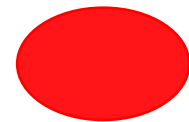


Del Mar City Council Meeting Agenda

Del Mar Town Hall
1050 Camino del Mar, Del Mar, California

March 3, 2026 City Council Meeting

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From: Tate Scott <tate.scott@gmail.com>
Sent: Thursday, February 26, 2026 8:34 AM
To: City Clerk Mail Box
Cc: Tracy Martinez; Dan Quirk; John Spelich; Terry Gaasterland; Ashley Jones
Subject: Red Dot - Item 13 - UP Updated Long-Term Cash Flow Analysis

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Dear City Council, City Manager, Staff, Committee Members and Residents,

City staff and the Undergrounding Program Advisory Committee (UPAC) deserve real credit for recent progress. They have reduced the projected total program cost from \$209.8 million (November 2024) to \$121.8 million — an \$88 million or 42% drop — and proposed a thoughtful phasing plan that would advance District 2 (Beach Colony) three years earlier than previously expected while staying within the Council’s pay-as-you-go framework. These are genuinely positive developments driven by strong cost controls and favorable 2025 bids.

That said, the program’s enormous scale and repeated forecasting volatility raise serious governance and risk-management concerns that must be addressed.

Undergrounding is a huge project - the revised \$121.8 million commitment is staggering: it equals more than 2.5 times the City’s entire annual operating and capital budget (\$48.4 million in FY 2025-26 and \$65.0 million in FY 2026-27) and roughly 6–7 years of General Fund operating expenditures in a community of only 3,900 residents. Peak construction years under the proposed phasing could still require \$10–16 million+ annually, dominating capital spending and staff bandwidth for decades. This is by far the largest capital project in Del Mar’s history.

Of highest concern is the extreme volatility in the forecasts themselves. The \$88 million (42%) reduction occurred in just 15 months (November 2024 to February 2026). While the potential savings are welcome, this is still a significant forecasting miss — exactly the pattern shown in the December 12, 2024 UPAC agenda, where staff explicitly reviewed the history of underground cost estimates and presented the then-current \$105.6 million base (with escalated scenarios reaching \$197–\$222 million). Earlier examples include the Tewa Court pilot ballooning 51%, Stratford Court South nearly doubling in mid-2024, and multiple upward revisions followed by large downward corrections.

This underscores two critical risks in the forecasting process:

- Recency bias — the new lower estimate heavily weights today’s temporarily favorable bids and SDGE revisions.
- Latency factor — many real cost increases only show up years later, and the current \$121.8 million forecast is based in part on districts that are still in design or have no final invoices yet.

The pattern is consistent with the May 2024 Crowe LLP audit of SDG&E (which found 80%+ understatements on similar projects, including one in Del Mar).

Del Mar is fortunate to have two excellent, separate expert groups: the Undergrounding Program Advisory Committee (UPAC) that brings deep project-specific knowledge, and the Finance Committee that brings independent city-wide financial oversight. These **separate** roles are valuable and should be preserved.

Therefore, as this is clearly the largest project in our city's history, the Finance Committee — not UPAC — should drive the comprehensive financial analysis.

The core problem is that without full city-wide projections, we simply cannot see the choke points that may appear years from now. We won't know when cash could get tight, when reserves might drop too low, when pension or other liabilities start to pressure the budget, or when other vital needs (roads, parks, shoreline protection) compete for the same limited dollars. The dramatic swings we've already seen in undergrounding estimates prove how important it is to have this complete picture before we commit taxpayer dollars for decades.

To address these concerns responsibly, I respectfully recommend that the Finance Committee (with staff) be directed to independently prepare clear, comprehensive 15–20 year financial projections for the entire City (not limited to the undergrounding project).

Specifically, please provide the two conventional parallel sets:

1. Without the full Undergrounding Program (baseline city-wide scenario), and
2. With the full phased Undergrounding Program (baseline plus Undergrounding city-wide scenario).

For each scenario, please include straightforward long-term forecasts prepared in accordance with governmental accounting standards (GASB). These forecasts should present a complete picture of all items impacting cash flow, structured in the manner of a Sources and Uses of Funds statement under GAAP, showing:

- All City revenues and expenditures year by year,
- The resulting impact on reserves and available cash balances,
- All major assets and liabilities (including pensions, retiree healthcare obligations, existing debt, and contingent liabilities), and
- Full “what-if” sensitivity analysis ($\pm 20\text{--}30\%$) on every key driver, such as Measure Q sales tax revenues, construction and SDGE costs, inflation rates, and interest rates.

Only this kind of conventional, thorough, independent and Finance Committee driven city-wide analysis can surface hidden choke points and risks, show the true impact on the City's overall budget and reserves, and give Council the clear picture needed before locking in taxpayer commitments for decades.

Without conventional comprehensive city-wide projections and full sensitivity analysis, we also cannot confidently say that the pay-as-you-go plan will remain viable over the full 15–20 year horizon. A single unfavorable swing in revenues or costs could force difficult choices later — exactly what we want to avoid.

This is our biggest project ever at over \$30,000 per resident. This demands a thorough, conventional financial impact analysis that examines the full city-wide picture — and that analysis should be driven by our Council-appointed Finance Committee experts.

Thank you again for your service to Del Mar.

Respectfully,

Tate Scott

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/wts