Undergrounding Program Financial Analysis

Undergrounding Project Advisory Committee

September 24, 2024

CITY OF DEL MAR™

Measure Q Overview

- In 2016 a 1% local transactions and use tax approved (simple majority)
  - “General tax” are unrestricted and may be used for any City governmental purpose
  - Annual revenues expected to be $3.5 million in FY 2024-25
- August 5, 2019, City Council adopted the UPAC recommended plan to achieve the citywide Undergrounding Program
- City prioritized uses for Measure Q revenues, including citywide utility undergrounding

Undergrounding Program – Completed/Active Projects

- UUD Tewa Court/10th Street completed February 2023
- District 1A City construction ready to begin with August 2025 estimated project completion. Funded by Measure Q reserves.
- Districts X1A & 1B in process (insufficient Measure Q revenues)
- Districts 2 and 25th St. formed in August 2024

Undergrounding Program Community Benefits

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

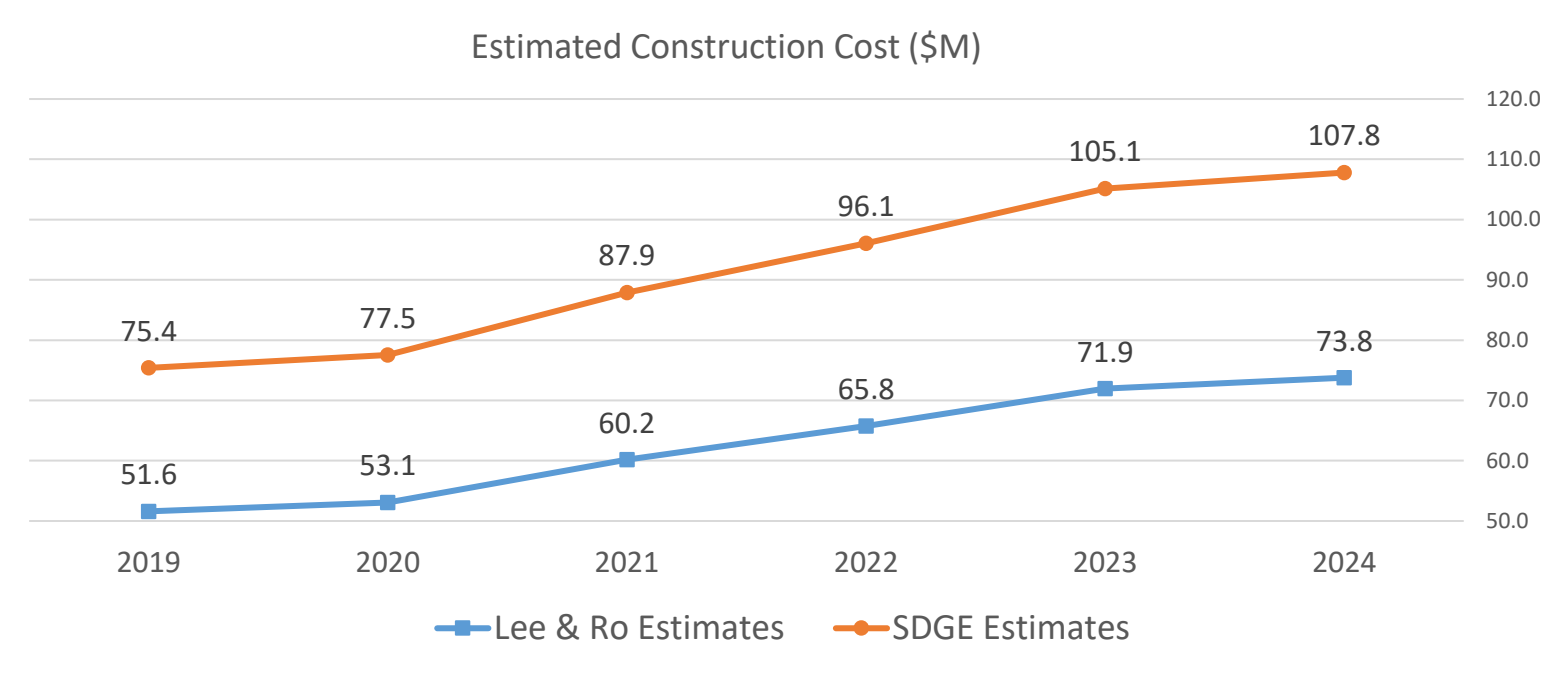
Undergrounding Program General Cost Information

	Utility Specialists (2016 - 2019)	Lee & Ro (2019)	UPAC (2019)	SDG&E (2019)	Current (2024)
Program Estimate	$26.5 M	$51.6 M	$32 - $42 M	$52.8 - $75.4M	$105.6 M
Cost per Linear Feet of Overhead	$323	$719	$464 - $609	$700 - $1000	$1,400

- Utility Specialists original program estimate is not applicable since overlying assumptions were preliminary and different.
- The current estimate is at the higher end of the SDG&E stated range in 2019 after accounting for inflation.

Undergrounding Program General Cost Information

- 2019-2024 43% total inflation and up to ~11% average annual inflation
- 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 Estimate: $105.6M in today's dollar

- Pre-Construction Services estimated from current projects
- SDG&E and AT&T costs estimated from UUD 1A per linear feet of overhead or trench (if available)
  - ➢Pending SDG&E initial invoice. UUD 1A estimate cost is 77% higher than the UUD Tewa Ct/10th St costs on a linear feet of trench basis.
- City Construction costs estimated from UUD 1A per linear feet of overhead or trench (if available)
  - ➢UUD 1A bid is 22% higher than the UUD Tewa Ct/10th St bid on a linear feet of trench basis.

➢Estimating Contingency included based on design variables

NHA Advisors

- July 8, 2024, City Council approved an agreement with NHA Advisors to assist with financial planning for the undergrounding program

- NHA worked with staff to:
  - Complete due diligence and debt capacity analyses
  - Assess overall project feasibility
  - Create a dynamic financial model assessing funding strategies/alternatives

Potential Project Funding Approaches

Pay-As-You-Go

- Utilize reserves or ongoing revenues
- Requires ample cash reserves to fund undergrounding projects

Issue Debt

- Can accelerate phased projects and capture project cost savings (e.g. inflation)
- Incorporates financing cost (e.g. interest)

Financial Modeling Considerations

Dynamic model includes multiple assumption inputs:

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

Output informs feasibility for structuring options

Modeling Considerations

Measure Q Revenues:

- Historical revenue growth
  - Average Measure Q annual revenue growth from 2018 – 2023 = 4.13%
  - Average Sales Tax annual revenue growth from 2004 – 2023 = 2.70%

Project Cost Inflation:

- California Construction Cost Index (CCCI) average annual growth ranges from 4.96% for 10-Year; 4.41% for 20-Year
- Includes average annual growth from 2021-2023 = 11%
- Not including high inflation years changes range to be from 3.06% to 4.09%

Timing of Program Costs / Funding:

- Determine optimal timing for funding remaining Districts

Modeling Base Assumptions

Base Assumptions:

- Base Project Cost Estimate: $105.6M
- 2.5% Measure Q revenue growth
- 3.5% annual cost inflation
- 2.0% earnings rate on reserves

Scenario 1: Pay-Go All Projects

Total Project Completion in 2059

Base Project Cost	$105.6 Million (M)
Inflation Cost Adjustment	92.0 M
Total	**$197.6 M**

Measure Q Reserves	$197.6 M
Outside Financing	- M
Total Project Cost	**$197.6 M**

Scenario 1: Pay Go All Projects

PROS:

- No debt, no interest expense
- Lowest total project cost

CONS:

- Requires delaying construction of X1A until 2029
- Delay of top priority fire hazard area
- May require costly redo of certain X1A design work

Scenario 1: Pay Go All Projects

Project Timeline	TEWA	1A	X1A	1B	2	3	4	5
Project Start Year	2021	2021	2021	2023	2030	2043	2051	2055
Project End Year	2023	2025	2029	2032	2035	2049	2056	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								
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
Inflation Cost Adjustment	0	0	3. M	1.3 M	8.4 M	31.7 M	28.6 M	19. M
Total Project Cost	.9M	10.M	20.7M	6.9M	24.8M	60.3M	45.8M	28.1M
Project Financing								
Measure Q Reserves	.9 M	10. M	20.7 M	6.9 M	24.8 M	60.3 M	45.8 M	28.1 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	6.9M	24.8M	60.3M	45.8M	28.1M
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

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

Total Project Completion in 2059

Base Project Cost	$105.6 Million (M)
Inflation Cost Adjustment	90.3 M
Total	**$195.9 M**
Measure Q Reserves	$178.9 M
Outside Financing	23.8 M
Total Project Cost	**$202.6 M**

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

PROS:

- Funds timely continuation of X1A and 1B
- Avoids excessive debt; total debt $17M

CONS:

- Long project timeline
- Highest inflation cost adjustment

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

Project Timeline	TEWA	1A	X1A	1B	2	3	4	5
Project Start Year	2021	2021	2021	2023	2032	2043	2051	2055
Project End Year	2023	2025	2026	2027	2037	2049	2056	2059
Financing Years	N/A	N/A	2025	2025	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%	0.00%	3.50%	3.50%	3.50%	3.50%	3.50%
Project Cost								
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
Inflation Cost Adjustment	0	0	0	.5 M	6.9 M	33.7 M	30.1 M	19. M
Total Project Cost	.9M	10.M	17.8M	6.1M	23.3M	62.3M	47.4M	28.1M
Project Financing								
Measure Q Reserves	.9 M	10. M	.8 M	6.1 M	23.3 M	62.3 M	47.4 M	28.1 M
Outside Financing	0	0	17. M	0	0	0	0	0
Financing Cost	0	0	6.8 M	0	0	0	0	0
Total Project Cost	.9 M	10. M	24.5M	6.1M	23.3M	62.3M	47.4M	28.1M
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

Scenario 3: Finance All Districts

Total Project Completion in 2044

Base Project Cost	$105.6 Million (M)
Inflation Cost Adjustment	35.4 M
Total	**$141.0 M**
Measure Q Reserves	$49.0 M
Outside Financing	173.1.8 M
Total Project Cost	**$222.1 M**

Scenario 3: Finance All Districts

PROS:

- Lowest inflation cost adjustment
- Shortest project timeline

CONS:

- Highest financing interest cost
- High debt = $92M

Scenario 3: Finance All Districts

Project Timeline	TEWA	1A	X1A	1B	2	3	4	5
Project Start Year	2021	2021	2021	2023	2027	2029	2037	2040
Project End Year	2022	2025	2026	2027	2032	2035	2042	2044
Financing Years	N/A	N/A	2025	2025	2030	2034	2041	2044
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%	0.00%	3.50%	3.50%	3.50%	3.50%	3.50%
Project Cost								
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
Inflation Cost Adjustment	0	0	0	.5 M	3.4 M	10.8 M	12.6 M	8.1 M
Total Project Cost	.9M	10.M	17.8M	6.1M	19.8M	39.3M	29.8M	17.2M
Project Financing								
Measure Q Reserves	.9 M	10. M	.8 M	6.1 M	10.8 M	9.3 M	6.8 M	4.2 M
Outside Financing	0	0	17. M	0	9. M	30. M	23. M	13. M
Financing Cost	0	0	15. M	0	8.2 M	26.1 M	20.1 M	11.6 M
Total Project Cost	.9 M	10. M	32.8M	6.1M	28.M	65.4M	50.M	28.8M
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

Model Variables

- Revenue growth
- Annual cost inflation
- Earnings on reserves
- Interest rate on loan
- SDG&E cost

Key Takeaways

- Financing $17 million will complete districts 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 toward required street project expenditures

Next Steps

- UPAC is being asked to provide a recommendation on the preferred funding strategy
- Present to Finance Committee in October
- Present to the City Council in October/November

City of Del Mar

Undergrounding Project Funding Analysis: 35-Year Funding Program

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	2030	2043	2051	2055
Project End Year	2023	2025	2029	2032	2035	2049	2056	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	1.3 M	8.4 M	31.7 M	28.6 M	19. M	**92. M**
Total Project Cost	**.9M**	**10.M**	**20.7M**	**6.9M**	**24.8M**	**60.3M**	**45.8M**	**28.1M**	**197.6M**

Project Financing									**Totals**
Measure Q Reserves	.9 M	10. M	20.7 M	6.9 M	24.8 M	60.3 M	45.8 M	28.1 M	**197.6 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**	**6.9M**	**24.8M**	**60.3M**	**45.8M**	**28.1M**	**197.6M**

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	92. M
Total	**197.6 M**

Measure Q Reserves	197.6 M
Outside Financing*	-
Total Project Cost	**197.6 M**

*Includes Financing Cost

City of Del Mar

Undergrounding Project Funding Analysis: 35-Year Funding Program

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

Project Timeline	TEWA	1A	X1A	1B	2	3	4	5
Project Start Year	2021	2021	2021	2023	2032	2043	2051	2055
Project End Year	2023	2025	2026	2027	2037	2049	2056	2059

Financing Years	N/A	N/A	2025	2025	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%	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	.5 M	6.9 M	33.7 M	30.1 M	19. M	**90.3 M**
Total Project Cost	**.9M**	**10.M**	**17.8M**	**6.1M**	**23.3M**	**62.3M**	**47.4M**	**28.1M**	**195.9M**

Project Financing									**Totals**
Measure Q Reserves	.9 M	10. M	.8 M	6.1 M	23.3 M	62.3 M	47.4 M	28.1 M	**178.9 M**
Outside Financing	0	0	17. M	0	0	0	0	0	**17.M**
Financing Cost	0	0	6.8 M	0	0	0	0	0	**6.8M**
Total Project Cost	**.9 M**	**10. M**	**24.5M**	**6.1M**	**23.3M**	**62.3M**	**47.4M**	**28.1M**	**202.6M**

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	90.3 M
Total	**195.9 M**

Measure Q Reserves	178.9 M
Outside Financing*	23.8 M
Total Project Cost	**202.6 M**

*Includes Financing Cost

City of Del Mar
Undergrounding Project Funding Analysis: 20-Year Funding Program
Scenario 3: Finance All Projects to Accelerate Development

Project Timeline	TEWA	1A	X1A	1B	2	3	4	5
Project Start Year	2021	2021	2021	2023	2027	2029	2037	2040
Project End Year	2022	2025	2026	2027	2032	2035	2042	2044

Financing Years	N/A	N/A	2025	2025	2030	2034	2041	2044
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%	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	.5 M	3.4 M	10.8 M	12.6 M	8.1 M	**35.4 M**
Total Project Cost	**.9M**	**10.M**	**17.8M**	**6.1M**	**19.8M**	**39.3M**	**29.8M**	**17.2M**	**141.M**
Project Financing									**Totals**
Measure Q Reserves	.9 M	10. M	.8 M	6.1 M	10.8 M	9.3 M	6.8 M	4.2 M	**49. M**
Outside Financing	0	0	17. M	0	9. M	30. M	23. M	13. M	**92.M**
Financing Cost	0	0	15. M	0	8.2 M	26.1 M	20.1 M	11.6 M	**81.1M**
Total Project Cost	**.9 M**	**10. M**	**32.8M**	**6.1M**	**28.M**	**65.4M**	**50.M**	**28.8M**	**222.1M**
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	35.4 M
Total	**141. M**

Measure Q Reserves	49. M
Outside Financing*	173.1 M
Total Project Cost	**222.1 M**

*Includes Financing Cost

City of Del Mar
Undergrounding Project Funding Analysis Summary

	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 2031-2032: 1B 2034-2035: 2 2047-2049: 3 2055-2056: 4 2059: 5	2024-2025: 1A 2025-2026: X1A **(Borrowing: $17.0M)** 2026-2027: 1B 2036-2037: 2 2047-2049: 3 2055-2056: 4 2059: 5	2024-2025: 1A 2025-2026: X1A **(Borrowing #1: $17.0M)** 2026-2027:1B 2031-2032: 2 **(Borrowing #2: $9.0M)** 2033-2035: 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	$92.0M	$90.3M	$35.4M
PROJECT FUNDING:			
MEASURE Q RESERVES	$197.6M	$178.9M	$49.0M
FINANCING:			
Principal		$17.0M	$92.0M
Interest/Issuance cost		$6.8M	$81.1M
TOTAL FINANCING PAYOUT	$0	$23.8M	$173.1M
TOTAL PROJECT COST ESTIMATE	**$197.6M**	**$202.7M**	**222.1M**
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 -Highest 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	$92.0M	90.3M	35.4M
Total	**$197.6M**	**$195.9M**	**$141.0M**
Project paid with:			
Measure Q Reserves	$197.6M	$178.9M	$49.0M
Financing Payout*	$0	23.8M	173.1M
Total Project Cost	**$197.6M**	**$202.7M**	**$222.1M**
*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.