer with experience in such matters, on the finance sub-committee. I

offered to resign from the finance sub-committee to make room for Shirli's expertise. After some discussion, it was Michael who offered to resign. Somehow, this public event has been mis-remembered as a "contrived scheme" to oust Michael from the finance sub-committee. It wasn't.

Dan also insinuated in his e-blast that there was a conspiracy to remove UPAC member Steve Voss from the committee. Steve had been absent for 5 of the 7 UPAC meetings held since UPAC re-started in Feb. 2023. The City has a policy that requires an appointed member to be removed from an advisory committee for non-attendance if they miss three meetings in a year without cause. Steve missed 3 of the four meetings in 2023 and 2 of the three meetings so far in 2024.

I am grateful to Steve Voss and Michael Minter for their past service on UPAC and I'm also grateful to the two candidates who have stepped forward to fill the two vacancies on our roster. UPAC has a lot of work ahead of us and we need involved, committed members.

Dan wrote in his e-blast that "The City-wide cost in 2019 was \$26 million, and today it is now \$106 million ... and the City is being deceptive about important metrics." These statements are untrue and should be retracted.

The City Staff report presented to the DMCC on 5 Aug 2019 concluded the following:

*"All of the previously-considered scenarios showed that it is possible to fund the full cost to underground all utility poles using Measure Q revenues along with completing the redevelopment of Shores Park, both with long-term financing or PAYGO, with the variation yielding completion time frames ranging from 12 to 26 years, and **costing in a range of \$61 to \$95 million** (including construction cost escalation and financing costs where applicable)."*

Construction cost inflation since 2019 has been high and the pandemic delayed the UP for several years, but the current cost and schedule estimates are still in the same ballpark as they were in 2019. The most dramatic cost increase has been from the SDG&E estimates received in March 2024 and Staff and UPAC are actively taking steps to control SDG&E's costs.

- 1) Shirli Weiss was added to the UPAC finance sub-committee in June and her legal expertise helped develop a plan for working with SDG&E to control costs.
- 2) Staff are actively working to obtain more detailed cost information from SDG&E.
- 3) To better understand the City's rights and entitlements to information under the CPUC rules and regulations, the City has engaged special legal counsel.
- 4) After a recent City meeting with SDG&E executive staff, the City and SDG&E management will begin meeting quarterly starting in December 2024,
- 5) SDG&E has committed to providing the City with more detailed cost information along with timely updates regarding changes in costs
- 6) Additional actions to memorialize the partnership between the City and SDG&E regarding the City's Undergrounding Program are underway.

In conclusion, I would just like to say that the residents of Del Mar deserve to have City Council members who communicate accurately and truthfully with them and in a tone that promotes civility and does not unfairly malign the characters of our City staff, councilmembers and our community volunteers.

Sincerely,

Amy Cheshire

San Dieguito Drive



Melinda Gould

From: shirli.weiss@gmail.com
Sent: Monday, November 18, 2024 10:35 AM
To: City Clerk Mail Box
Cc: David Druker; Tracy Martinez; Terry Gaasterland; Dan Quirk; Ashley Jones; Martin Boyd
Subject: Item: Citywide Undergrounding Program Financial Analysis and Potential Funding Options

Follow Up Flag: Follow up
Flag Status: Flagged

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Dear City Clerk:

Kindly enter the following red dot email into the public record for today’s meeting. Thank you.-Shirli Weiss

Item: Citywide Undergrounding Program Financial Analysis and Potential Funding Options

Dear City Council and Del Mar fellow-citizens,

I am a long time resident of Del Mar and have practiced law in California for over 40 years.

Since September of 2023 I have served on the Undergrounding Project Advisory Committee and in January of 2024 I became its Chair.

Early project estimates and selection and ordering of districts for undergrounding occurred before my tenure. I live in District 1A, undergrounding in process.

I agree with the goals that persuaded over 66% of Del Mar citizens to vote for the project: improved fire safety and scenic enhancement..

I write in response to Counsel member Quirk’s blast email entitled “**City Council Meeting on Undergrounding - Costs Explode from \$18 million to \$200+ MILLION - Mismanagement Abounds**”

Many of the questions Councilmember Quirk raises in his blast, as usual, are legitimate; many have been asked and answered at Council; Councilmember Quirk’s accusation of mismanagement on the part of the City or its staff, however, is both irresponsible and unwarranted.

Estimates

As I understand it, before my first-hand experience, the City asked for and received updated projections for the project in 2019, some from professional consultants, within a wide range and made a project estimate. The estimate was made in the earlier days of the pandemic when it was not possible to project either the length of the pandemic nor its impact on construction and other third party costs nor to project the increase in costs from a number of other variables also not controlled or influenced by the City, e.g., the extent of increase in SDGE estimates and billings was not foreseeable.

The Actual Costs Thus Far

Actual costs of the initial project, (TEWA) and updated projected costs of UUD 1A have significantly exceeded consultant projections. Accordingly, the City staff has timely updated the projections for the entire project. There are two principal reasons for the increases: **(1) SDGE substantially increased billings and projections and the (2) An increase in the City’s out-sourced construction costs. Neither of these causes were the**

result of mismanagement by the City or its staff, instead, the Staff has worked diligently and expeditiously to both update projections, continue to manage the project and initiate an inquiry on these causes.

SDGE:

The extent of increase in SDGE’s estimates and billings was not foreseeable in my opinion and the City is not clairvoyant. SDGE took the City by surprise and likely delayed conveying information on increases that it had before it sent out updated estimates and bills. It thus far has supplied an inadequate and vague explanation for the increases. SDGE is supposed to be passing on to the City only its “Actual Costs” under PUC Rule 20. As reported to the Finance Committee, the City has requested a detailed explanation of billed costs and projections and has retained specialized PUC council to advise it. SDGE has resisted conveying meaningful information in the past. It is a regulated monopoly and so the usual customer/vendor relationship does not exist here. The City must and is consulting with its attorneys and will be mindful of PUC guidelines and other legal means to obtain detailed information if it is not voluntarily shared, and to challenge it if challenge is merited. In this regard, inquiry about all of SDGE’s actual costs, including design, construction, labor, equipment, overhead, credits due to the City, “enterprise costs” and “supply chain challenges” impliedly tied to the pandemic, is legitimate.

However, any refusal by SDGE to supply PUC-allowed information (which it has done in the past) most certainly cannot be attributed to City “mismanagement ” and Councilmember Quirk’s accusation is unwarranted and unsupported. To the contrary, the Staff is diligently pursuing the needed information.

City’s Construction Costs.

The other major component of cost increase is the City’s cost of construction. For 1A, the City employed a bidding process that is set by law. Multiple bids were received. The lowest qualified bid was accepted. Increases in bids were in line with increases in the construction cost index which were greater than general post-pandemic inflation. As has been explained in City Council meetings, in the case of City construction costs (unlike with SDGE) it would not yield any change to determine what estimate the successful bidder used for widgets and equipment in its bids, the process does not call for them to itemize to that level of detail and still requires the City to select the lowest qualified bid even if some widget has a 100% markup. Councilmember Quirk (and Finance Committee member Minter) have proposed that the City take the project in-house. I would be opposed to that adventure for more reasons than I can list in this email, but I am not a decision maker and thus far those gentlemen have not persuaded the majority of the City Council to have the City undertake the role of general contractor.

Bottom line: this major cause of the increase, as with the SDGE factor cannot be attributed to City “mismanagement ” and Councilmember Quirk’s accusation is unwarranted and unsupported.

As to the desirability of accelerating the project and her other points, eloquently expressed, I agree with UPAC Vice-Chair Amy Chesire’s red-dot email. As Amy notes, the City Council is being asked for a limited commitment today, as Amy notes:

“Because of the staging of the UP over time, we can aim for the fairest, fastest plan and re-evaluate the assumptions of our financial plan at four more future decision points as further facts emerge before beginning the design and construction of Districts 2-5. The decision before the City Council today is whether to recommend that the City further explore financing the construction costs of UUD X1A and UUD1B so that both districts can be completed as soon as possible.” (emphasis added).

This a limited “ask” and well supported.

I appreciate the dialogue and comments of my fellow-Del Mar residents and ask that they remain respectful to the city council members and City staff.

Thank you for your attention.

Respectfully submitted,

Shirli Weiss

551 Stratford Court



Melinda Gould

From: Steven McDowell <smcdowell4delmar@gmail.com>
Sent: Monday, November 18, 2024 12:27 PM
To: City Clerk Mail Box
Subject: Red Dot Letter for Agenda Item #11 - City Council Meeting - 18 Nov 2024
Attachments: Pages40and41toOct22Meeting.pdf

Follow Up Flag: Follow up
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To: Del Mar City Council

Within the backup support to Item 11 is the following;

Finance Committee Recommendation

On October 22, 2024, the Finance Committee received a presentation from staff and NHA Advisors and recommended the City Council authorize staff to further explore financing options, including 15-year, 20-year, and 30-year loan options, and return to the Finance Committee. The Finance Committee also requested the City Council direct staff to analyze the impact of separating the financing of UUDs X1A and 1B.

Included with tonight's agenda was some of the backup NHA provided to the finance committee, but not all. In the packet to Finance, there was a detailed breakdown by year for each scenario, attached is Scenario 3. Please continue to provide this type of look for all other options.

At the Finance Committee meeting, I expressed my concerns that 30-year bonds should not be an option. I will continue to voice that belief. Those concerns were based on my own experience as a public official with the Del Mar School District and my experience as one of many parents who spoke up prior to the approval of San Dieguito School District Prop AA. Views that were heard, with one of the outcomes bond terms being limited to 25 years or less.

Those beliefs have only been reinforced after; creating my own sensitivity analysis on the impact of different financing terms and rates for doing the undergrounding, looking at other bond prospectus NHA has been involved with, and reading in the press worries Gen Z's have regarding irresponsible debt levels that will become their responsibility.

Assuming one of the outcomes of Task Order 1 was to provide the city with a financial model, before starting a new task, please ensure the current model works, by reporting out the prior results with;

- 1) All current scenarios with the same endpoint. Future value is as important as present.
- 2) Guardrails including probable reserve funds and/or costing of bond insurance
- 3) Including know administrative cost differences. Bond financings has additional reporting, insurance, and outside support, for example, NHA. These costs could be substantial.
- 4) Expected issuance cost is something that has an immediate reduction on what is raised.

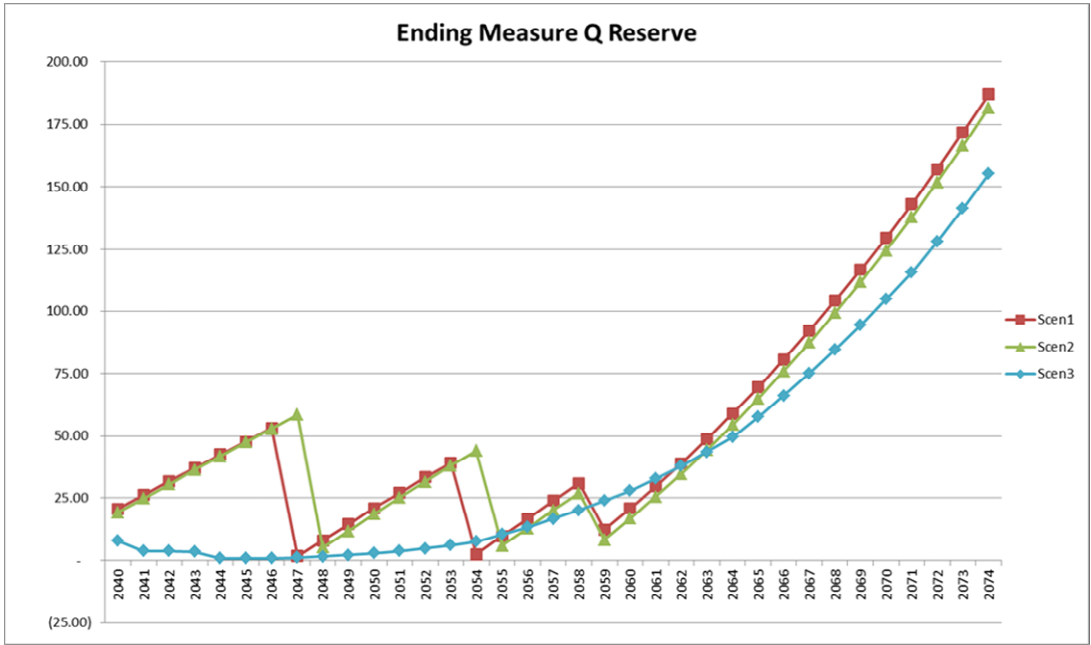
Once that's achieved my recommendation on changes to Task Order 2 would be;

- 1) Add to the first bullet after call provisions, *expected issuance cost*
- 2) *Remove Financing 101 and instead specifically state those things we need NHA to do.*
- 3) *Remove the words 2-3 in-person meetings.* Based on, I am assuming the cost we paid for two people not based in San Diego to be at the Finance Committee meeting, that won't be money well spent

In closing, while I felt spending time discussing the cost to Underground wasn't in the scope of what we/me could address within our responsibilities of being on the Finance Committee. I personally believe SDGE and other parties will substantially benefit from undergrounding now versus 20 years from now. And where there is a mutual benefit there should be mutual cost-sharing and/or partnerships. For example, ATT&T already at their own expense did underground to

place fiber along lower Zuni and SDGE has several strategic undergrounding initiatives in place to enhance the ability to respond to wildfires.

Steven McDowell



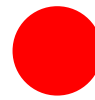
**City of Del Mar
Undergrounding Financing
Cash Flow Analysis**

Scenario #3 - Finance all Remaining Districts

Revenue Growth 2.5%
Interest Earnings Rate 2.0%
Cost Inflation 3.5%

FY	Projected Measure Q Revenue	Non-Undergrounding MQ Costs	Undergrounding Costs	Debt Financing	Annual Debt Payment	Interest Earned on Reserves	Measure Q Reserves (Ending)
Beginning Bal							.
2017-2023	18.46	-7.15	-2.39	.	.	.08	9.
2024	3.06	-.08	-24.48	17.	.	.33	4.84
2025	3.5	-.08	-2.53	.	-1.06	.1	4.76
2026	3.59	-.08	-5.31	.	-1.06	.07	1.98
2027	3.68	-.08	-.38	.	-1.06	.06	4.19
2028	3.77	-.08	-.4	.	-1.06	.11	6.53
2029	3.86	-.08	-.93	.	-1.06	.15	8.48
2030	3.96	-.08	-18.88	9.	-1.06	.1	1.52
2031	4.06	-.08	-.53	.	-1.63	.05	3.4
2032	4.16	-.08	-.88	.	-1.63	.08	5.05
2033	4.26	-.08	-.92	.	-1.63	.12	6.82
2034	4.37	-.08	-37.08	30.	-1.63	.09	2.5
2035	4.48	-.08	.	.	-3.49	.06	3.47
2036	4.59	-.08	.	.	-3.49	.08	4.58
2037	4.71	-.08	-.09	.	-3.49	.1	5.73
2038	4.82	-.08	-.57	.	-3.49	.12	6.53
2039	4.95	-.08	-.59	.	-3.49	.14	7.45
2040	5.07	-.08	-1.33	.	-3.49	.15	7.77
2041	5.2	-.08	-28.76	23.	-3.49	.11	3.76
2042	5.33	-.08	-.41	.	-4.92	.07	3.75
2043	5.46	-.08	-.84	.	-4.92	.07	3.45
2044	5.6	-.08	-16.22	13.	-4.92	.04	.86
2045	5.74	-.08	.	.	-5.74	.02	.8
2046	5.88	-.08	.	.	-5.74	.02	.88
2047	6.03	-.08	.	.	-5.74	.02	1.11
2048	6.18	-.08	.	.	-5.74	.03	1.5
2049	6.33	-.08	.	.	-5.74	.04	2.06
2050	6.49	-.08	.	.	-5.74	.05	2.78
2051	6.65	-.08	.	.	-5.74	.06	3.68
2052	6.82	-.08	.	.	-5.74	.08	4.77
2053	6.99	-.08	.	.	-5.74	.11	6.05
2054	7.16	-.08	.	.	-5.74	.13	7.54
2055	7.34	-.08	.	.	-4.68	.18	10.3
2056	7.53	-.08	.	.	-4.68	.23	13.31
2057	7.71	-.08	.	.	-4.68	.3	16.57
2058	7.91	-.08	.	.	-4.68	.36	20.08
2059	8.1	-.08	.	.	-4.68	.44	23.87
2060	8.31	-.08	.	.	-4.68	.51	27.94
2061	8.51	-.08	.	.	-4.11	.6	32.87

FY	Projected Measure Q Revenue	Non-Undergrounding MQ Costs	Undergrounding Costs	Debt Financing	Annual Debt Payment	Interest Earned on Reserves	Measure Q Reserves (Ending)
2062	8.73	-0.08	.	.	-4.11	.7	38.12
2063	8.94	-0.08	.	.	-4.11	.81	43.69
2064	9.17	-0.08	.	.	-4.11	.92	49.59
2065	9.4	-0.08	.	.	-2.25	1.06	57.73
2066	9.63	-0.08	.	.	-2.25	1.23	66.27
2067	9.87	-0.08	.	.	-2.25	1.4	75.23
2068	10.12	-0.08	.	.	-2.25	1.58	84.61
2069	10.37	-0.08	.	.	-2.25	1.77	94.43
2070	10.63	-0.08	.	.	-2.25	1.97	104.72
2071	10.9	-0.08	.	.	-2.25	2.18	115.48
2072	11.17	-0.08	.	.	-0.81	2.41	128.17
2073	11.45	-0.08	.	.	-0.81	2.67	141.4
2074	11.74	-0.08	.	.	-0.81	2.94	155.18
Totals		-10.97	-143.53	92.	-172.14	27.11	



Melinda Gould

From: Brian Orcholski <borcholski@dualinsurance.com>
Sent: Monday, November 18, 2024 11:04 AM
To: City Clerk Mail Box
Cc: Brian Orcholski
Subject: Re: Item #11 - UUD X1A Financing

CAUTION: This email originated from outside of the organization. Do not click links or open attachments unless you recognize the sender and know the content is safe.

I recently learned about a possible delay in the city wide underground electrical project for Crest Road. As a new resident to Del Mar (715 Crest Road), I'm concerned about fire exposure from high winds and down trees. It seems like Crest Road should be considered as high priority due to high exposure to wind and down power lines.

I'm hopeful that the City will make the correct decision on securing financing and move the Crest Road underground project on schedule and at a high priority. I'm not understanding how Stratford Court is under construction and is a higher priority while Crest Road is not funded and now possible delays to 2029?

Kind Regards,

Brian Orcholski

Vice President, Controller

DUAL North America, Inc.

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Office: +1 619-664-4221 | Mobile: +1 858-603-0621

350 10th Avenue, Suite 1450, San Diego, CA 92101

borcholski@dualinsurance.com

****Please note our email address has changed.**

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Melinda Gould

From: City Clerk Mail Box
Subject: FW: Red Dot. Nov. 18 Council Meeting, Item #11

From: Francis V. Chisari <fchisari@scripps.edu>
Sent: Monday, November 18, 2024 12:43 PM
To: City Clerk Mail Box <CityClerk@delmar.ca.us>
Subject: FW: Red Dot. Nov. 18 Council Meeting, Item #11

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Hello,

We apologize for not including you on the Red Dot email we sent to the City Council members yesterday evening. We hope you will include this Red Dot in the official record.

Thank you,

Linda and Frank Chisari
1010 Crest Road

From: Francis V. Chisari <fchisari@scripps.edu>
Date: Sunday, November 17, 2024 at 7:39 PM
To: David Druker (ddruker@delmar.ca.us) <ddruker@delmar.ca.us>, Tracy Martinez <TracyforDelMar@gmail.com>, Terry Gaasterland <tgaasterland@delmar.ca.us>, Dan Quirk <dquirk@delmar.ca.us>
Subject: Red Dot. Nov. 18 Council Meeting, Item #11

Dear Mayor and Members of the City Council,

We write to encourage you to keep Utilities Undergrounding District X1A on track for installation as scheduled and as planned.

UUD X1A is arguably the most urgently needed of all the undergrounding projects because it will protect the entire City from Santa Ana-driven wildfires. Such fires have been triggered at least twice in our memory by fallen power lines along the western rim of Crest Canyon during heavy windstorms. And we're sure you remember that the Witch Creek Fire in 2007 came close enough to Crest Canyon to require evacuation of the homes west of Crest Canyon which, had they caught fire, would have threatened the entire City.

We hope you agree that a vote to proceed with UUD X1a as currently planned would be a vote to protect all of Del Mar from Santa Ana wind-driven firestorms, not just the homes in UUD X1A. We believe the potential cost of such a tragedy to all the citizens of Del Mar, not only in

dollars but, possibly, also in human life, justify moving forward urgently and without delay. Please vote accordingly.

Sincerely,

Linda and Frank Chisari
Crest Road

P.S. A longstanding commitment prevents us from attending the Council meeting tomorrow in person.



Sarah Krietor

To: City Clerk Mail Box
Subject: FW: Red Dot Letter from Utility Specialists - Item 11
Attachments: 111824 Letter to City.pdf

Importance: High

From: Ashley Jones
Sent: Monday, November 18, 2024 1:18 PM
To: *City Council Group <CityCouncilGroup@delmar.ca.us>
Cc: Martin Boyd <mboyd@delmar.ca.us>; Joe Bride <jbride@delmar.ca.us>
Subject: Letter from Utility Specialists - Item 11
Importance: High

Dear City Council,
Attached is a letter submitted by Utility Specialists Vice President, Duane Strooboscher, today further explaining and confirming the information contained in the agenda item for Item 11 regarding their cost estimates in 2016 and 2019 being incomplete. This is in response to some misinformation circulating in the community, and is consistent with what Utility Specialists have previously explained publicly on several occasions. The letter will be processed shortly as a red dot communication.

If you have any questions, please let me know.

Best regards,

Ashley Jones
City Manager
City of Del Mar
1050 Camino Del Mar
Del Mar, CA 92014
(858) 704-3640
ajones@delmar.ca.us



4429 Morena Boulevard
San Diego, California 92117
858.581.2250

11/18/2024

TO: Martin Boyd, Principal Engineer
Monica Molina, Finance Manager/ Treasurer
Sarah Kreitor, Administrative Services Manager
Ashley Jones, City Manager

FROM: Duane Strooboscher, Vice President

The initial cost study completed by Utility Specialists in October 2016, and then updated in May of 2019 is no longer applicable to the CDM UP for the following reasons:

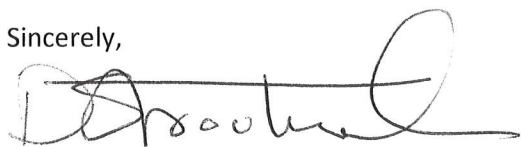
The original study was based on very preliminary information and included estimated Utility fees and hard construction costs only. The study did not include “soft costs” for utility and environmental consultants, project management, homeowner communication and coordination, civil engineering and surveying, protected tree surveys, bidding and construction management, etc. The need for these additional project requirements was not anticipated at the time the study was completed.

Construction cost evaluations assumed simple trench patch work only for restoration and did not include additional repair for curbs, gutters, concrete sidewalk/pedestrian ramp, concrete or paver driveways, and retaining walls.

The initial cost study was based on historical cost data taken from either private homeowner sponsored undergrounding districts and private land development projects. With the exception of the City of San Diego, there are no other municipalities, that I am aware of, that have taken on a city-wide undergrounding project.

Further, the initial cost study did not include estimated cost escalation to the anticipated year of construction. From 2016 until now, we’ve seen a dramatic increase in both SDG&E/ Utility fees and construction costs that could not have been anticipated in 2016.

Sincerely,



Duane Strooboscher
Vice President
Utility Specialists Southwest, Inc.



Denise Galvan

From: Don Moser <dmoser@retailinsite.net>
Sent: Monday, November 18, 2024 1:33 PM
To: City Clerk Mail Box
Subject: Public comment

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I am a resident of Del Mar and reside at 226 24th street

I am requesting that the city council provide unit costs of the key materials for the undergrounding proposal as advocated by Dan Quirk

Given cost estimates are so high a deep dive into the unit cost is appropriate and prudent ‘

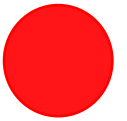
Thanks

Don

Don Moser



858.229-3456 (M) 858-523-2087 (O)
405 S. Highway 101, #150, Solana Beach, CA 92075
www.retailinsite.net | Lic #00821359



Denise Galvan

From: Sarah Krietor
Sent: Monday, November 18, 2024 1:46 PM
To: City Clerk Mail Box
Subject: FW: Red Dot on Undergrounding

Follow Up Flag: Follow up
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From: Stephen Quirk <stephen.quirk5@gmail.com>
Sent: Monday, November 18, 2024 1:45 PM
To: Sarah Krietor <Skrietor@delmar.ca.us>
Subject: Red Dot on Undergrounding

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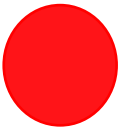
Hi Sarah,

Please include this comment for tonight's meeting.

I strongly urge the council to request more information on unit costs and materials with regard to the undergrounding project. Given the tremendous cost increase and the corresponding impacts of elevated debt levels and massive delays, the very sensible thing to do is to take a quick pause and get more information. There is nothing to lose in doing this.

Additionally, there are troubling signs on the Utility Undergrounding Committee with the departures of member Michael Minter who quit in protest due to poor city process and communication and the underhanded removal of committee member Steve Voss. Council should take note that there is something rotten in the state of Del Mar undergrounding.

Steve Quirk



Denise Galvan

From: Sarah Krietor
Sent: Monday, November 18, 2024 3:08 PM
To: City Clerk Mail Box
Subject: FW: Red Dot: Item 11 Citywide Undergrounding Program Financial Analysis and Potential

From: Greg Rothnem <grothnem@stratalliances.com>
Sent: Monday, November 18, 2024 3:05 PM
To: Sarah Krietor <Skrietor@delmar.ca.us>
Cc: Ashley Jones <ajones@delmar.ca.us>
Subject: Red Dot: Item 11 Citywide Undergrounding Program Financial Analysis and Potential

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Del Mar City Councilmembers

I am submitting this red dot in connection with Item 11 Citywide Undergrounding Program Financial Analysis and Potential.

Tonight you will be considering spending \$20,000 on a contact for services (beyond I believe the initial \$40,000 paid to NHA) to further evaluate financing options for undergrounding – in other words what are the alternatives for borrowing for undergrounding.

I attended the latest Finance Committee meeting and I think there are two major takeaways from that meeting:

Takeaway #1: First, While the Finance Committee may have said it is ok looking into financing, there was certainly a number of folks who said we need a lot more information in order to make a decision. So NHA should be tasked with getting all that information. Second, committee members and residents voiced concern re the city taking on debt for this type of project. Some questioned if we should pause undergrounding while we figure this out. On this I think we need to look at alternative ways to fund the project – public/private partnership, special assessment districts, SDG&E financing via additional charge on utility bills over a period of xx years.

Takeaway #2: While the focus of the Finance Committee meeting was on the financing/revenue part some members of the committee and the public said we need to better understand costs since costs are all over the board.

While I agree that we need to figure out how to pay for undergrounding there seems to be an over emphasis on the revenue side of the equation. From what I have observed, there is much less effort devoted to understanding the cost side of the equation. We all know costs of undergrounding are absolutely soaring. The city needs to do an in depth analysis of the costs.

Controllable vs Uncontrollable Costs:

There are costs we can control and costs that for now seem to be outside of our control. My understanding is that roughly 45% of the costs are outside of our control (SDG&E and AT&T). However, approximately 46% of the costs are within our control. That is close to \$50 million – a big number.

Costs controlled by SDG&E/AT&T: We need to put a focused effort on getting SDG&E/AT&T to provide transparency into their costs. I know the city is doing some things but I think there has to be a sense of urgency/drive on multiple fronts re getting this information. Our efforts should include:

1. Del Mar’s rights under its Franchise Agreement, state Utilities Commission and/or California law
2. Reaching out to other cities to determine what SDG&E has provided
3. Reaching out to contractors who have used SDG&E/AT&T for their projects to see what their costs have been
4. Feedback from our consultant as to the fairness of these costs
5. Discussions with SDG&E leadership re our inability to get information
6. Discussion with California Utilities Commission re SDG&E/AT&T’s refusal to provide cost information

Costs within our control: We need a deep dive into these costs as well as ways to reduce costs. Our efforts should include:

1. Reaching out to other cities to determine what their cost have been
2. Reaching out to contractors who have used SDG&E/AT&T for their projects
3. Feedback from our consultant as to the fairness of these costs. If our consultant can’t answer the question, find someone who can.
4. **Look at ways to reduce costs including:**
 - **Alternative bidding methods**
 - **Alternative ways to phase the project – smaller size projects may yield more bidders.**
 - **In sourcing model where Del Mar does some/all of the work with its own employees - pros and cons of such a model**

We simply can’t proceed with a “business as usual” or “that is the way we always have done it” approach on a project where we can control upwards of \$50 million in cost. Nothing should be off the table and we have to be open to new ideas of how to deal with this.

This effort will require a lot of work and a focused effort. Therefore, I think the City Council need to give direction to either the Finance Committee and/or UPAC to dive into this can determine: 1) Financing alternatives other than borrowing; and 2) How we can control/reduce costs.

Greg Rothnem
grothnem@stratalliances.com
(858) 449-0575