



# City of Del Mar Agenda Report

TO: Honorable Mayor and City Councilmembers

FROM: Ashley Jones, City Manager  
Marco Camacho, Finance Manager/Treasurer  
Sarah Krietor, Administrative Services Manager  
Martin Boyd, Principal Engineer

DATE: February 3, 2025

SUBJECT: Consideration of Undergrounding Program Financing Options

## REQUESTED ACTION/RECOMMENDATION:

Staff recommends the City Council: 1) Receive a presentation from City staff and NHA Advisors, LLC (NHA) on debt offerings based on NHA's Memorandum dated January 9, 2025 (Attachment A); 2) Provide direction on whether the City should proceed with financing for Utility Undergrounding Districts (UUDs) X1A and 1B or delay the projects and proceed on a pay-as-you-go basis; 3) If financing is supported, provide direction on which debt option, public versus private borrowing, to pursue for financing UUDs X1A and 1B; and 4) Approve and authorize the City Manager to execute Task Order 3 with NHA for \$67,500 to serve as the City's municipal advisor for purposes of the borrowing (Attachment B).

## EXECUTIVE SUMMARY:

On November 18, 2024, the City Council authorized a task order with NHA Advisors (NHA) to further evaluate financing options for the City's Undergrounding Program (UP). On January 9, 2025, NHA provided the City with a memorandum summarizing their evaluation (Attachment A). NHA's work focused on financing for UUDs X1A and 1B, and compared public and private borrowing options ranging from 15 to 30-year terms.

On January 21, 2025, a joint special meeting of the Finance Committee and Undergrounding Program Advisory Committee (UPAC) was held to discuss the financing options. The committees received a presentation from staff and NHA and were asked to provide policy level advisory recommendations regarding the pursuit of debt financing, public versus private borrowing, and a preferred debt term.

The joint committees voted 11-1 (with one member opposed) in support of the City proceeding with financing for UUD X1A and 1B. A majority of committee members preferred public versus private financing, but there was no clear consensus on the term of the debt (15-30 years). Most committee members expressed concerns about fire safety risks and sunk costs if financing for UUDs X1A and 1B is delayed.

If the City Council directs staff and NHA to proceed with the process to secure financing for undergrounding, staff will continue to bring critical decision points and final loan details to

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## City Council Action:

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**ACTION TAKEN FOR ITEM 8:**

**IT WAS MOVED BY MAYOR GAASTERLAND, SECONDED BY COUNCILMEMBER QUIRK TO RECOMMEND THAT CITY STAFF AND CONSULTANT PURSUE FINANCING FOR UUD X1A ONLY. NO VOTE TAKEN.**

**A SUBSTITUTE MOTION WAS MADE BY MAYOR GAASTERLAND, SECONDED BY DEPUTY MAYOR MARTINEZ FOR THE CITY TO PURSUE FINANCING FOR UUD X1A AND TO EVALUATE THE COST AND CASH FLOWS FOR UUD X1A AND UUD 1B TO MAKE AN INFORMED DECISION ON WHETHER TO FINANCE UUD 1B. (VOTE 3-1, WITH COUNCILMEMBER QUIRK OPPOSED)**

**IT WAS MOVED BY COUNCILMEMBER QUIRK, SECONDED BY MAYOR GAASTERLAND TO PURSUE IBANK LOAN FINACING. (VOTE 4-0)**

**IT WAS MOVED BY COUNCILMEMBER SPELICH, SECONDED BY DEPUTY MAYOR MARTINEZ TO PURSUE A 15 YEAR OR LESS TERM FOR THE LOAN. (VOTE 3-1 WITH COUNCILMEMBER QUIRK OPPOSED)**

**IT WAS MOVED BY MAYOR GAASTERLAND, SECONDED BY COUNCILMEMBER SPELICH TO AUTHORIZE THE CITY MANAGER TO EXECUTE TASK ORDER 3 WITH NHA MUNICIPAL ADVISOR FOR \$67,500 TO SERVE AS THE CITY'S MUNICIPAL ADVISOR FOR PURPOSES OF THE BORROWING. (VOTE 3-1, WITH COUNCILMEMBER QUIRK OPPOSED)**

**IT WAS MOVED BY COUNCILMEMBER QUIRK, SECONDED BY MAYOR GAASTERLAND THAT WORK CONTINUE ON UUD 1B (NORTH STRATFORD) NO VOTE TAKEN.**

**A SUBSTITUTE MOTION WAS MADE BY MAYOR GAASTERLAND, SECONDED BY DEPUTY MAYOR MARTINEZ TO TEMPORARILY PAUSE UUD 1B WHILE THE CITY FULLY ASSESSES THE FINANCING INFORMATION AND EVALUATES FINANCING FOR BOTH UUDS X1A AND IB VERSUS JUST FINANCING UUD X1A (VOTE 3-1, WITH COUNCILMEMBER QUIRK OPPOSED)**

UPAC and the Finance Committee for review and recommendation prior to City Council consideration. To ensure funding availability when needed, staff would coordinate the bidding process and construction contract award for UUD X1A concurrently with Council's final approval of a borrowing.

**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 measure, the funds from which can be used for general purposes as identified by the City Council.

The ballot language for Measure Q stated 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 2017 and 2018, 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. More detailed information about the history of Measure Q and accomplishments to date can be found here: <https://www.delmar.ca.us/DocumentCenter/View/9623/Item-12--Measure-Q-Overview>

With the completion of the Tewa Court/10<sup>th</sup> Street pilot project in February 2023, and Utility Undergrounding District (UUD) 1A (Stratford Court South) construction underway, the Council directed staff to identify potential funding strategies for undergrounding future districts, starting with UUDs X1A (Crest Canyon) and 1B (Stratford Court North). UUDs X1A and 1B are estimated to cost a combined \$23.3 million, in today's dollars, of which approximately \$17 million is unfunded.

Staff and the City's financial consultant, NHA, previously 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 (Attachment C).

The current base UP cost for all districts 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. The timeline for completing the Undergrounding Program is estimated to be 20 to 35 years depending on which funding strategy is ultimately pursued by the City.

In late 2024, three long-term funding strategies including Scenario 1 - “pay-as-you-go” model (no financing); Scenario 2 – “Hybrid” model (initial financing and pay-as-you-go thereafter); and Scenario 3 - “finance-as-you-go” model (periodic and strategic financing when needed) were presented to the Finance Committee, Undergrounding Program Advisory Committee, and City Council.

Each funding scenario assumes all UP expenditures, including debt service repayment, will be funded exclusively by Measure Q revenue. Whether or to what degree the City obtains financing for the UP will ultimately affect the cost and timing for completion of each district and the overall UP as summarized in the table below.

**Table A. Summary of Funding Strategies Presented on November 18, 2024**

Scenario	Base Cost	Inflation	Financing Costs	Total Costs	Completion Year
1 (Pay Go)	\$105.6M	\$99.5M	\$0M	\$205.1M	X1A (2029) 1B (2031) 2 (2037) 3 (2047) 4 (2054) 5 (2059)
2 (Hybrid)	\$105.6M	\$97.7M	\$6.6M	\$209.8M	X1A (2026) 1B (2027) 2 (2035) 3 (2048) 4 (2055) 5 (2059)
3 (Finance Go)	\$105.6M	\$37.9M	\$80.1M	\$223.7M	X1A (2026) 1B (2027) 2 (2031) 3 (2036) 4 (2042) 5 (2044)

UPAC Funding Scenario Recommendation

On September 24, 2024, UPAC received a presentation from City staff and NHA, and recommended the City proceed with the Scenario 3 – “finance-as you-go” model to accelerate completion of Citywide undergrounding 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, continued efforts to assess cost efficiencies, and work with SDG&E to better understand and control costs.

Finance Committee Funding Scenario Recommendation

On October 22, 2024, the Finance Committee received a similar presentation from City staff and NHA, and recommended the City Council authorize staff to further explore financing options, including 15-, 20-, 25- and 30-year loan options, and analyze the impact of separating the financing of UUDs X1A and 1B.

City Council Direction

On November 18, 2024, the City Council received a presentation provided by City staff and NHA along with recommendations from the Finance Committee and UPAC. The report for

this agenda item is provided here as Attachment C and details the utility undergrounding process, cost estimate history, explanation of SDG&E project costs, financial model assumptions and scenarios. At the meeting, Council provided direction to City staff to work with NHA to further evaluate possible financing options and structure and approved a related task order to do so. Additionally, Council consensus was for staff to return to the Finance Committee and UPAC with detailed information regarding financing options to be provided by NHA for the committees to make a recommendation to the City Council regarding financing for UUDs X1A and 1B.

*Latest UUD X1A/1B Cost and Schedule Information*

The current base project cost estimates for UUDs X1A and 1B were developed using the latest cost information available to the City, including the UUD 1A City construction bids and SDG&E's cost estimate. These figures are used to estimate future projects based on a per linear foot rate for overhead or trench (if available). SDG&E is currently in the bid process for UUD 1A and expects to provide the City with an initial estimate invoice by the end of March based on the results of their bid process.

The City recently received SDG&E's pre-bid cost estimate for UUD X1A (Attachment D), totaling \$4.88 million. On a cautiously optimistic note, this amount is lower than the City's current estimate of \$5.54 million. However, staff recommends maintaining the current cost estimate until SDG&E's bid process for UUD 1A is complete and they have provided the City with a related cost invoice by end of March 2025, as this will offer greater certainty about the accuracy of the cost estimates.

The design for UUD X1A is mostly finalized (90%+), and staff is awaiting one final SDG&E easement and a couple of permit-to-enter forms, which are part of the critical path for the project. Once the SDG&E easement is obtained, SDG&E's bidding process will take 4 to 5 months, after which the City will receive the preliminary cost estimate. Based on this timeline, staff currently estimates City construction contract award by July 2025. However, this is still contingent on receiving the easements and permit-to-enter forms from property owners. Concurrently, staff is also working on obtaining easements for AT&T and Spectrum/Charter.

To date, the City has invested approximately \$1.1 million for City services and AT&T fees related to UUD X1A. This amount does not include SDG&E's engineering fee or staff time.

UUD 1B is nearly at the 60% design stage with SDG&E. Next steps include formal design review; environmental review; extensive homeowner outreach; distribution of preliminary lateral and easement exhibits for homeowners to reference along with permit-to-enter forms for signature; and preparation of the City civil and telecommunications design. Completion of upcoming preconstruction and bidding activities will cumulatively take approximately 13-18 months with construction anticipated as early as 2026 contingent upon the City receiving the necessary easements and permit-to-enter forms from property owners.

The City has invested approximately \$180,000 to date in preconstruction activities for UUD 1B. This amount does not include SDG&E's engineering fee, AT&T's fee, or staff time. A large

majority of the preconstruction consulting costs are anticipated to occur during the upcoming activities described above.

Impact of Not Financing for UUDs X1A and 1B (Pay-Go)

If the City were to delay construction of UUDs X1A and/or 1B until funds are available (pay-as-you-go), some work completed to date would need to be redone or refreshed, much of which would come at a cost to the City, such as update the SDG&E and civil designs, surveys, permits, bid documents, coordinating with utility companies, and communications with homeowners.

SDG&E’s design remains active for one year following its completion. Revisiting civil design and surveys after a long pause is standard practice for capital projects. This ensures the design is still valid based on any changes to design standards and modifications to existing conditions. UUD X1A is currently at 90%+ design, while UUD 1B is at 60% design, meaning each would likely incur costs based on their level of design and the length of the pause. Based on CPUC Rule 20B, the district formation itself does not have an expiration date for these projects.

Table B summarizes the costs and timing specific to UUDs X1A and 1B under each of the funding scenarios. As indicated, the pay-as-you-go scenario has the lowest total cost, and would save an initial estimated \$2.6 million in total costs for XD1A and 1B in comparison to financing to pay for these projects. There would also be a cumulative total savings of \$4.7 million resulting from pursuing a pay-go funding strategy versus the hybrid funding strategy over the life of the program.

Not pursuing an initial financing would delay completion of UUD X1A by 3 years to 2029, UUD 1B by 4 years to 2031, and UUD 2 by 2 years to 2037, and would set the City on course for a 35-year project completion schedule (Scenario 1). There will be a cost associated with pausing the designs for UUDs X1A and 1B, which is unknown at this time but is roughly anticipated to range between \$200,000-\$700,000 for any redesign and other activities described above and would decrease project savings resulting from not financing.

**Table B. Costs/Timing for UUDs X1A & UUD 1B**

Scenario	Base Cost*	Inflation	Financing Costs	Total Costs	Completion Year
1 (Pay Go)	\$23.3M	\$4.4M	\$0M	\$27.7M	X1A (2029) 1B (2031)
2 (Hybrid)	\$23.3M	\$0.4M	\$6.6M	\$30.3M	X1A (2026) 1B (2027)
3 (Finance Go)	\$23.3M	\$0.4M	\$14.8M	\$38.5M	X1A (2026) 1B (2027)

\*Base cost total for Scenarios 2 and 3 includes \$17M to be financed and \$6.3M Measure Q available project funds, whereas Scenario 1 is all Measure Q reserves.

Impact of Financing Only X1A

Staff analyzed the impact of financing only X1A (not including 1B) and determined that doing so does not provide any cost or timing advantages as further described below.

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, the overall cost of the project is projected to increase by \$1.2 million due to inflation during the resulting two-year delayed project period, which would eliminate any debt interest savings and increase the overall cost of the project to the City by approximately \$100,000. Additionally, staff roughly estimates that the cost to refresh, or redesign the City and SDG&E engineering plans and other activities for the project as may be needed would range from \$100,000-\$300,000 contingent upon how long the project is paused.

From a project timing perspective, not financing UUD 1B would delay construction completion of the project by two years (from 2027 to 2029) and would push out construction completion of UUD 2 by a year (from 2035 to 2036).

Fire Risk Prioritization

The 2019 Council approved Project Delivery Plan for Undergrounding takes fire risk, among other factors, into consideration for prioritization of undergrounding districts. As such, some Councilmembers have asked staff to clarify how the City's fire risk compares to the broader region.

The California Public Utilities Commission (CPUC) classifies high fire threat districts (HFTD) into three tiers, with Tier 1 being the lowest risk and Tier 3 the highest. Del Mar is classified as a Tier 1 (lowest risk area). SDG&E and other electrical utilities in the State primarily focus on managing risk in Tier 3 locations. While undergrounding in Del Mar is not a primary fire safety focus for SDG&E, mitigating wildfire risk is still a key concern for the City, with Crest Canyon posing the greatest wildfire threat to the Del Mar community.

The City of Del Mar also has an ISO 2 rating, which is a Public Protection Classification (PPC) given to a community by the Insurance Services Office (ISO) indicating that the community has a very good ability to respond to fire.

A letter provided by the prior Fire Chief Mike Stein in 2019, and a new 2025 letter from current Fire Chief Josh Gordon providing important information and context related to fire safety and powerlines are included as Attachment E for reference. In summary, while there is a fire safety benefit to removing powerlines in Crest Canyon and throughout the City, there are other fire safety risks that will continue to exist following removal of the powerlines that need to be considered and routinely addressed. The Fire Department is well prepared to protect the City and residents should a fire occur in Crest Canyon or any other location within the City regardless of the existence of powerlines.

DISCUSSION/ANALYSIS:

Based on Council direction, NHA prepared the attached Memorandum (Attachment A) which

includes a financing overview, security for debt obligation, method of sale for issuing debt, required financing professionals, current market conditions, structuring considerations, and detailed baseline financial analyses.

The financial analysis presented in NHA’s Memorandum considers feedback received from UPAC, Finance Committee, and City Council and explores public and private borrowing options with terms ranging from 15 to 30 years, including financing statistics and estimated sources and uses.

To help inform and facilitate the City Council’s discussion and direction to staff, the following sections provide additional context regarding the City’s overall fiscal health, ability to weather future potential financial economic downturns, and additional financial safeguards to be considered.

Measure Q Financial Overview

Although Measure Q revenues are legally considered General Fund revenues and are 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. The financial activities of the Measure Q Fund are reviewed and reported annually by the City’s Measure Q Citizen Oversight Committee.

According to the City’s preliminary financial results, as of June 30, 2024, the City collected \$20.9 million in Measure Q revenues (including interest earned), and a total of \$11.1 million has been spent. An additional \$3.4 million is anticipated in revenue in Fiscal Year 2024-2025, with an additional \$12.7 million allocated to fund upcoming UP expenditures. Table C below provides more detailed Measure Q revenue and expenditure information.

**Table C. Overview of Measure Q Fund Revenues/Expenditures**

<b>Measure Q Funds</b>	<b>Amount (in millions)</b>
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)
<b>Measure Q Balance (June 30, 2024)</b>	<b>\$9.8</b>
Projected Revenue (FY 2025)	\$3.4
Projected Expenditures (FY 2025) including UUD 1A (full) & X1A (partial)	(\$12.7)
<b>Projected Measure Q Balance (June 30, 2025)</b>	<b>\$0.5</b>

Based on anticipated undergrounding expenditures in the current fiscal year, the projected fund balance at the end of FY 2024-2025 is approximately \$500,000.

City Long-Term Debt History

Historically, the City has maintained low debt and currently has only two long-term loans. One of the loans, with a remaining balance of \$2.4 million, 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 2016, to finance construction of the Civic Center, and has a remaining principal balance of \$13.5 million as of June 30, 2024. Annual payments paid from the General Fund totaling approximately \$900,000, began on February 1, 2017, and will be paid through August 2045. The interest rate on the loan is 3.24% and an additional fee of 0.3% of the outstanding principal is paid each year.

Weathering Financial Downturns

The City's overall financial health has remained strong for decades due to stable property values and related revenues, conservative and prudent budgeting, and diligent oversight by City staff, City Council, and the City's Finance Committee. These factors have enabled the City to successfully weather the 2008 Great Recession and COVID-19 Global Pandemic while maintaining a secure financial position. While many non-essential activities were temporarily put on hold during COVID, the City was able to continue to provide high quality essential services to the public during that time and work continued on many prioritized capital and special projects that were underway. Non-essential activities were reintroduced gradually as the City's finances started to recover, which worked well for the City.

Despite this long-standing financial stability, when contemplating major financing such as for the UP, the City must look ahead and consider the economic impacts of planned and potential infrastructure projects and related construction in and around Del Mar as well as the impact of unforeseen circumstances such as a fire, earthquake, or pandemic.

The City is self-insured through a joint powers authority, which provides coverage for significant and potentially catastrophic situations such as natural disasters. FEMA funding is also often available to local governments to offset the costs of response and recovery related to disasters such as fire, earthquakes, flooding, landslides, etc.

Financial Stress Test – COVID-19 Case Study

Staff used the COVID pandemic as a case study to evaluate the potential impact of a major financial downturn in Measure Q revenue and assessed impacts on potential borrowing. The COVID pandemic served as a recent "worst-case scenario" for the City, having a more significant impact on revenues than any previous economic recessions, particularly since it affected two of the City's top three sources of revenue.

Staff's analysis showed that Measure Q revenue was reduced by approximately 20% during the peak of the pandemic (FY 2020 & FY 2021) with pre-COVID revenue amounts returning in FY 2022. In addition, staff analyzed Transient Occupancy Tax (TOT) revenue which had the largest negative General Fund impact during the pandemic. TOT revenues came in 23% lower in FY 2020, and 40% lower in FY 2021, when compared to pre-COVID revenue results in FY 2019. Table D below shows the pandemic impacts on Measure Q and TOT when compared to FY 2019 (base year) pre-COVID revenue results.

**Table D. Measure Q and TOT Revenue COVID Impacts (in millions)**

Fiscal Year	Measure Q	% Difference Compared to Base	TOT	% Difference Compared to Base
FY 2019	\$2.84	base	\$2.98	base
FY 2020	\$2.28	-20%	\$2.30	-23%
FY 2021	\$2.31	-19%	\$1.79	-40%
FY 2022	\$3.39	+19%	\$3.42	+15%

Based on the financing options that are included in NHA’s Memorandum, the annual debt service payment of a 15-year bank loan (highest debt service payment option) represents 47% of Measure Q revenues received in FY 2024. With anticipated Measure Q revenue for FY 2025 at \$3.4 million, the debt service payment would represent 45% of Measure Q revenues received. This percentage of revenue will go down as revenues increase. As reflected in Table D, a reduction in Measure Q revenues during the toughest economic times would still support the highest debt service payment option under consideration.

Since Measure Q is a General Fund revenue, when you put the debt-service payments in the context of overall General Fund revenues, it represents 7%, which poses a reasonably low financial risk to the City.

*Looking Ahead to Plan for Future Potential Economic Impacts*

As part of the City’s routine financial management, staff continues to monitor factors such as construction projects, economic conditions, and special events that could impact the City’s revenue streams positively or negatively. The City also works closely with its sales tax consultant, HdL, to monitor sales tax revenues, trends, and projections which help inform the City’s budget development and management.

The City’s long planned Camino Del Mar Bridge replacement project is scheduled to commence in December 2026, with an anticipated completion in December 2029. The San Diego Association of Government (SANDAG) plans to begin their San Dieguito Double Track Project, which will involve phased construction from just north of Dahlia Street in Solana Beach to the north end of Camino Del Mar and Jimmy Durante Blvd overpass (2.1 miles in length) within North County Transit District right-of-way. The project is tentatively scheduled to begin in early 2026, with project completion anticipated to be mid-2030.

Preparation and coordination to minimize impacts from construction related to these two significant projects is already underway. Advanced planning for traffic circulation and parking will allow roadways to remain open during construction, and construction activities will be closely coordinated among agencies and contractors to avoid disruption and impacts to the adjacent cities and Fairgrounds to the greatest extent possible.

The City has successfully mitigated construction project impacts on revenue in the past. For example, during the Torrey Pines Bridge Replacement Project construction in 2010-2014, sales tax revenue continued to grow at a rate of 2% to 5% each year. In 2018-2019,

construction of the Downtown Streetscape Project involved sidewalk, parking, and roadway improvements in the downtown business district on Camino Del Mar, which contributed to a slight decrease of 3% in sales tax revenue. However, during the same reporting period, Measure Q revenue increased by 4%.

Further into the future, as targeted by SANDAG for 2035 or beyond, a train tunnel is envisioned as an option to relocate the existing train tracks from the Del Mar bluffs to an inland location. The work to determine the future alignment is in the early stages with environmental review of potential routes to be completed over the next couple of years, and final route selection by the SANDAG Board to follow. This project faces many challenges, including strong community opposition, engineering complexities, and significant funding (in the billions) that will be needed. Nonetheless, the City is keenly aware of and closely monitoring this project.

Some members of the public have expressed concern about the potential impact of financing the UP on future funding for other capital improvement projects (CIPs), such as the Camino del Mar Bridge Replacement Project. However, the City has a long-standing practice of financing CIP projects through available City funds (i.e., general funds/enterprise funds) or outside grants, by forecasting and planning for such projects well in advance through the City's 10-year CIP forecast and budget processes. The City has healthy General Fund reserves and in recent years reinstated a CIP Reserve to ensure funds are available when needed for important City projects. Issuing debt for a Del Mar CIP project has only been done in very rare instances when deemed warranted due to project scope and cost, as was the case for the Del Mar Civic Center.

#### Term of Loan

The City's Finance Committee, UPAC, and the City Council initially discussed the pros and cons of shorter and longer-term borrowings last year, and Council directed NHA to evaluate 15, 20, 25, and 30-year term options for both public and private placements as a next step. As indicated in NHA's Memorandum, all options have been determined to be financially feasible.

The term of an initial loan for UUDs X1A and 1B will affect the timing and borrowing capacity (if this is something the Council wants to do) for future districts construction. Shorter-term loans (15-20 years) result in higher debt service payments, reducing the revenue available for future districts construction in the near term, thereby extending the program schedule. In contrast, longer-term loans (25-30 years) result in lower payments, increasing the revenue available for future districts construction in the near term, thereby shortening the program schedule. However, a shorter-term loan does increase the revenue available in future years once the loan is paid off.

Deciding on the term of the loan is not a decision the Council has to make at this time. Once the Council provides direction on whether to pursue financing (public or private), the decision on the term of the loan and other related details will be presented to Council for consideration at a future meeting after having been reviewed by the Finance Committee and UPAC.

Financing Structure – Lease Obligation

The California Constitution expressly provides an exemption from obtaining voter approval to encumber general fund dollars by structuring the financing (public or private) as a “lease obligation.” This is a very common municipal practice, which requires the use of a single asset, or in some cases multiple assets under a Master Lease, equal in value to the financing amount which allows for the annual “lease payments’ to be used as the repayment source. For example, this financing structure was used for the Del Mar City for the Civic Center project, with the Powerhouse Community Center being used as the leased asset to secure the financing.

Financing Guardrails/Guiding Principles

Should the City Council wish to consider borrowings beyond financing for UUDs X1A and 1B, staff recommends that the Council work with staff and the Finance and Undergrounding committees to develop “guardrails” or a set of guiding principles to help inform future borrowing decisions. For example, consideration could be given to establishing a maximum percentage of Measure Q revenue allocated for annual debt service payments; maximum amount of debt at any time; and maintaining an identified minimum Measure Q fund balance.

Finance Committee and UPAC Joint Feedback/Recommendation

At the January 14, 2025, joint meeting, a motion was passed 11-1 (with one member opposed) recommending that the City proceed with financing UUDs X1A and 1B. The joint recommendation was based on the committees’ interest in seeing the next two projects in the program move forward in a timely manner to avoid cost increases, schedule delays, sunk costs, and continued fire hazard risks.

Table E below provides a summary of committee member feedback regarding the type of financing to be pursued, debt term, and collateral structure. A majority (roughly 73%) of participating members indicated support for a public borrowing (bonds). Feedback was mixed on the debt term, with five members preferring a 15-year borrowing term, three members preferring a 20-year term, and three members preferring a 30-year term.

The argument in favor of shorter-term loans is to avoid encumbering the City with long-term debt, which would also free up debt capacity in the long-term once the loan term ends. The argument in favor of longer-term loans is to allow for lower payments in the near term thus increasing the revenue available for construction of future districts and thereby shortening the overall program schedule.

Regarding securing the financing, eight (8) members indicated a preference of pledging assets via a Master Lease (multiple assets) and three (3) members preferred to use a Single Lease (single asset) structure. Both lease options were discussed and a majority of committee members felt that the Master Lease structure would provide more flexibility particularly with respect to future financing for additional projects.

**Table E. Summary of Joint Committee Feedback**

	Term Length			Public vs Private		Collateral Structure	
	15 Years	20 Years	30 Years	Public	Private	Master Lease	Single Lease
<b>Total In Favor</b>	<b>5</b>	<b>3</b>	<b>3</b>	<b>8</b>	<b>3</b>	<b>8</b>	<b>3</b>

Next Steps

If the City Council directs staff and NHA to initiate a preferred borrowing process (public bonds or private bank loan financing), staff will work with NHA to take the necessary steps and will return to UPAC and the Finance Committee for recommendations prior to City Council critical decision points (term of loan, master vs. single lease, financing terms/conditions, etc.) and final loan approval.

Staff would also coordinate the bidding process and construction contract award for UUD X1A concurrently with Council approval of a borrowing, ensuring that funding is available in the amount needed at the time the contract is awarded.

If the City Council does not approve borrowing, staff will pause the design process for UUDs X1A and 1B and revisit the designs once the schedule aligns with funding availability for construction.

FISCAL IMPACT:

There is fiscal action to be taken by the City Council related to this agenda item. Approval of the recommended action will result in an approved Task Order #3 with NHA totaling up to \$67,500, which will be paid directly from the proceeds of the financing should the City Council approve that to move forward.

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 FY 2024-2025.

ATTACHMENTS:

- Attachment A – NHA Memorandum – January 9, 2025
- Attachment B – NHA Task Order 3
- Attachment C – City Council Agenda Report – November 18, 2024,
- Attachment D – UUD X1A SDG&E Estimate
- Attachment E – 2025 & 2019 Fire Chief Letters

## MEMORANDUM

Date: January 9, 2025

To: City of Del Mar

From: NHA Advisors, LLC

RE: City of Del Mar Undergrounding Utility Project – Financing Overview and Alternatives

### Background and Overview

The City of Del Mar (the “City”) has established multiple undergrounding utility districts (the “Projects”), estimating the total costs (in current dollars) of \$105.6M. The City has committed to using its 2016 Measure Q tax revenues to fund the Projects.

Project	Tewa	1A	X1A	1B	2	3	4	5	Total (\$)
<b>Total Project Funding Costs</b>	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)

There have been multiple meetings between City staff and the UPAC, Finance Committee and City Council regarding the funding strategies for the Projects. Currently, the City is exploring financing options for Districts X1A and 1B given the limited Measure Q reserve balance.

The analysis herein assumes the City borrows funds to meet the estimated costs totaling \$17M. Such funds would be applied to Project X1A with remaining funds (approximately \$3M) carried forward to Project 1B. Without the additional borrowed funds for Project 1B, it is estimated there would be a two-year delay in Project 1B construction until such time as Measure Q revenues are sufficient to cover the costs.

## NHA Advisors Project Engagement

NHA Advisors (“NHA”) has been working with City staff to develop cash flow modeling, financing scenarios and general advice on funding strategies. Pursuant to City Council direction, NHA has been tasked with the development of Project financing options. This scope includes evaluating current market rates and debt structures that are available to the City as well as the financing assumptions required for each structure. This memorandum also includes the financing sources, debt structures and bond sale considerations.

## Financing Overview

Issuing bonds or executing a loan provides the City with immediate funds (compared to waiting for Measure Q revenues to accumulate). Any bond or loan would be paid back over time and would use a portion of the Measure Q revenues for debt service. Public agencies use these financing structures for several reasons:

- A project is too expensive to be reasonably constructed with currently available resources (reserves or immediate cash flow revenues)
- Spread project cost over useful life of the asset allowing current and future beneficiaries to pay their share (generational equity)
- Allows for projects phases to be accelerated
- Preserves cash, maintain liquidity and reserves

There are several considerations when borrowing funds for capital projects. The City’s UPAC, Finance Committee and City Council were provided information on Project funding considerations with the financial impact being one of the biggest issues. Committing Measure Q revenues towards bond or loan repayments must take into consideration other potential uses for the same funds. Annual debt service levels must also be sufficiently below the projected future Measure Q revenues to ensure adequate coverage in the event of lower actual revenue receipts. Another key consideration is what debt option provides the best balance of interest cost and flexibility, should the City prefer to prepay its debt.

Debt issued by a public agency is typically tax-exempt if the proceeds are used for a public purpose. Tax-exempt interest rates are lower than similar credit taxable debt given the benefits to bondholders for holding tax-exempt bonds. We evaluate various financing options herein, assuming fixed rate, tax-exempt obligations including a range of final maturities. Such analyses can be found under “Current Market Conditions” and “Baseline Financial Analyses”.

Any Project financing structure requires a process including multiple steps. The financing process and the timeline will vary depending on the financing structure, sales method and generally consist of the steps outlined below.

The most critical step is determining the financing objectives (short-term, long-term, Project funding timing), as this establishes the legal and disclosure structure for the financing process. The financing approach (type of sale or loan method) impacts the timeline, financing team participants and legal documentation.

- Create financing timeline which maps out financing timeline
- Assemble financing team (financing team participants and their roles discussed in following section)
- Preparation of legal and disclosure documents
- Obtain credit rating (if applicable)
- City approval of financing and related documents

- Price bonds or lock in rate(s)
- Close financing and delivery of funds

### Security for a Debt Obligation

Given the City’s intention to make debt service payments from Measure Q revenues (general tax), any financing (bond or loan) will be secured by the City’s general fund and entered between the City and a counterparty. The California Debt Limit applies to cities, counties and school districts in the State. Per Article XVI, Section 18 of the California Constitution, the City’s financing will be issued as a “lease obligation” under the “lease exception” in order for the City to encumber its general fund without voter approval. This is the structure used by the City for its Civic Center project. This requires the use of an asset equal in value to the financing amount which allows for the annual “lease payments” to be used as the repayment source.

The counterparty for any lease obligation is typically a special financing authority established by the City for this specific purpose (aka Del Mar Financing Authority) or a third-party entity created for this purpose and operated by California Statewide Community Development Authority (run by the California League of Cities) or other similar organization. There is also a requirement to have a counterparty on the lease agreement.

The following are considerations for a lease financing:

- Unencumbered leased real property asset with a fair rental value equal or greater than the anticipated annual lease payment on the financing.
- Insured or appraised value of real property greater than total financing amount

Any asset encumbered for a lease financing is structured as a lease lease-back whereby the City retains fee title and enters into a long-term lease. In the event of a lease payment delinquency by the City, the remedy for any bond investors (through the trustee) is to attempt to re-lease the asset and use the new tenant lease payments to continue making debt service payments. In the event the Trustee is unable to find a new tenant, no revenues are available to make lease payments to the investors/bondholders. No asset liquidation process exists under the financing documents. The City is not at risk of losing possession of the encumbered asset.

Some basic covenants or “agreements” the City makes with investors under a lease financing:

- Make lease payments (debt service) punctually
- The City agrees to budget and appropriate funds for the annual lease payments (debt service).
- Maintain rental interruption insurance: A public agency lessee may not have use and occupancy of a leased property if the property suffers a casualty loss. In such cases, the lessee would not be obligated to make a lease payment. Rental interruption insurance is required for this event.
- Comply with the terms of the legal documents including the continuing disclosure undertaking. Annual disclosures (financial information and data) and disclosures of certain events are made to investors.

### Unique Lease or Master Lease Concepts

The City has the option to structure the initial Project financing as a one-time financing transaction whereby the leased asset is pledged solely to the individual financing. If the leased asset has excess value (compared to the financing amount), there is no ability to “capture” that surplus for future financings.

Under a Master Lease Structure, the City establishes a single set of financing documents that can allow for future financings using the same pledged assets in the Master Lease Agreement (if the combined leases do not exceed the Master Lease asset value). If the City intends to finance multiple phases of the Project through bonds, the Master Lease concept should be considered. If the City intends to only issue bonds for the initial Project phase, a traditional lease financing structure is sufficient.

As discussed in the following section, there are different financing methods discussed, primarily public offering, private/direct placement and a government loan with California IBank. A master lease structure can be used for a public offering. For a private/direct placement a master lease structure would most likely require the same lender for each subsequent financing that is included in the master lease. For a loan with California IBank a traditional lease financing would be used (no master lease).

### Method of Sale for Issuing Debt

There are multiple financing vehicles available to the City for funding the undergrounding project. The City can issue bonds through the public bond market, issue bonds through a private placement or secure funding through a government-sponsored loan program (if available).

In a public offering, the City would sell debt securities (bonds) through an underwriter to the general public. Bonds can be sold through a negotiated bond sale or a competitive bond sale.

- Negotiated bond sales involve a procedure in which the underwriter, or team of underwriters, are pre-selected by the City, and the City negotiates terms for the sale of the bonds, including the interest rates and the bond discount price.
- Competitive sales procedures generally are preferred when the bond transaction and financing structure are standard and well understood by the marketplace, and where there are enough competitive bidders expected to provide fair competition and pricing in the sale. A strong market usually exists for highly rated bonds which will justify a competitive sale process.

As an alternative to a public bond sale, a private placement sale may be considered if it is demonstrated to result in cost savings or provide other advantages relative to other methods of debt issuance. Private placement sale involves the sale of bonds to pre-selected investors and institutions rather than selling bonds in a public sale.

A public or private bond issue will take approximately 3-4 months to complete. A loan through a government-sponsored program such as IBank takes approximately 5-6 months to complete. The following provides additional considerations for each type of sale or program:

Public Offering
<ul style="list-style-type: none"><li>• <b>Advantages:</b><ul style="list-style-type: none"><li>• The issuer will benefit from longer-termed options, and potentially lower borrowing costs</li><li>• May have lower interest rates in the current market</li></ul></li><li>• <b>Disadvantages:</b><ul style="list-style-type: none"><li>• Requires public credit rating</li><li>• Requires a disclosure document/Official Statement</li><li>• Generally requires an 8-10 year commitment before bonds can be prepaid or refinanced</li><li>• Additional financing costs for underwriting, disclosure and credit rating</li></ul></li></ul>

### Private/Direct Placement (Bank Loan)

- **Advantages:**
  - No public credit rating
  - No disclosure document/Official Statement
  - Shorter prepayment period
  - No underwriting, disclosure or credit rating financing costs
  - Negotiation with single investor/lender
- **Disadvantages:**
  - Higher interest rate
  - Limited amortization options (5-15 years)

### California Infrastructure and Economic Development Bank (Ibank)

- **Program details:**
  - IBank provides public financing to state and local government entities
  - Determination of project eligibility is key first step
  - Financing process from application through funding is approximately 5-6 months
  - Charges fee of 1% of par at closing (\$17M financing results in fee of \$170,000)
  - Annual servicing fee of 0.15%
  - Requires 10-year commitment before loan can be prepaid or refinanced
  - Estimated/preliminary rate range of 4.00% - 4.50%
  - Interest rate locked upon IBank Board approval of application

#### Required Financing Professionals

Depending on the selected financing structure, the City will require the professional services of public finance specialists. This includes some or all the following:

**Municipal Advisor:** The Municipal Advisor to the City serves as the Project manager (for financing) and advises on strategic, structural and policy decisions related to financing. The Municipal Advisor has a fiduciary responsibility to the City, as governed by the U.S. Securities Exchange Commission (“SEC”). The Municipal Advisor’s work includes (but not limited to) assisting with establishing the financing team, developing the financing schedule, assessing alternative financing options and preparation of cashflows, reviewing legal and disclosure documents, guiding of sale process and conducting bidding if bonds are issued as a competitive sale.

**Bond & Disclosure Counsel:** Bond Counsel is the legal counsel to the City for the issuance of municipal bonds. Bond counsel prepares all bond documentation and provides a tax-exempt opinion to bondholders. Disclosure counsel prepares the Official Statement (offering memorandum to bondholders). Most often, bond and disclosure services are provided by the same firm.

**Underwriter:** The Underwriter is the financial firm that serves as the intermediary between the City and investors (bondholders). The underwriter purchases the securities from the City and redistributes them to market investors. The underwriter provides expertise in structuring bonds to obtain the lowest interest rates.

- A negotiated transaction requires an underwriter to be selected early in the process. The underwriter assists with structuring, bond sale timing, marketing and pricing of the bonds.
- A competitive transaction selects the underwriter through a public bid process and is awarded to the firm providing the lowest true interest cost. The Municipal Advisor manages the competitive bidding process.

**Placement Agent:** For a direct/private placement transaction (compared to a publicly offered bond financing), a Placement Agent is engaged to manage the bid process for the selection of the bank or financial institution. The Placement Agent is generally an underwriting firm that has a broker dealer license. The use of a broker dealer allows for certain federal compliance requirements to be met if structuring the financing as a security.

**Trustee:** The Trustee is a bank that facilitates the collection and distribution of funds for the benefit of the bondholder. The trustee generally holds the bond proceeds until Project costs are invoiced.

**Current Market Conditions**

The following summarizes estimated current market conditions for a public offering bond transaction and a direct bank loan, each providing \$17M in project proceeds. As detailed, a 30-year financing results in debt service of approximately \$1M/year, while a 15-year financing results in debt service of about \$1.5M/year. Assumptions used in each analysis are detailed in the section herein titled “Baseline Financial Analyses”. The shorter-term results in less interest paid overtime. The longer term provides the City with more flexibility when considering annual revenues to annual debt service, as the additional remaining Measure Q revenues will accumulate faster to fund future projects or to prepay debt service earlier if desired by the City.

	30-Year		25-Year		20-Year		15-Year	
	Public Offering	Bank Loan	Public Offering	Bank Loan	Public Offering	Bank Loan	Public Offering	Bank Loan
All-In TIC (includes costs)*	4.19%	N/A	4.00%	4.86%	3.72%	4.68%	3.35%	4.52%
Average Annual DS Payments	\$1,005,000	N/A	\$1,090,000	\$1,190,000	\$1,220,000	\$1,330,000	\$1,460,000	\$1,585,000

\* Estimated based on current market conditions

\*\*We have assumed a private placement for a 30-year transaction is not likely given low to no demand from banks in this range.

**Structuring Considerations**

**Rating**

Publicly offered debt is generally assigned a rating by a credit rating agency. This is an independent review and assessment of an issuer’s credit and is also based on the specific bond transaction’s security. The rating is made public for investors to rely on. As long as any bonds are outstanding, the rating agency will regularly review (annual surveillance) and the rating could be adjusted based on the new credit profile. The adjacent chart details the investment grade rating categories by the three primary rating agencies.

Rating Agency's Rating Categories		
MOODY'S	S&P Global Ratings	Fitch Ratings
Investment Grade Rating Tiers		
Aaa	AAA	AAA
Aa1	AA+	AA+
Aa2	AA	AA
Aa3	AA-	AA-
A1	A+	A+
A2	A	A
A3	A-	A-
Baa1	BBB+	BBB+
Baa2	BBB	BBB
Baa3	BBB-	BBB-

The City does not currently have an outstanding rating. The last publicly offered general fund debt issued by the City was in 1999 (General Obligation Bonds for Wildfire Projection Project). The 1999 Bonds matured in 2014.

**Costs of Issuance**

Each financing structure has transaction costs associated with it. Depending on the structure and type of sale, all or a portion of the financing professionals described above would be engaged. Most costs are funded through the financing and are contingent on closing of the financing. Total financing costs can range from approximately 1.25% to 2.25% of the amount borrowed, for a transaction this size, and include underwriter’s discount (when underwriter is used as part of a public offering), bond counsel, disclosure counsel, municipal advisory, trustee and rating agency fees, title insurance and other reporting fees. Certain fees, such as the rating agency fee is not contingent upon the completion of the transaction.

**Debt Service Reserve Funds**

A debt service reserve fund (“DSRF”) is a special fund used to secure debt service payments over the life of the obligation. While the DSRF is funded by bond proceeds at the time of issuance, assuming it is never applied to scheduled debt service payments, it will be credited against the final debt service payments. NHA does not believe, given the City’s strong credit rating profile, that a DSRF will be required. The City has a strong financial position and ample liquidity. In addition, S&P’s stance for a lease transaction, is if the first payment in a fiscal year is no sooner than 90 days (i.e. 10/1), then structuring without a debt service reserve fund does not have an impact on the credit assessment. As the lease payment is an annual appropriation, this time allows for any budget delays.

**Redemption/Prepayment Provisions**

Redemption refers to paying all or a portion of the remaining principal amount of the bond before maturity. It is the same as a prepayment of a loan. When issuing bonds, there is generally a 10-year optional redemption feature, which means that the bonds cannot be called for 10-years from issuance. A bank loan may have more flexibility. Some bank lenders may allow for optional pre-payment or within the first few years after the start of the loan.

### Baseline Financial Analyses

Based on the financing structures discussed above, NHA has developed a financial analysis for each for comparison. The analyses assume both a public offering and a bank loan (private/direct placement). The rates for each are estimated based on the market in December 2024. These analyses are intended to allow for a side-by-side comparison only as of December and do not reflect future market movement or changes to each of the potential funding sources (bondholders, financial institutions or State programs). Regardless of whether a public offering or private placement is selected, NHA anticipates a bid process to assure the lowest interest rate to the City.

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### Public Offering Assumptions and Results

- Financing terms of 15 years, 20 years, 25 years and 30 years
- Project fund deposit of \$17,000,000
- Costs of issuance totaling \$250,000
- Underwriter’s discount of \$5/per \$1,000 (0.5%)
- Standard & Poor’s high-grade rating (Lease ratings are generally one notch lower than an issuer’s credit rating. As an example, if the City obtains a rating of AAA, the lease rating would be AA+).

### Public Offering

#### Financing Statistics\*

	30	25	20	15
Final Maturity (in Years)	30	25	20	15
Year estimated to mature	2055	2050	2045	2040
True Interest Cost (TIC)	4.07%	3.87%	3.56%	3.14%
All-In TIC (includes costs)	4.19%	4.00%	3.72%	3.35%
Average Annual DS Payments	\$1,005,000	\$1,090,000	\$1,220,000	\$1,460,000
Total Principal + Interest through Maturity	30,159,250	27,199,000	24,391,750	21,888,500

#### Redemption Provisions

	10-Year	10-Year	10-Year	10-Year
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#### Estimated Sources and Uses of Financing Proceeds\*

##### Sources:

Par Amount of Bonds	\$15,455,000	\$15,335,000	\$15,200,000	\$15,145,000
Reoffering Premium	<u>1,875,863</u>	<u>1,994,727</u>	<u>2,126,602</u>	<u>2,184,438</u>
<b>Total Sources</b>	<b>17,330,863</b>	<b>17,329,727</b>	<b>17,326,602</b>	<b>17,329,438</b>

##### Uses:

Deposit to Project Fund	17,000,000	17,000,000	17,000,000	17,000,000
Total Issuance Costs + Underwriter's Discount	330,863	329,727	326,602	329,438
Debt Service Reserve Fund	-	-	-	-
<b>Total Uses</b>	<b>17,330,863</b>	<b>17,329,727</b>	<b>17,326,602</b>	<b>17,329,438</b>

#### 2025 Revenues vs. Annual Debt Service\*

Measure Q Revenues 1st Year/No Growth	3,500,000	3,500,000	3,500,000	3,500,000
Average Annual DS Payments	1,005,000	1,090,000	1,220,000	1,460,000
Remaining Revenues to accumulate/invest	2,495,000	2,410,000	2,280,000	2,040,000

\*All figures *estimated* based on market conditions as of December 2024.

**Private/Direct Placement (Bank Loan) Assumptions and Results**

- Financing terms of 15 years, 20 years and 25 years
- Project fund deposit of \$17,000,000
- Costs of issuance totaling \$200,000
- No underwriter’s discount
- High-grade credit (no official rating required)

**Private/Direct Placement (Bank Loan)**

**Financing Statistics\***

Final Maturity (in Years)	25**	20	15
Year estimated to mature	2050	2045	2040
True Interest Cost (TIC)	4.75%	4.55%	4.35%
All-In TIC (includes costs)	4.86%	4.68%	4.52%
Average Annual DS Payments	\$1,190,000	\$1,330,000	\$1,585,000
Total Principal + Interest through Maturity	29,749,738	26,559,578	23,776,330

**Redemption Provisions**

**Estimated Sources and Uses of Financing Proceeds\***

**Sources:**

Par Amount of Bonds	\$17,200,000	\$17,200,000	\$17,200,000
Reoffering Premium	-	-	-
<b>Total Sources</b>	<b>17,200,000</b>	<b>17,200,000</b>	<b>17,200,000</b>

**Uses:**

Deposit to Project Fund	17,000,000	17,000,000	17,000,000
Total Issuance Costs + Underwriter's Discount	200,000	200,000	200,000
Debt Service Reserve Fund	-	-	-
<b>Total Uses</b>	<b>17,200,000</b>	<b>17,200,000</b>	<b>17,200,000</b>

**2025 Revenues vs. Annual Debt Service\***

Measure Q Revenues 1st Year/No Growth	3,500,000	3,500,000	3,500,000
Average Annual DS Payments	1,190,000	1,330,000	1,585,000
Remaining Revenues to accumulate/invest	2,310,000	2,170,000	1,915,000

\*All figures *estimated* based on market conditions as of December 2024.

\*\* 25-year private placement may have limited bank interest.

**Appendix:**

**Estimated Debt Service Schedules**

## 30-Year Public Offering

City of Del Mar

COPs/Lease Revenue Bonds

Undergrounding Project

### Debt Service Schedule

Date	Principal	Interest	Total P+I	Bond Balance
05/01/2025	-	-	-	15,455,000.00
05/01/2026	230,000.00	772,750.00	1,002,750.00	15,225,000.00
05/01/2027	245,000.00	761,250.00	1,006,250.00	14,980,000.00
05/01/2028	255,000.00	749,000.00	1,004,000.00	14,725,000.00
05/01/2029	270,000.00	736,250.00	1,006,250.00	14,455,000.00
05/01/2030	285,000.00	722,750.00	1,007,750.00	14,170,000.00
05/01/2031	295,000.00	708,500.00	1,003,500.00	13,875,000.00
05/01/2032	310,000.00	693,750.00	1,003,750.00	13,565,000.00
05/01/2033	325,000.00	678,250.00	1,003,250.00	13,240,000.00
05/01/2034	345,000.00	662,000.00	1,007,000.00	12,895,000.00
05/01/2035	360,000.00	644,750.00	1,004,750.00	12,535,000.00
05/01/2036	380,000.00	626,750.00	1,006,750.00	12,155,000.00
05/01/2037	400,000.00	607,750.00	1,007,750.00	11,755,000.00
05/01/2038	420,000.00	587,750.00	1,007,750.00	11,335,000.00
05/01/2039	440,000.00	566,750.00	1,006,750.00	10,895,000.00
05/01/2040	460,000.00	544,750.00	1,004,750.00	10,435,000.00
05/01/2041	485,000.00	521,750.00	1,006,750.00	9,950,000.00
05/01/2042	510,000.00	497,500.00	1,007,500.00	9,440,000.00
05/01/2043	535,000.00	472,000.00	1,007,000.00	8,905,000.00
05/01/2044	560,000.00	445,250.00	1,005,250.00	8,345,000.00
05/01/2045	590,000.00	417,250.00	1,007,250.00	7,755,000.00
05/01/2046	615,000.00	387,750.00	1,002,750.00	7,140,000.00
05/01/2047	650,000.00	357,000.00	1,007,000.00	6,490,000.00
05/01/2048	680,000.00	324,500.00	1,004,500.00	5,810,000.00
05/01/2049	715,000.00	290,500.00	1,005,500.00	5,095,000.00
05/01/2050	750,000.00	254,750.00	1,004,750.00	4,345,000.00
05/01/2051	785,000.00	217,250.00	1,002,250.00	3,560,000.00
05/01/2052	825,000.00	178,000.00	1,003,000.00	2,735,000.00
05/01/2053	870,000.00	136,750.00	1,006,750.00	1,865,000.00
05/01/2054	910,000.00	93,250.00	1,003,250.00	955,000.00
05/01/2055	955,000.00	47,750.00	1,002,750.00	-
<b>Total</b>	<b>\$15,455,000.00</b>	<b>\$14,704,250.00</b>	<b>\$30,159,250.00</b>	<b>-</b>

NHA Advisors, LLC

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## 25-Year Public Offering

City of Del Mar

COPs/Lease Revenue Bonds

Undergrounding Project

### Debt Service Schedule

Date	Principal	Interest	Total P+I	Bond Balance
05/01/2025	-	-	-	15,335,000.00
05/01/2026	320,000.00	766,750.00	1,086,750.00	15,015,000.00
05/01/2027	340,000.00	750,750.00	1,090,750.00	14,675,000.00
05/01/2028	355,000.00	733,750.00	1,088,750.00	14,320,000.00
05/01/2029	370,000.00	716,000.00	1,086,000.00	13,950,000.00
05/01/2030	390,000.00	697,500.00	1,087,500.00	13,560,000.00
05/01/2031	410,000.00	678,000.00	1,088,000.00	13,150,000.00
05/01/2032	430,000.00	657,500.00	1,087,500.00	12,720,000.00
05/01/2033	455,000.00	636,000.00	1,091,000.00	12,265,000.00
05/01/2034	475,000.00	613,250.00	1,088,250.00	11,790,000.00
05/01/2035	500,000.00	589,500.00	1,089,500.00	11,290,000.00
05/01/2036	525,000.00	564,500.00	1,089,500.00	10,765,000.00
05/01/2037	550,000.00	538,250.00	1,088,250.00	10,215,000.00
05/01/2038	575,000.00	510,750.00	1,085,750.00	9,640,000.00
05/01/2039	605,000.00	482,000.00	1,087,000.00	9,035,000.00
05/01/2040	635,000.00	451,750.00	1,086,750.00	8,400,000.00
05/01/2041	670,000.00	420,000.00	1,090,000.00	7,730,000.00
05/01/2042	700,000.00	386,500.00	1,086,500.00	7,030,000.00
05/01/2043	735,000.00	351,500.00	1,086,500.00	6,295,000.00
05/01/2044	775,000.00	314,750.00	1,089,750.00	5,520,000.00
05/01/2045	810,000.00	276,000.00	1,086,000.00	4,710,000.00
05/01/2046	855,000.00	235,500.00	1,090,500.00	3,855,000.00
05/01/2047	895,000.00	192,750.00	1,087,750.00	2,960,000.00
05/01/2048	940,000.00	148,000.00	1,088,000.00	2,020,000.00
05/01/2049	985,000.00	101,000.00	1,086,000.00	1,035,000.00
05/01/2050	1,035,000.00	51,750.00	1,086,750.00	-
<b>Total</b>	<b>\$15,335,000.00</b>	<b>\$11,864,000.00</b>	<b>\$27,199,000.00</b>	<b>-</b>

NHA Advisors, LLC

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## 20-Year Public Offering

City of Del Mar

COPs/Lease Revenue Bonds

Undergrounding Project

### Debt Service Schedule

Date	Principal	Interest	Total P+I	Bond Balance
05/01/2025	-	-	-	15,200,000.00
05/01/2026	460,000.00	760,000.00	1,220,000.00	14,740,000.00
05/01/2027	485,000.00	737,000.00	1,222,000.00	14,255,000.00
05/01/2028	505,000.00	712,750.00	1,217,750.00	13,750,000.00
05/01/2029	535,000.00	687,500.00	1,222,500.00	13,215,000.00
05/01/2030	560,000.00	660,750.00	1,220,750.00	12,655,000.00
05/01/2031	585,000.00	632,750.00	1,217,750.00	12,070,000.00
05/01/2032	615,000.00	603,500.00	1,218,500.00	11,455,000.00
05/01/2033	645,000.00	572,750.00	1,217,750.00	10,810,000.00
05/01/2034	680,000.00	540,500.00	1,220,500.00	10,130,000.00
05/01/2035	715,000.00	506,500.00	1,221,500.00	9,415,000.00
05/01/2036	750,000.00	470,750.00	1,220,750.00	8,665,000.00
05/01/2037	785,000.00	433,250.00	1,218,250.00	7,880,000.00
05/01/2038	825,000.00	394,000.00	1,219,000.00	7,055,000.00
05/01/2039	865,000.00	352,750.00	1,217,750.00	6,190,000.00
05/01/2040	910,000.00	309,500.00	1,219,500.00	5,280,000.00
05/01/2041	955,000.00	264,000.00	1,219,000.00	4,325,000.00
05/01/2042	1,005,000.00	216,250.00	1,221,250.00	3,320,000.00
05/01/2043	1,055,000.00	166,000.00	1,221,000.00	2,265,000.00
05/01/2044	1,105,000.00	113,250.00	1,218,250.00	1,160,000.00
05/01/2045	1,160,000.00	58,000.00	1,218,000.00	-
<b>Total</b>	<b>\$15,200,000.00</b>	<b>\$9,191,750.00</b>	<b>\$24,391,750.00</b>	<b>-</b>

NHA Advisors, LLC

Financial & Policy Strategies. Delivered.

## 15-Year Public Offering

City of Del Mar

COPs/Lease Revenue Bonds

Undergrounding Project

### Debt Service Schedule

Date	Principal	Interest	Total P+I	Bond Balance
05/01/2025	-	-	-	15,145,000.00
05/01/2026	700,000.00	757,250.00	1,457,250.00	14,445,000.00
05/01/2027	735,000.00	722,250.00	1,457,250.00	13,710,000.00
05/01/2028	775,000.00	685,500.00	1,460,500.00	12,935,000.00
05/01/2029	810,000.00	646,750.00	1,456,750.00	12,125,000.00
05/01/2030	855,000.00	606,250.00	1,461,250.00	11,270,000.00
05/01/2031	895,000.00	563,500.00	1,458,500.00	10,375,000.00
05/01/2032	940,000.00	518,750.00	1,458,750.00	9,435,000.00
05/01/2033	990,000.00	471,750.00	1,461,750.00	8,445,000.00
05/01/2034	1,035,000.00	422,250.00	1,457,250.00	7,410,000.00
05/01/2035	1,090,000.00	370,500.00	1,460,500.00	6,320,000.00
05/01/2036	1,145,000.00	316,000.00	1,461,000.00	5,175,000.00
05/01/2037	1,200,000.00	258,750.00	1,458,750.00	3,975,000.00
05/01/2038	1,260,000.00	198,750.00	1,458,750.00	2,715,000.00
05/01/2039	1,325,000.00	135,750.00	1,460,750.00	1,390,000.00
05/01/2040	1,390,000.00	69,500.00	1,459,500.00	-
<b>Total</b>	<b>\$15,145,000.00</b>	<b>\$6,743,500.00</b>	<b>\$21,888,500.00</b>	<b>-</b>

NHA Advisors, LLC

Financial & Policy Strategies. Delivered.

## 25-Year Private/Direct Placement (Bank Loan)

City of Del Mar

COPs/Lease Revenue Bonds

Undergrounding Project

### Debt Service Schedule

Date	Principal	Interest	Total P+I	Bond Balance
05/01/2025	-	-	-	17,200,000.00
05/01/2026	375,000.00	817,000.00	1,192,000.00	16,825,000.00
05/01/2027	390,000.00	799,187.50	1,189,187.50	16,435,000.00
05/01/2028	410,000.00	780,662.50	1,190,662.50	16,025,000.00
05/01/2029	430,000.00	761,187.50	1,191,187.50	15,595,000.00
05/01/2030	450,000.00	740,762.50	1,190,762.50	15,145,000.00
05/01/2031	470,000.00	719,387.50	1,189,387.50	14,675,000.00
05/01/2032	490,000.00	697,062.50	1,187,062.50	14,185,000.00
05/01/2033	515,000.00	673,787.50	1,188,787.50	13,670,000.00
05/01/2034	540,000.00	649,325.00	1,189,325.00	13,130,000.00
05/01/2035	565,000.00	623,675.00	1,188,675.00	12,565,000.00
05/01/2036	595,000.00	596,837.50	1,191,837.50	11,970,000.00
05/01/2037	620,000.00	568,575.00	1,188,575.00	11,350,000.00
05/01/2038	650,000.00	539,125.00	1,189,125.00	10,700,000.00
05/01/2039	680,000.00	508,250.00	1,188,250.00	10,020,000.00
05/01/2040	715,000.00	475,950.00	1,190,950.00	9,305,000.00
05/01/2041	750,000.00	441,987.50	1,191,987.50	8,555,000.00
05/01/2042	785,000.00	406,362.50	1,191,362.50	7,770,000.00
05/01/2043	820,000.00	369,075.00	1,189,075.00	6,950,000.00
05/01/2044	860,000.00	330,125.00	1,190,125.00	6,090,000.00
05/01/2045	900,000.00	289,275.00	1,189,275.00	5,190,000.00
05/01/2046	945,000.00	246,525.00	1,191,525.00	4,245,000.00
05/01/2047	990,000.00	201,637.50	1,191,637.50	3,255,000.00
05/01/2048	1,035,000.00	154,612.50	1,189,612.50	2,220,000.00
05/01/2049	1,085,000.00	105,450.00	1,190,450.00	1,135,000.00
05/01/2050	1,135,000.00	53,912.50	1,188,912.50	-
<b>Total</b>	<b>\$17,200,000.00</b>	<b>\$12,549,737.50</b>	<b>\$29,749,737.50</b>	<b>-</b>

NHA Advisors, LLC

Financial & Policy Strategies. Delivered.

## 20-Year Private/Direct Placement (Bank Loan)

City of Del Mar

COPs/Lease Revenue Bonds

Undergrounding Project

### Debt Service Schedule

Date	Principal	Interest	Total P+I	Bond Balance
05/01/2025	-	-	-	17,200,000.00
05/01/2026	545,000.00	782,600.00	1,327,600.00	16,655,000.00
05/01/2027	570,000.00	757,802.50	1,327,802.50	16,085,000.00
05/01/2028	595,000.00	731,867.50	1,326,867.50	15,490,000.00
05/01/2029	625,000.00	704,795.00	1,329,795.00	14,865,000.00
05/01/2030	650,000.00	676,357.50	1,326,357.50	14,215,000.00
05/01/2031	680,000.00	646,782.50	1,326,782.50	13,535,000.00
05/01/2032	715,000.00	615,842.50	1,330,842.50	12,820,000.00
05/01/2033	745,000.00	583,310.00	1,328,310.00	12,075,000.00
05/01/2034	780,000.00	549,412.50	1,329,412.50	11,295,000.00
05/01/2035	815,000.00	513,922.50	1,328,922.50	10,480,000.00
05/01/2036	850,000.00	476,840.00	1,326,840.00	9,630,000.00
05/01/2037	890,000.00	438,165.00	1,328,165.00	8,740,000.00
05/01/2038	930,000.00	397,670.00	1,327,670.00	7,810,000.00
05/01/2039	975,000.00	355,355.00	1,330,355.00	6,835,000.00
05/01/2040	1,015,000.00	310,992.50	1,325,992.50	5,820,000.00
05/01/2041	1,065,000.00	264,810.00	1,329,810.00	4,755,000.00
05/01/2042	1,110,000.00	216,352.50	1,326,352.50	3,645,000.00
05/01/2043	1,160,000.00	165,847.50	1,325,847.50	2,485,000.00
05/01/2044	1,215,000.00	113,067.50	1,328,067.50	1,270,000.00
05/01/2045	1,270,000.00	57,785.00	1,327,785.00	-
<b>Total</b>	<b>\$17,200,000.00</b>	<b>\$9,359,577.50</b>	<b>\$26,559,577.50</b>	<b>-</b>

NHA Advisors, LLC

Financial & Policy Strategies. Delivered.

## 15-Year Private/Direct Placement (Bank Loan)

City of Del Mar

COPs/Lease Revenue Bonds

Undergrounding Project

### Debt Service Schedule

Date	Principal	Interest	Total P+I	Bond Balance
05/01/2025	-	-	-	17,200,000.00
05/01/2026	835,000.00	748,200.00	1,583,200.00	16,365,000.00
05/01/2027	875,000.00	711,877.50	1,586,877.50	15,490,000.00
05/01/2028	910,000.00	673,815.00	1,583,815.00	14,580,000.00
05/01/2029	950,000.00	634,230.00	1,584,230.00	13,630,000.00
05/01/2030	995,000.00	592,905.00	1,587,905.00	12,635,000.00
05/01/2031	1,035,000.00	549,622.50	1,584,622.50	11,600,000.00
05/01/2032	1,080,000.00	504,600.00	1,584,600.00	10,520,000.00
05/01/2033	1,130,000.00	457,620.00	1,587,620.00	9,390,000.00
05/01/2034	1,175,000.00	408,465.00	1,583,465.00	8,215,000.00
05/01/2035	1,230,000.00	357,352.50	1,587,352.50	6,985,000.00
05/01/2036	1,280,000.00	303,847.50	1,583,847.50	5,705,000.00
05/01/2037	1,335,000.00	248,167.50	1,583,167.50	4,370,000.00
05/01/2038	1,395,000.00	190,095.00	1,585,095.00	2,975,000.00
05/01/2039	1,455,000.00	129,412.50	1,584,412.50	1,520,000.00
05/01/2040	1,520,000.00	66,120.00	1,586,120.00	-
<b>Total</b>	<b>\$17,200,000.00</b>	<b>\$6,576,330.00</b>	<b>\$23,776,330.00</b>	<b>-</b>

NHA Advisors, LLC

Financial & Policy Strategies. Delivered.

Disclosures

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.



## **EXHIBIT “A” SCOPE OF WORK**

### **Bond Issuance Municipal Advisory Services**

Provide the following services related to the Citywide Undergrounding Program Financing.

- Summarize City project and proposed financing strategy for outside consultant technical understanding and work solicitations
- Establish and manage finance team distribution listing, financing schedule, due diligence data needs and task list; allocate tasks and duties for efficient and effective project execution
- Work cooperatively with assembled team (i.e. underwriter or broker-dealer) to develop detailed numerical analysis of financing options; independently verify all numerical options
- Work cooperatively with assembled team (i.e. bond counsel) to develop bond legal documentation; provide detailed review and commentary
- Work cooperatively with assembled team (i.e. disclosure counsel) to develop bond investor disclosure documentation (e.g. preliminary official statement); provide detailed review and commentary
- Lead and manage the development of credit rating strategy, documentation and presentation materials
- Review, prepare and “coach”, as required, City personnel for credit rating presentation
- Review and provide comment on draft financial and rating agency reports prior to publication
- Lead and manage, if applicable, solicitation and negotiation of bond insurance / reserve surety; provide independent cost-benefit analysis of same
- Assist City with selection process for selection of financing participants (trustee, legal, specialized consulting needs, verification agents, etc.)
- For Competitive sale: verify bids, restructure bond maturities as necessary
- For Negotiated sale: manage Underwriter, negotiate pricing structures, act as liaison and advocate/fiduciary for City’s interests
- For Negotiated sale and underwriter due diligence questionnaire – discussion, advise and prepare City for accurate and appropriate responses
- During the negotiated bond sale process, provide City independent analysis of comparable transactions and proposed bond structure and interest rates
- During negotiated bond sale process, in real time as required, provide City with clarification and explanation of bond terminology presented bond numerical analyses
- During negotiated bond sale process, negotiate and/or advise, on behalf of and in the interests of City, with underwriter on desired improvements to bond structure and interest rates/yields

- Arrange for investment of escrow (if applicable), including analysis of SLGS vs OMS
- Assist City in negotiation of contracts, such as investment agreements, for bond proceeds, if applicable
- Review, on behalf of City, bond purchase contract for accuracy of bond sale figures and acceptable terms; advise City of our recommendation to sign this document if approved
- Review final legal, disclosure and closing documents for accuracy prior to City execution
- Develop and distribute Closing Flow of Funds memorandum guiding all parties as to how bond monies will be transferred—and in what sequence—on the day of closing.
- As requested, prepare and present to City’s elected governing body, a presentation outlining the results of the financing

**Budget:**

Contingent compensation for implementation of financing will be paid from financing proceeds at the time of closing (release of bond proceeds to City). Municipal advisory fee will be \$67,500. If assistance with bond & disclosure counsel, underwriter, placement agent or trustee is requested, the following contingent fees will be charged:

Request for Proposal Process	Fee
Broker-Dealer (Underwriter/Placement Agent)	\$5,000
Bond/Disclosure Counsel	\$2,500
Special Tax Consultant	\$2,000
Trustee	\$1,000

NHA will credit the City \$20,000 from Task 1 services against the financing fee.

**Expenses (Out-of-Pocket)**

All expenses will be billed at cost to the City. Expenses will be limited to those necessary for the completion of the project. Estimated expenses will not exceed \$2,500 (typically include 3<sup>rd</sup> party data collection, filing fees, etc.)



# City of Del Mar Agenda Report

TO: Honorable Mayor and City Council Members

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

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/10<sup>th</sup> 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

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.

<b>Measure Q Funds</b>	<b>Amount (in millions)</b>
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)
<b>Measure Q Balance (June 30, 2024)</b>	<b>\$9.8</b>
Projected Revenue (FY 2025)	\$3.4
Projected Expenditures (FY 2025) including UUD 1A (full) & X1A (partial)	(\$12.7)
<b>Projected Measure Q Balance (June 30, 2025)</b>	<b>\$0.5</b>

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.

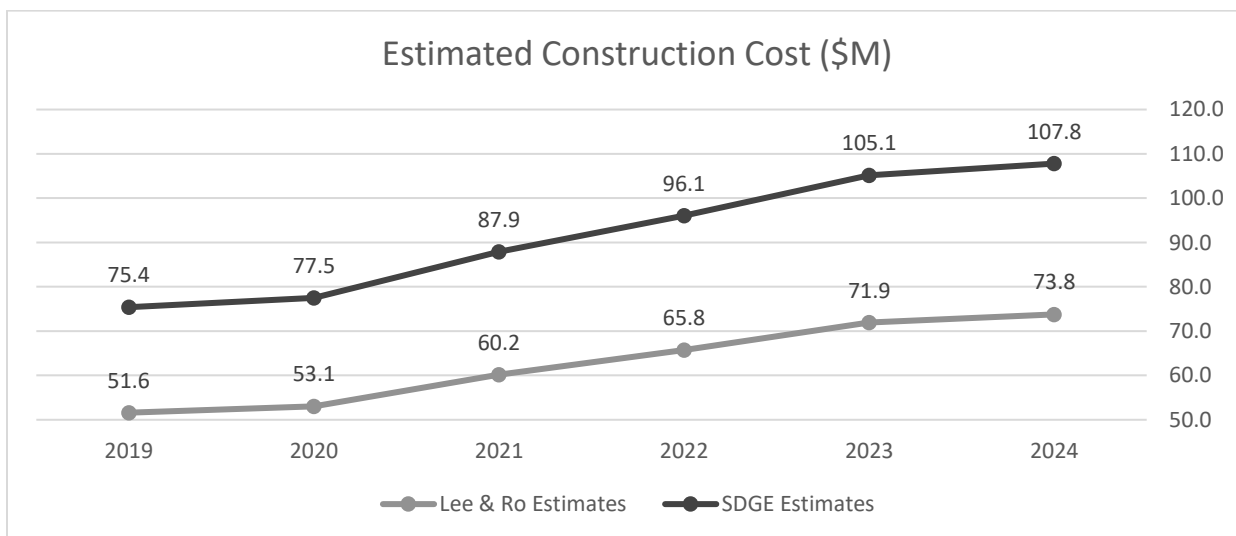
	Utility Specialists (2019)	UPAC (2019)	Lee & Ro (2019)	SDG&E (2019)	Current (2024)
Program Estimate	\$26.5M*	\$32-42M	\$51.6M	\$52.8-\$75.4M	\$105.6M
Cost Per Linear Ft of Overhead	\$323	\$464-\$609	\$719	\$700-\$1000	\$1,400

\*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:

<b>UUD 1A</b>	<b>Cost (in millions)</b>
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%)
<b>Total</b>	<b>\$10.03</b>

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/10<sup>th</sup> 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/10<sup>th</sup> 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/10<sup>th</sup> Street bids, according to the California Construction Cost Index. The UUD 1A bid is 22% higher than the UUD Tewa Ct/10<sup>th</sup> 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/10<sup>th</sup> 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/10<sup>th</sup> 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/10<sup>th</sup> 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/10<sup>th</sup> 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/10<sup>th</sup> 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/10<sup>th</sup> 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/10<sup>th</sup> 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>
<b>Total Project Cost (inflation-adjusted)</b>	<b>\$205.1 million</b>
<b>Net Present Value</b>	<b>\$105.5 million</b>

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

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>
<b>Total Project Cost (inflation-adjusted)</b>	<b>\$223.7 million</b>
<b>Net Present Value</b>	<b>\$115.2 million</b>

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
<b>Total</b>			<b>\$25,000</b>

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



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## 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 (\$)
<b>Total Project Funding Costs</b>	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.

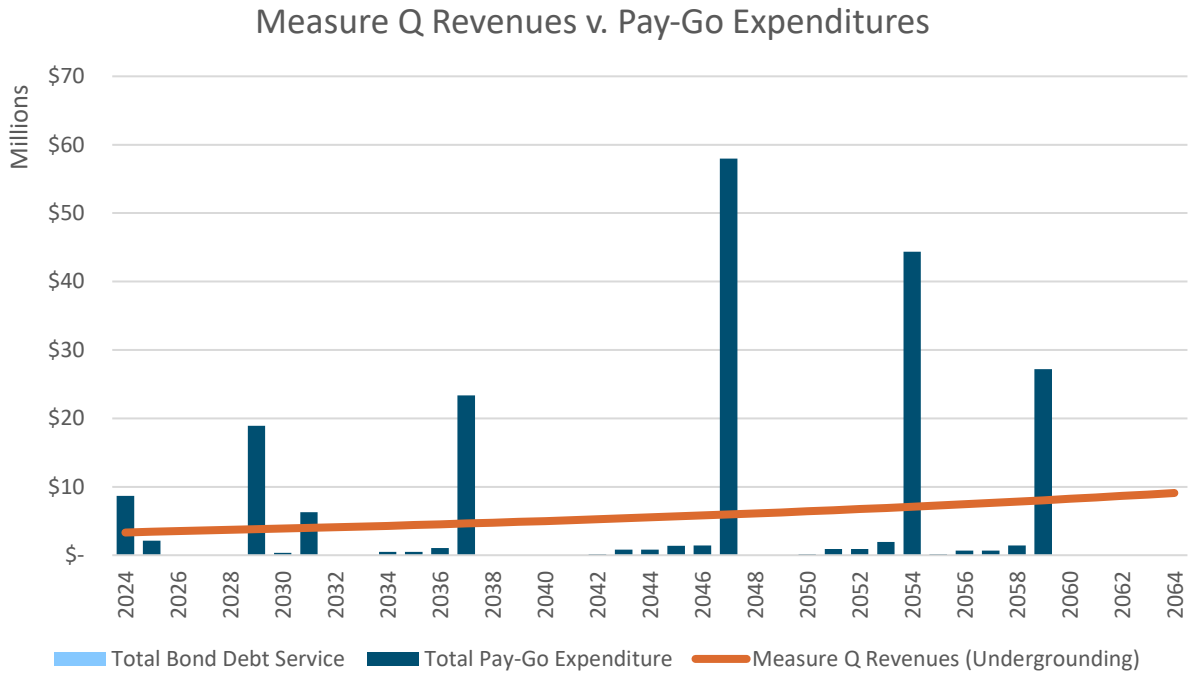
- Negative economic outcomes:
  - 0.50% lower revenue
  - 0.50% higher inflation
- Positive economic outcomes:
  - 0.50% higher revenue
  - 0.50% lower inflation

**Scenario 1: Pay-Go All Projects**

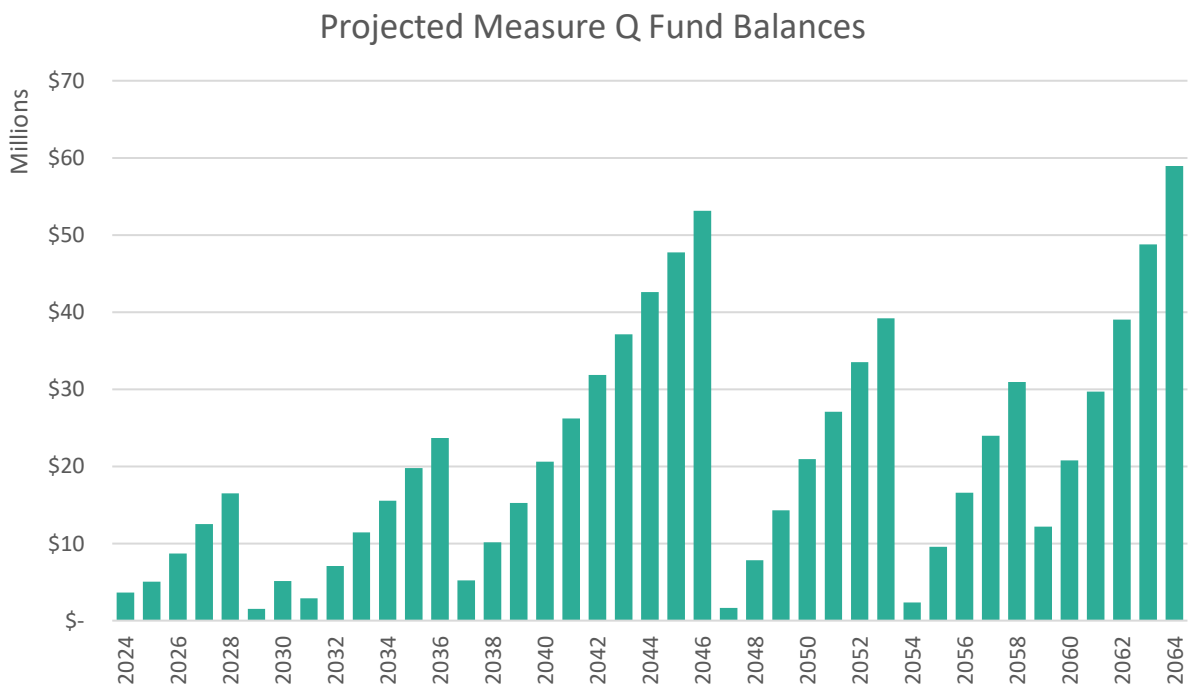
The first scenario assumes all projects are funded with accumulated Measure Q revenues and does not incorporate any financing. To facilitate a pay-go program, the City will need to accumulate cash over time to pay for design and construction costs. Accumulated cash is assumed to earn interest to apply 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
<b>Total Project Funding Costs</b>	<b>0.9M</b>	<b>10.0M</b>	<b>20.7M</b>	<b>7.0M</b>	<b>25.5M</b>	<b>62.6M</b>	<b>48.3M</b>	<b>30.1M</b>	<b>205.1M</b>
<b>Estimated Funding Timeline for Project Construction</b>			<b>2029</b>	<b>2031</b>	<b>2037</b>	<b>2047</b>	<b>2054</b>	<b>2059</b>	

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.

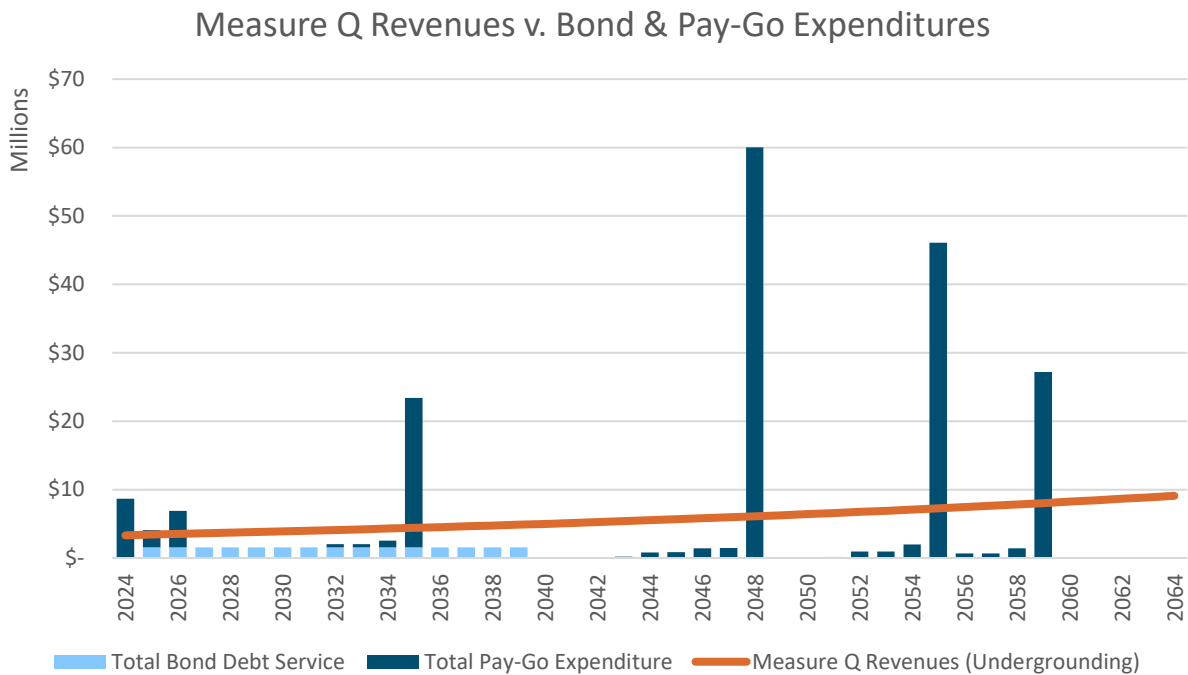
Scenario	Positive Outcomes	Baseline	Negative Outcomes
Total Program Funding Timeline (Year)	2052	2059	2069

**Scenario 2**

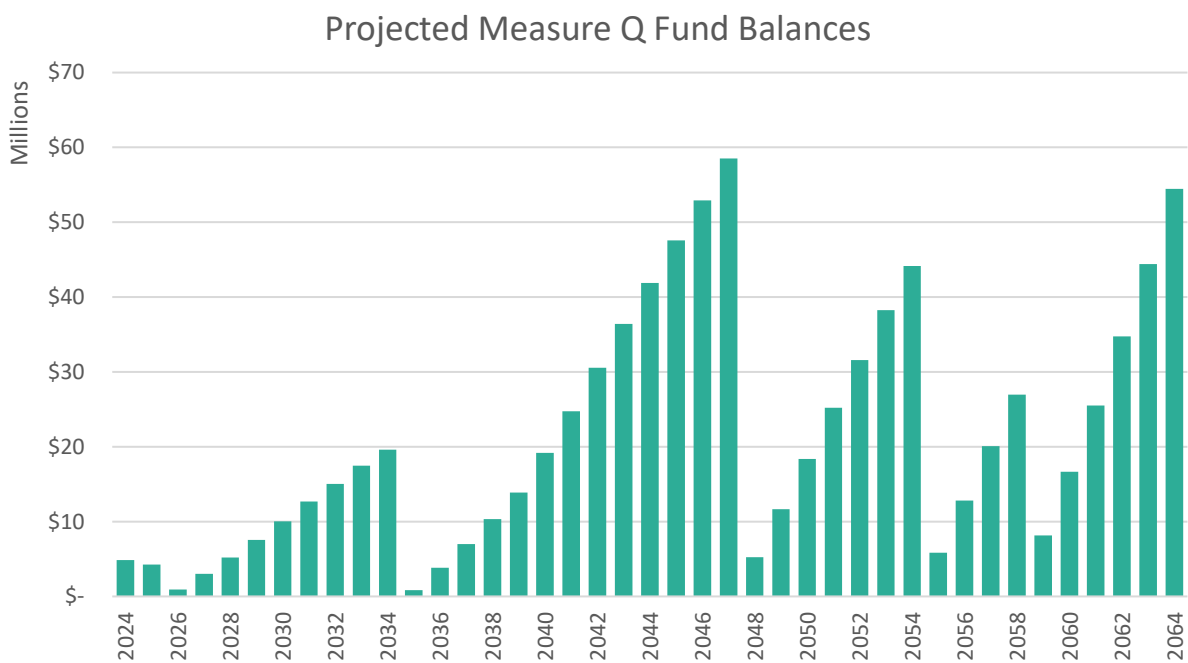
The second scenario assumes that the City finances \$17 million to facilitate the completion of Project X1A and Project 1B. All remaining projects are cash funded on a pay-go basis. As with Scenario 1, the timing of future projects (Projects 2 – 5) is determined based on the accumulation of Measure Q 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
<b>Total Project Funding Costs</b>	<b>0.9M</b>	<b>10.0M</b>	<b>24.3M</b>	<b>5.9M</b>	<b>23.8M</b>	<b>64.8M</b>	<b>49.9M</b>	<b>30.1M</b>	<b>209.8M</b>
<b>Estimated Funding Timeline for Project Construction</b>			<b>2024</b>	<b>2026</b>	<b>2035</b>	<b>2048</b>	<b>2055</b>	<b>2059</b>	

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

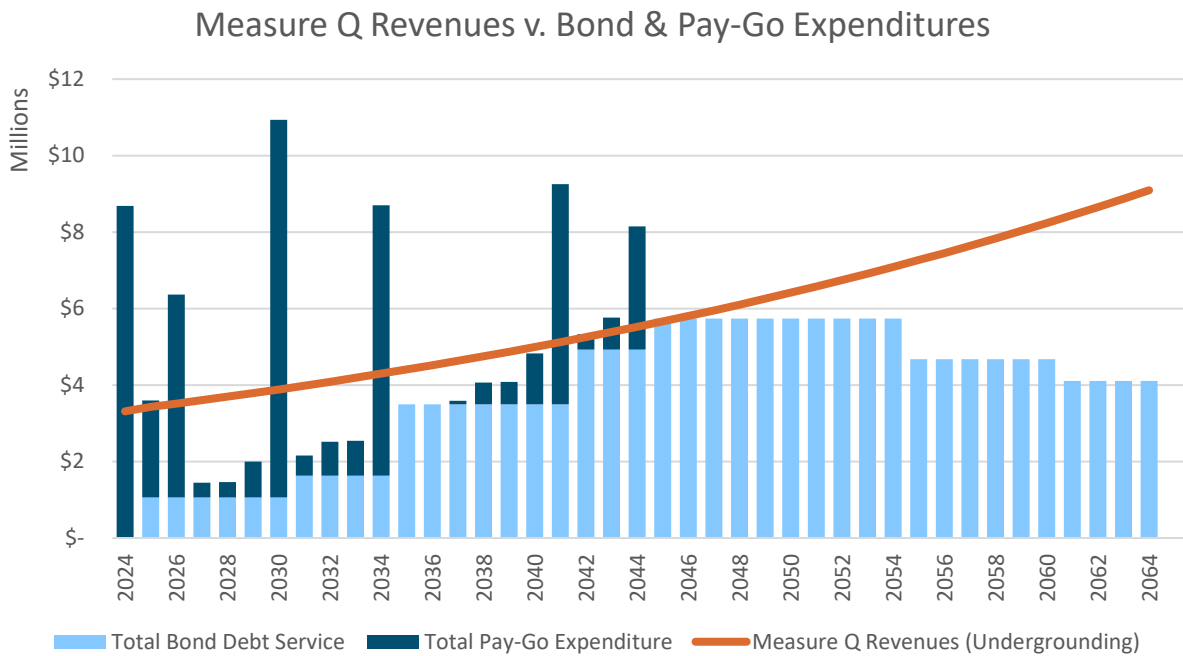
**Scenario 3: Finance all districts + cash reserves applied**

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.

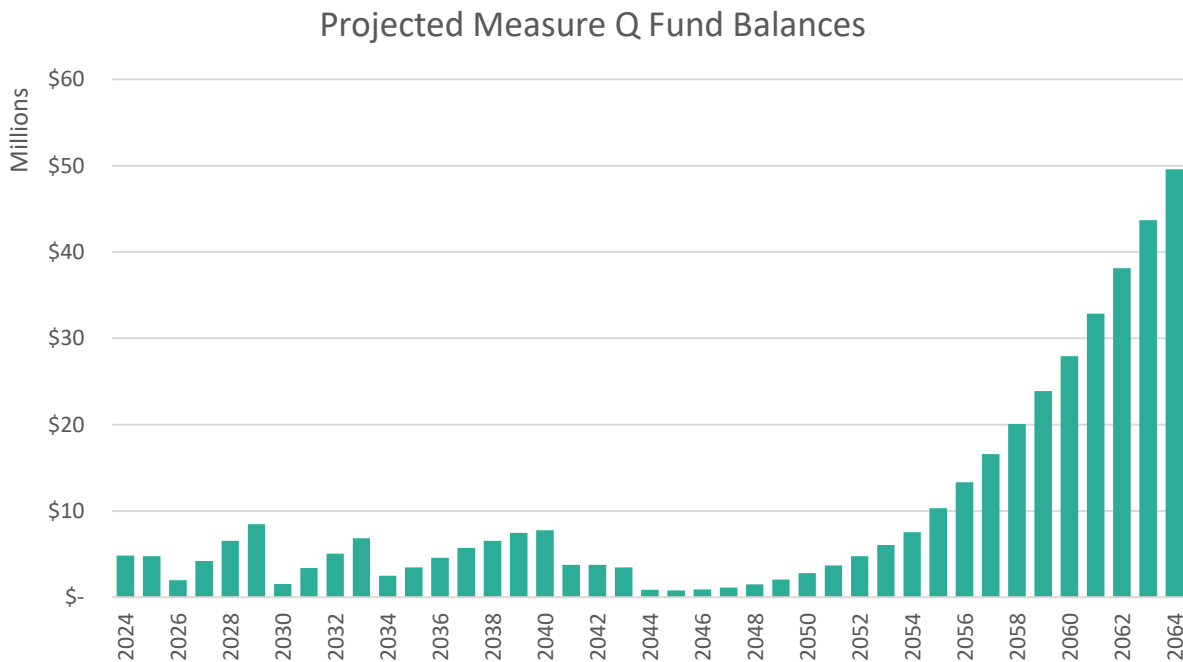
If the model inputs were to materialize over the next 20 years, then Project 5 could be fully funded in 2044. Debt service payments would continue until 2074, unless the City were to apply accumulated cash after the projects are fully funded to pay off outstanding debt. The following table summarizes 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
<b>Total Project Funding Costs</b>	<b>0.9M</b>	<b>10.0M</b>	<b>32.6M</b>	<b>5.9M</b>	<b>28.1M</b>	<b>65.9M</b>	<b>50.8M</b>	<b>29.4M</b>	<b>223.7M</b>
<b>Estimated Funding Timeline for Project Construction</b>			<b>2024</b>	<b>2026</b>	<b>2030</b>	<b>2034</b>	<b>2041</b>	<b>2044</b>	

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
<b>Total Cashflow Expenditures</b>	<b>202,719,168</b>	<b>207,441,099</b>	<b>221,277,096</b>
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
<b>Total Estimated Costs**</b>	<b>105,523,191</b>	<b>106,697,730</b>	<b>115,167,192</b>

\*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

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

City of Del Mar  
Undergrounding Project Summary

	Scenario 1: Pay-Go	Scenario 2: Finance X1A & 1B, Pay-Go Remaining Projects	Scenario 3: Financing All Projects to Accelerate Development
<b>PROJECT TIMELINE</b>	<b>35 Years</b> (Construction completed in 2059)	<b>35 Years</b> (Construction completed in 2059)	<b>20 Years</b> (Construction completed in 2044)
<b>CONSTRUCTION YEAR &amp; BORROWINGS</b>	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)
<b>BASE PROJECT COST</b>	<b>\$105.6M</b>	<b>\$105.6M</b>	<b>\$105.6M</b>
<b>INFLATION COST ADJUSTMENT</b>	99.5M	\$97.7M	\$37.9M

**PROJECT FUNDING:**

<b>MEASURE Q RESERVES</b>	205.1M	\$186.2M	\$51.6M
<b>FINANCING:</b>			
Principal		\$17.0M	\$92.0M
Interest/Issuance cost		\$6.6M	\$80.1M
<b>TOTAL FINANCING PAYOUT</b>	\$0	\$23.6M	172.1M
<b>TOTAL PROJECT COST ESTIMATE</b>	<b>\$205.1M</b>	<b>\$209.8M</b>	<b>\$223.7M</b>
<b>NET PRESENT VALUE</b>	<b>\$105.5M</b>	<b>\$106.7M</b>	<b>\$115.2M</b>
<b>ANNUAL DEBT SERVICE PAYMENT</b>	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
<b>PROS</b>	-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
<b>CONS</b>	-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
<b>Total</b>	<b>\$205.1M</b>	<b>\$203.3M</b>	<b>\$143.5M</b>
Project paid with:			
Measure Q Reserves	\$205.1M	\$186.2M	\$51.6M
Financing Payout*	\$0	\$23.6M	\$172.1M
<b>Total Project Cost</b>	<b>\$205.1M</b>	<b>\$209.8M</b>	<b>\$223.7M</b>
*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
<b>Total Project Cost</b>	<b>.9M</b>	<b>10.M</b>	<b>20.7M</b>	<b>7.M</b>	<b>25.5M</b>	<b>62.6M</b>	<b>48.3M</b>	<b>30.1M</b>	<b>205.1M</b>

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	-
<b>Total Project Cost</b>	<b>.9 M</b>	<b>10. M</b>	<b>20.7M</b>	<b>7.M</b>	<b>25.5M</b>	<b>62.6M</b>	<b>48.3M</b>	<b>30.1M</b>	<b>205.1M</b>

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%
<b>Est. Annual Debt Service</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

Base Project Cost	105.6 M
Inflation Cost Adjustment	99.5 M
<b>Total</b>	<b>205.1 M</b>

Measure Q Reserves	205.1 M
Outside Financing	-
<b>Total Project Cost</b>	<b>205.1 M</b>

**Net Present Value 105.5 M**

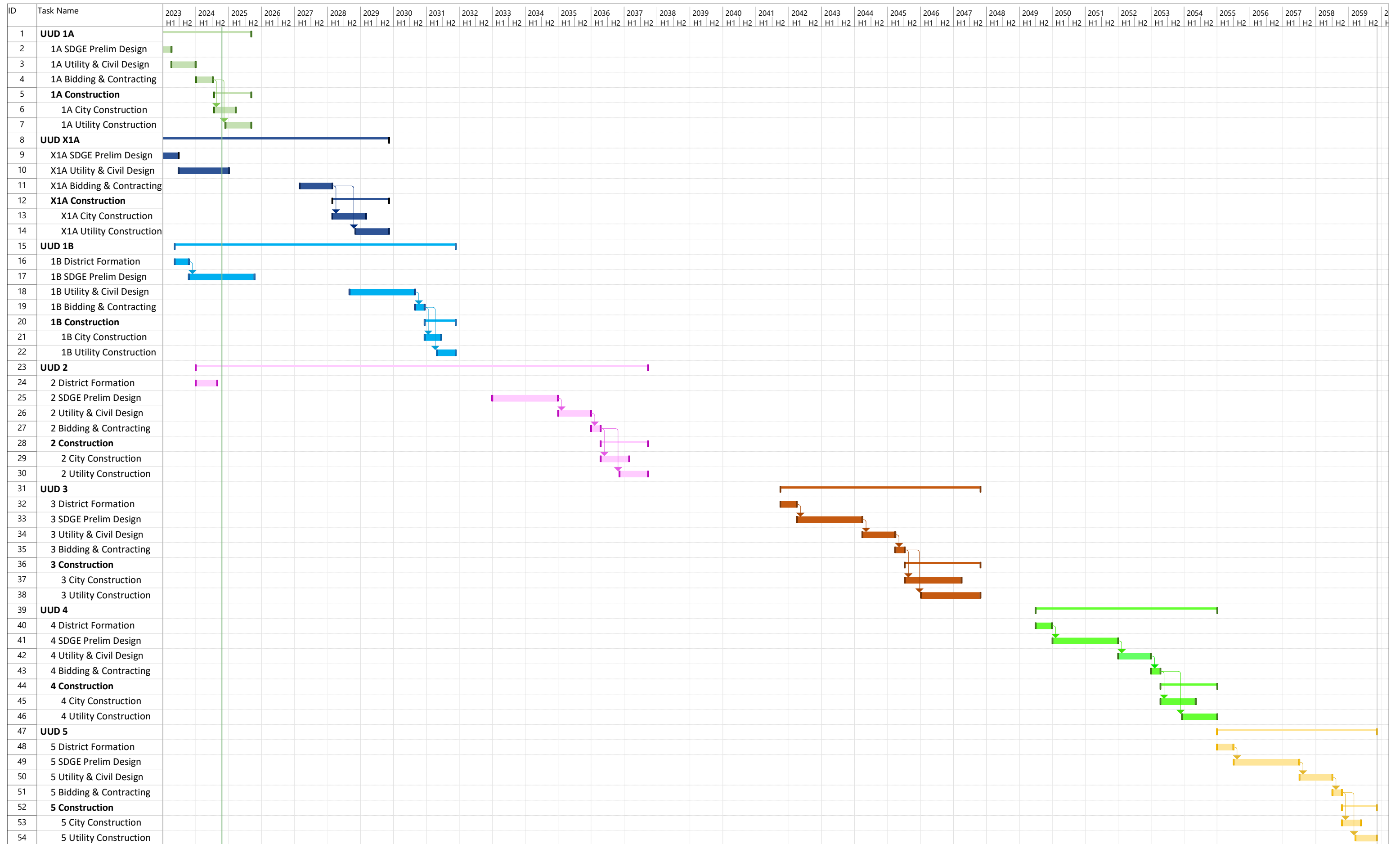
**City of Del Mar**  
**Undergrounding Financing**  
**Cash Flow Analysis**  
(in millions)

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

<b>Base Model Assumptions</b>								
Base Year	<b>2024</b>							
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%

<b>Project Cost</b>									<b>Totals</b>
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	<b>105.6 M</b>
Inflation Cost Adjustment	0	0	0	.4 M	7.4 M	36.2 M	32.7 M	21. M	<b>97.7 M</b>
<b>Total Project Cost</b>	<b>.9M</b>	<b>10.M</b>	<b>17.8M</b>	<b>5.9M</b>	<b>23.8M</b>	<b>64.8M</b>	<b>49.9M</b>	<b>30.1M</b>	<b>203.3M</b>

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

<b>Financing Assumptions</b>								
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%
<b>Est. Annual Debt Service</b>	<b>0</b>	<b>0</b>	<b>1.6M</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

Base Project Cost	105.6 M
Inflation Cost Adjustment	97.7 M
<b>Total</b>	<b>203.3 M</b>

Measure Q Reserves	186.2 M
Outside Financing	23.6 M
<b>Total Project Cost</b>	<b>209.8 M</b>

**Net Present Value 106.7 M**

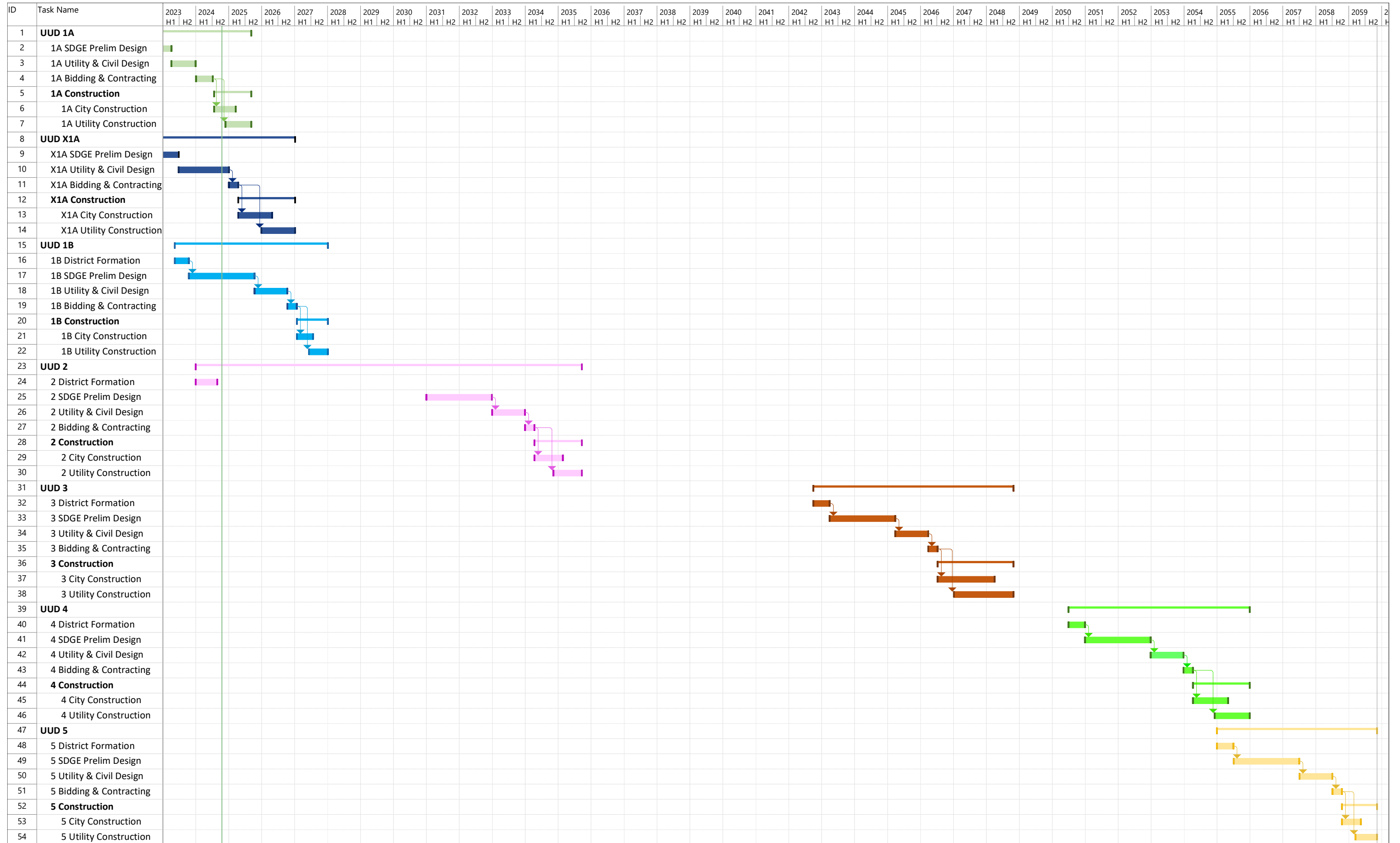
**City of Del Mar**  
**Undergrounding Financing**  
**Cash Flow Analysis**

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

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

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

SCENARIO 2: FINANCE X1A & 1B, PAY-GO REMAINING PROJECTS



**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

<b>Base Model Assumptions</b>								
Base Year	<b>2024</b>							
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%

<b>Project Cost</b>									<b>Totals</b>
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	<b>105.6 M</b>
Inflation Cost Adjustment	0	0	0	.4 M	3.6 M	11.5 M	13.6 M	8.9 M	<b>37.9 M</b>
<b>Total Project Cost</b>	<b>.9M</b>	<b>10.M</b>	<b>17.8M</b>	<b>5.9M</b>	<b>20.M</b>	<b>40.M</b>	<b>30.9M</b>	<b>18.M</b>	<b>143.5M</b>

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

<b>Financing Assumptions</b>								
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%
<b>Est. Annual Debt Service</b>	<b>0</b>	<b>0</b>	<b>1.1M</b>	<b>0</b>	<b>.6M</b>	<b>1.9M</b>	<b>1.4M</b>	<b>.8M</b>

Base Project Cost	105.6 M
Inflation Cost Adjustment	37.9 M
<b>Total</b>	<b>143.5 M</b>

Measure Q Reserves	51.5 M
Outside Financing	172.1 M
<b>Total Project Cost</b>	<b>223.7 M</b>

**Net Present Value 115.2 M**

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

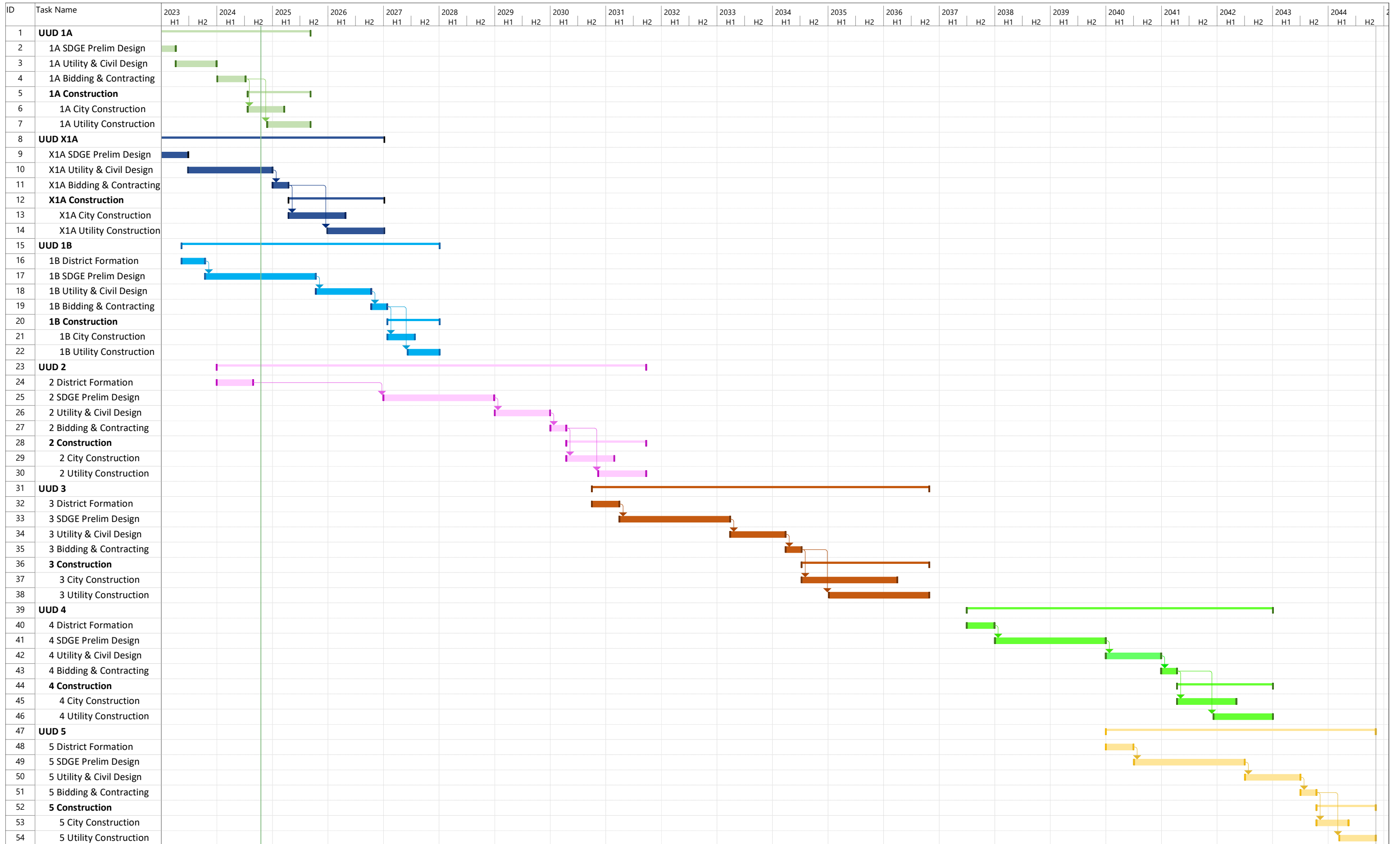
**Scenario #3 - Finance all Remaining Districts**

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)
<b>Beginning Bal</b>							.
<b>2017-2023</b>	18.46	-7.15	-2.39	.	.	.08	9.
<b>2024</b>	3.06	-.08	-24.48	17.	.	.33	4.84
<b>2025</b>	3.5	-.08	-2.53	.	-1.06	.1	4.76
<b>2026</b>	3.59	-.08	-5.31	.	-1.06	.07	1.98
<b>2027</b>	3.68	-.08	-.38	.	-1.06	.06	4.19
<b>2028</b>	3.77	-.08	-.4	.	-1.06	.11	6.53
<b>2029</b>	3.86	-.08	-.93	.	-1.06	.15	8.48
<b>2030</b>	3.96	-.08	-18.88	9.	-1.06	.1	1.52
<b>2031</b>	4.06	-.08	-.53	.	-1.63	.05	3.4
<b>2032</b>	4.16	-.08	-.88	.	-1.63	.08	5.05
<b>2033</b>	4.26	-.08	-.92	.	-1.63	.12	6.82
<b>2034</b>	4.37	-.08	-37.08	30.	-1.63	.09	2.5
<b>2035</b>	4.48	-.08	.	.	-3.49	.06	3.47
<b>2036</b>	4.59	-.08	.	.	-3.49	.08	4.58
<b>2037</b>	4.71	-.08	-.09	.	-3.49	.1	5.73
<b>2038</b>	4.82	-.08	-.57	.	-3.49	.12	6.53
<b>2039</b>	4.95	-.08	-.59	.	-3.49	.14	7.45
<b>2040</b>	5.07	-.08	-1.33	.	-3.49	.15	7.77
<b>2041</b>	5.2	-.08	-28.76	23.	-3.49	.11	3.76
<b>2042</b>	5.33	-.08	-.41	.	-4.92	.07	3.75
<b>2043</b>	5.46	-.08	-.84	.	-4.92	.07	3.45
<b>2044</b>	5.6	-.08	-16.22	13.	-4.92	.04	.86
<b>2045</b>	5.74	-.08	.	.	-5.74	.02	.8
<b>2046</b>	5.88	-.08	.	.	-5.74	.02	.88
<b>2047</b>	6.03	-.08	.	.	-5.74	.02	1.11
<b>2048</b>	6.18	-.08	.	.	-5.74	.03	1.5
<b>2049</b>	6.33	-.08	.	.	-5.74	.04	2.06
<b>2050</b>	6.49	-.08	.	.	-5.74	.05	2.78
<b>2051</b>	6.65	-.08	.	.	-5.74	.06	3.68
<b>2052</b>	6.82	-.08	.	.	-5.74	.08	4.77
<b>2053</b>	6.99	-.08	.	.	-5.74	.11	6.05
<b>2054</b>	7.16	-.08	.	.	-5.74	.13	7.54
<b>2055</b>	7.34	-.08	.	.	-4.68	.18	10.3
<b>2056</b>	7.53	-.08	.	.	-4.68	.23	13.31
<b>2057</b>	7.71	-.08	.	.	-4.68	.3	16.57
<b>2058</b>	7.91	-.08	.	.	-4.68	.36	20.08
<b>2059</b>	8.1	-.08	.	.	-4.68	.44	23.87
<b>2060</b>	8.31	-.08	.	.	-4.68	.51	27.94
<b>2061</b>	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
<b>Totals</b>		-10.97	-143.53	92.	-172.14	27.11	

SCENARIO 3 - FINANCE ALL DISTRICTS





December 26, 2024

Martin Boyd  
City of Del Mar  
1050 Camino Del Mar  
Del Mar, CA 92014

**RE: City of Del Mar | Rule 20B | District X1A – Crest Canyon | Cost Estimate**

Thank you for your continued partnership with San Diego Gas & Electric (SDG&E) to underground our overhead electric power lines to help improve community aesthetics and meet our commitment to provide clean, safe and reliable energy to our customers. This responds to your request for a preliminary cost estimate for the City of Del Mar’s Rule 20B project, Crest Canyon.

Del Mar City Council has established Utility Underground District (UUD) No.X1A for its Rule 20B Crest Canyon Project. The City has elected to perform all work associated with the trenching, conduit placement, substructure installation, backfill, and paving (Muni-Trench) for this project. The City will be responsible to select a qualified vendor to perform this work, and will compensate them directly. Since the City has opted to utilize Muni-Trench for Crest Canyon 20B, the City will also be responsible for Community Outreach efforts and will be responsible for the coordination of Joint Trench Offers (JTOs) and design work with the Communications Infrastructure Providers (CIPs) and the Permit to Enter (PTE) coordination with private property owners.

Crest Canyon (UUD X1A) Rule 20B project will utilize an Actual Cost Billing contract, whereby in advance of construction SDG&E will collect from the City an amount equal to the estimated cost of the conversion work computed in accordance with its Filed Rule on “Replacement of Overhead with Underground Facilities”, including engineering fees. The conversion work will be tracked and billed on an actual cost basis, meaning that all costs will be reconciled at completion of the work and SDG&E will bill or refund to the City any differences larger than \$100.00.

Please note, SDG&E is providing the following cost estimates for reference purposes only and makes no representations, warranties or promises regarding the accuracy, timeliness, quality or completeness of the estimates. Estimates are based on known, current information and existing circumstances. SDG&E will not be liable for any damages, causes of action or losses arising or claimed to arise out of the use of these estimates.

This preliminary cost estimate will be updated once SDG&E's bid process is complete and the revised costs will be reflected in the contract to be stipulated between SDG&E and the City of Del Mar.

**District X1A | Crest Canyon**

SDG&E Electrical Contractor – Cable & Connections	\$	4,288,704
SDG&E Electrical Contractor – Cable Poles	\$	361,127
SDG&E Electrical Contractor – Service Cutovers	\$	238,521
SDG&E Electrical Contractor – Overhead Removals	\$	1,713,328
<b>TOTAL</b>	<b>\$</b>	<b>6,601,680</b>
Overhead Removals (SDG&E Responsibility)	\$	- 1,713,328
<b>Net BILLABLE to City</b>	<b>\$</b>	<b>4,888,532</b>

Sincerely,

Kelli Fitzgerald  
Design & Project Management  
Franchise Planning Manager



cc:

Michael McEachern – SDG&E | Design & Proj Mgmt | Project Manager II  
Damien Ramirez – SDG&E | Design & Proj Mgmt | Franchise Planning Supervisor  
Joe Gabaldon – SDG&E | Regional Public Affairs | Senior Public Affairs Manger  
Kate Loreda, PMP – SDG&E | Design & Proj Mgmt | Franchise Project Manager  
Ilario Romano, PMP – SDG&E | Design & Proj Mgmt | Franchise Project Manager



## CITY OF DEL MAR™

January 30, 2025

**Subject: Fire Risk and Power Line Undergrounding Clarification**

Dear City Manager Jones:

I appreciate the opportunity to provide clarity regarding the role of undergrounding power lines as a fire mitigation strategy and how it relates to the Fire Department's ability to protect the City of Del Mar.

There is no doubt that removing overhead power lines and transitioning to underground electrical infrastructure is a major step toward reducing fire risk. Electrical equipment has been identified as a contributing factor in wildfires across the state, and eliminating this potential ignition source significantly enhances overall fire safety. Undergrounding reduces the likelihood of power lines sparking fires due to high winds, vegetation contact, or equipment failure, which are known risk factors in wildfire-prone areas like ours.

That said, while undergrounding is an essential component of fire risk reduction, it is not a singular solution. Even with the removal of above-ground electrical infrastructure, Del Mar remains at risk due to other factors such as topography, prevailing weather conditions, and fuel availability, including dry vegetation. This underscores the need for a comprehensive approach to wildfire mitigation that includes defensible space initiatives, vegetation management, emergency preparedness, and robust firefighting resources.

I understand that some members of the community perceive the existence of above-ground power lines as an imminent and singular threat. While their concerns are valid, it is important to communicate that fire risk is multifaceted. Undergrounding power lines is a highly effective risk reduction measure, but no single action alone can entirely eliminate wildfire risk. The Fire Department remains committed to protecting the city and has the necessary training, resources, and response capabilities to address fire threats regardless of infrastructure changes.

As fire experts, we strongly support undergrounding as part of a layered and strategic approach to wildfire prevention. We welcome continued discussions on fire mitigation efforts that will best serve the long-term safety and resilience of the Del Mar community. Please do not hesitate to reach out if further clarification or additional information is needed.

Sincerely,

Joshua L. Gordon  
Fire Chief



# City of Del Mar

June 11, 2019

Scott Huth; City Manager  
City of Del Mar  
1050 Camino Del Mar  
Del Mar, CA 92014

Dear Scott,

This letter is in response to questions raised by you as well as the Undergrounding Subcommittee during our meeting a couple weeks ago regarding wildfire risk and overhead powerlines.

Crest Canyon Park is located on the eastern side of the City of Del Mar, south of the San Dieguito Lagoon State Marine Preserve and Del Mar Fairgrounds, and west/northwest of the City of San Diego neighborhood of Del Mar Heights. The city boundary between Del Mar and San Diego runs north/south almost splitting the canyon in two.

Crest Canyon Park is comprised of coastal sage scrub, chaparral and some mix of large, rare Torrey Pine trees. The fuel bed is continuous except for a small north/south trail system and areas where cliff faces prevent growth of native vegetation. Comprised mostly of native vegetation ranging in height from two to eight feet, excluding the intermixture of pine trees, the alignment of the fuel bed on a northern aspect with north/south alignment creates significant risk during a Santa Ana wind driven fire.

Fire is influenced by three factors; fuel, weather and topography. Due to radiant heat and convection, fire will burn hotter and travel faster uphill to the ridgetop. During a Santa Ana wind event, fire path and speed will be determined by wind direction and speed. As discussed in our meeting, a primary concern with a wind driven fire is the flying embers that are carried by the wind in front of the main body of fire. These embers can embed in a fuel source (vegetation, houses, etc.) and start additional fires. However, there is no way to predict when and where an ember will start a fire.

With the fuels that are in Crest Canyon and also the alignment of the canyon during a Santa Ana wind event, it is the Fire Department's opinion that Crest Canyon poses a greater threat in terms of wildfire damage than other parts of the City. This is NOT to say that other parts of the City are not at risk. As seen in years past, devastating wildfires can happen anywhere in Southern California. However, it is our opinion that Crest Canyon poses the greatest risk for

wildfire issues in the City. The influencing factors mentioned above would be the same in other areas of the City.

It is for these reasons that in terms of prioritization of undergrounding due solely to wildfire issues, the fire department believes that the highest priority would be Crest Canyon up to the ridgetop (Crest Rd.). While other areas of the City are still at risk of wildfire, the risk would be equal as fuel and topography are fairly consistent throughout other areas of the City.

Please feel free to contact me if you have any questions.

Respectfully,

A handwritten signature in black ink, appearing to read "Mike Stein".

**Mike Stein**

**Fire Chief**

**760-633-2801 Office**

**760-685-0626 Cell**

# Consideration of Undergrounding Program Financing Options

City Council  
February 3, 2025



CITY OF  
DELMAR

# Background: Measure Q History & UP Funding

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- Measure Q is a 1% local sales tax that went into effect April 2017
- Measure Q is a general tax; Prioritized by Council for Downtown Streetscape (completed in 2020), undergrounding utility poles citywide, and Shores Park Master Planning (on hold).
- UUD Tewa Court/10<sup>th</sup> Street completed in February 2023; and UUD 1A (Stratford Court South) construction is underway
- City is in the process of identifying long-term funding options for the Undergrounding Program starting with UUD X1A (Stratford Court North) and 1B (Crest Canyon), which are estimated to cost a combined \$23.3 million in today's dollars, a large portion of which is currently unfunded.

# Background: Benefits of Utility Undergrounding

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# Background: Status of UP Financial Analysis

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- Staff and NHA Advisors, the City's financial consultant, completed a comprehensive financial analysis and developed a financial model to assist the City Council with selecting a funding strategy. UPAC and Finance Committee received presentations from NHA in fall 2024 (October/November).
- UPAC recommended accelerated financing and a desire to continue to monitor cost variables for feasibility, assess cost efficiencies, and work with SDG&E to understand and control costs.
- Finance Committee recommended City Council authorize staff to work with NHA to further explore financing options including 15, 20, 25, 30-year loan options and evaluating separating out UUDs X1A and 1B.
- Staff analysis shows excluding UUD 1B would delay the project by two years and result in an overall higher project cost for the City.

# Background: Status of UP Financial Analysis

On November 18, 2024, City Council received a presentation from staff and NHA along with recommendations from the advisory committees and provided the following direction to staff:

- 1) Work with NHA to further evaluate potential financing options (public/private) and structure for an initial borrowing to fund UUDs X1A and 1B; and
- 2) Return to the Finance Committee and UPAC seeking recommendations for Council.

# Background: Summary of Funding Strategies 11/18/24

Scenario	Base Cost	Inflation	Financing Costs	Total Costs	Completion Year
1 (Pay Go)	\$105.6M	\$99.5M	\$0M	\$205.1M	X1A (2029) 1B (2031) 2 (2037) 3 (2047) 4 (2054) 5 (2059)
2 (Hybrid)	\$105.6M	\$97.7M	\$6.6M	\$209.8M	X1A (2026) 1B (2027) 2 (2035) 3 (2048) 4 (2055) 5 (2059)
3 (Finance Go)	\$105.6M	\$37.9M	\$80.1M	\$223.7M	X1A (2026) 1B (2027) 2 (2031) 3 (2036) 4 (2042) 5 (2044)

# Background: UP Project Cost Estimate

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- The current base UP cost for all districts 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.
- Developed using the latest cost information available to the City, including the UUD 1A City construction bids and SDG&E's cost estimate.
- SDG&E is in the bid process for UUD 1A and expects to provide the City with an initial cost invoice this quarter (January – March), which will provide cost clarity.
- The City recently received SDG&E's pre-bid cost estimate for UUD X1A, totaling \$4.88 million. On a cautiously optimistic note, this amount is lower than the City's current estimate of \$5.54 million.
- Staff recommends maintaining the current estimate until SDG&E's bid process for UUD 1A is complete and they have provided the City with a related cost invoice.

# Background: Costs/Timing for UUDs X1A & UUD 1B

- The Base Cost for Scenarios 2 and 3 includes \$17M to be financed and \$6.3M Measure Q available funds.
- Scenario 1 relies exclusively on available Measure Q funds.

Scenario	Base Cost*	Inflation	Financing Costs	Total Costs	Completion Year
1 (Pay Go)	\$23.3M	\$4.4M	\$0M	\$27.7M	X1A (2029) 1B (2031)
2 (Hybrid)	\$23.3M	\$0.4M	\$6.6M	\$30.3M	X1A (2026) 1B (2027)
3 (Finance Go)	\$23.3M	\$0.4M	\$14.8M	\$38.5M	X1A (2026) 1B (2027)

## Background: Financing Only UUD X1A and not 1B

- Reduces borrowing by \$3M from \$17M to \$14M.
- Decreases interest cost over life of the loan by \$1.1M.
- Two-year delay to 1B estimated to increase cost by \$1.2M.
- Delay would also result in up to \$300K in additional costs for redesign and related activities.
- Project delays:
  - UUD 1B completed in 2029
  - UUD 2 completed in 2036

# Background: Fire Risk Prioritization

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- Fire risk a key criteria in the 2019 Project Delivery Plan for Undergrounding.
- California Public Utilities Commission fire threat tiers: 1 Lowest Risk – 3 Highest Risk
- Del Mar is classified Tier 1 (Lowest Risk)
- Insurance Services Office Rating 2 indicating a very good ability to respond to fire.
- Fire Chief Josh Gordon: There is a benefit to removing powerlines in Crest Canyon and throughout the City, but fire safety risks will continue to exist following the removal of the powerlines.

# City Financial Overview: General Fund

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- On June 17, 2024 the City Council approved the FY 2024-25 Budget Update.
- Staff is preparing the FY 2024-25 Mid-Year Financial Report.
- The Proposed FY 2025-26 and FY 2026-27 Budget to be presented in June.

<b>General Fund</b>	<b>Original Budget FY 2024-25</b>	<b>Budget Update FY 2024-25</b>	<b>Change</b>
Revenues	\$20,730,540	\$22,320,310	7.6%
Expenditures	\$15,785,160	\$16,642,720	5.4%

# City Financial Overview: Measure Q

**Table A – Overview of Measure Q Fund Revenues/Expenditures**

<b>Measure Q Funds</b>	<b>Amount (in millions)</b>
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)
<b>Measure Q Balance (June 30, 2024)</b>	<b>\$9.8</b>
Projected Revenue (FY 2025)	\$3.4
Projected Expenditures (FY 2025) including UUD 1A (full) & X1A (partial)	(\$12.7)
<b>Projected Measure Q Balance (June 30, 2025)</b>	<b>\$0.5</b>

# City Financial Overview: Long-Term Debt

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- City has historically maintained very low debt
- Currently has only two governmental long-term loans:
  - 1) TransNet SANDAG debt financing: Remaining balance of \$2.4 million; secured and paid with City's TransNet revenues with no general fund impact.
  - 2) IBank loan for Civic Center:
    - Remaining principal balance is \$13.5 million as of June 30, 2024.
    - Annual payments are \$900,000, paid from the general fund.
    - Loan will be satisfied in August 2045.

# Financial Resilience: Weathering Financial Downturns

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- City's financial health has remained strong for decades due to stable property values, conservative budgeting, and diligent oversight.
- Successfully weathered the 2008 Great Recession and COVID pandemic. During COVID, non-essential services were suspended and reintroduced as the City recovered economically and funds became available.
- Despite this stability, when contemplating the major UP financing, the City must look ahead and consider the economic impacts of planned infrastructure projects in and around Del Mar and the impact of unforeseen circumstances such as a fire, earthquake, or pandemic.
- City is self-insured through a JPA and FEMA funding is often available to agencies for disasters.

# Financial Resilience: Financial Stress Test COVID Case Study

- The COVID pandemic was used as a case study to evaluate the potential impact of a major financial downturn in Measure Q revenue and assessed impacts on a potential borrowing.
- COVID is a “worst-case scenario” for the City, having a more significant impact on revenue than any previous recession with Measure Q Revenue reduced by 20% during peak pandemic years (FY2020 and FY2021) and Transient Occupancy Tax (TOT) 23% lower in FY2020 and 40% lower in FY2021.

**Table B - Measure Q and TOT Revenue COVID Impacts (in millions)**

<b>Fiscal Year</b>	<b>Measure Q</b>	<b>% Difference Compared to Base</b>	<b>TOT</b>	<b>% Difference Compared to Base</b>
FY 2019	\$2.84	base	\$2.98	base
FY 2020	\$2.28	-20%	\$2.30	-23%
FY 2021	\$2.31	-19%	\$1.79	-40%
FY 2022	\$3.39	+19%	\$3.42	+15%

## Financial Resilience: Financial Stress Test COVID Case Study

- Based on the financing options included in NHA's Memorandum, the annual debt service payment of a 15-year bank loan (highest debt service payment option) represents 47% of Measure Q revenues received in FY 2024; and 45% of anticipated FY2025 Measure Q revenue.
- Additionally, when you put the debt service payments in the context of overall general fund revenues, it represents 7%.
- A reduction of Measure Q revenues during the toughest economic times would still support the highest debt service payment option under consideration.

# Looking Ahead: Potential Economic Impacts

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- As a routine practice, staff monitor factors such as construction projects, economic conditions, and special events that could impact the City's revenue streams positively or negatively in partnership with HdL, sales tax consultant.
- Camino Del Mar Bridge Replacement: December 2026-December 2029.
- SANDAG Double Track Project: Early 2026 to mid-2030.
- SANDAG LOSSAN Rail Realignment: Undetermined – Project in early stage.
- Advanced planning for traffic circulation and parking will allow roadways to remain open during construction to minimize impacts.
- City has successfully mitigated construction impacts on revenue in the past.

# Looking Ahead: Establishing Borrowing Guardrails

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The Council may want to consider establishing guardrails or the guiding principles to be used to inform future financing decisions, such as:

- Maximum % of Measure Q revenue allocated for annual debt repayment
- Maximum term of debt
- Maximum amount of total Measure Q debt at any given time
- Minimum Measure Q reserve balance (ex. Equal to annual debt service)

# Finance Committee & UPAC Joint Feedback

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- Joint meeting on January 14, 2025
- 11-1 vote recommending the City proceed with financing UUDs X1A and 1B
- Majority (8) prefer public borrowing (bonds)

	Term Length			Public vs Private		Collateral Structure	
	15 Years	20 Years	30 Years	Public	Private	Master Lease	Single Lease
<b>Total In Favor</b>	5	3	3	8	3	8	3



# CITY OF DEL MAR

*CITY COUNCIL MEETING | UNDERGROUNDING PROJECT FINANCING OPTIONS*

**NHA | ADVISORS**  
Financial & Policy Strategies.  
Delivered.

February 3, 2025

# Discussion Topics

- Financing Overview
- Financial Structuring Considerations
- Current Market Conditions
- Baseline Analyses



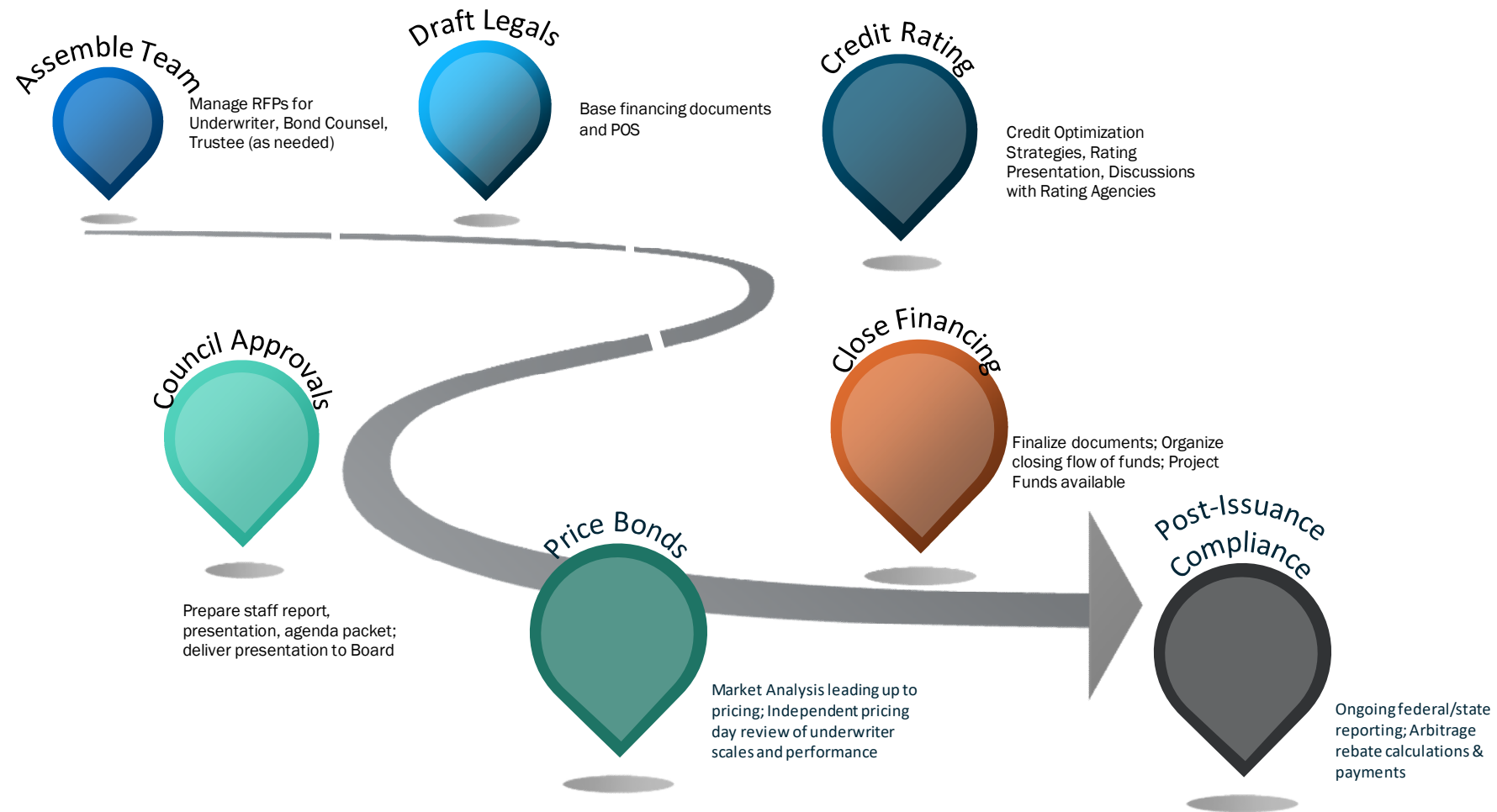
# FINANCING OVERVIEW

# Financing Overview

- Borrowing funds provides the City with immediate funds for Project (vs. Measure Q accumulation
  - Debt is paid back over time from available Measure Q revenues
- Public agencies borrow funds for several reasons:
  - Project costs exceed current fund balances
  - Spreads cost over useful life of the asset, so current and future users pay (generational taxpayer equity)
  - Accelerates Projects (avoid inflation)
  - Preserves cash/reserves for other/future uses
- Several considerations when borrowing funds:
  - Committing Measure Q revenues towards debt repayments should consider other potential uses for the same funds
  - Annual debt service levels should be below the projected future Measure Q revenues to ensure adequate coverage
  - Borrowing method that provides best balance of interest cost and flexibility, should the City prefer to prepay its debt

# Required Steps to Complete a Financing

- Financing schedule created at the outset of the process maps out the detailed steps and timing of the transaction through financing closing/delivery of funds
- Required steps vary somewhat depending on the financing vehicle (bonds, loan, etc.)



# Lease Financing Overview

- Given the City's intention to make debt service payments from Measure Q revenues (general tax), any financing will be an obligation of the general fund
- Per Article XVI, Section 18 of the California Constitution, the City's financing will be issued as a "lease obligation" under the "lease exception" in order for the City to encumber its general fund
  - Requires a counterparty to the lease agreement, created specifically for to this purpose
  - City retains fee title and enters into a long-term lease
  - Requires the use of an asset equal in value to the financing amount which allows for the annual "lease payments" to be used as the repayment source

# Master Lease Considerations

- The City has the option to structure the initial Project financing as a one-time transaction whereby the leased asset is pledge solely to the single financing
  - If the leased asset has excess value (compared to the financing amount), there is no ability to “capture” that surplus for any future financings
- With a Master Lease Structure, the City establishes a single set of financing documents that can pledge multiple assets in the Master Lease Agreement against one or more future lease financings
- If the City intends to finance multiple phases of the Project through bonds, the Master Lease concept should be considered as assets can be added or revised with future financings
- If the City intends to only issue bonds for the initial Project phase, a traditional lease financing structure is adequate
- Additional considerations for traditional lease vs. master lease are described in section “Financial Structuring Considerations”

# Lease Covenants or “Agreements” with Investors

- Make lease payments (debt service) punctually
- Budget and appropriate funds for the annual lease payments
- Maintain rental interruption insurance in the event that use and occupancy of a leased property is lost due to casualty loss
  - In such cases, the lessee would not be obligated to make a lease payment and rental interruption insurance is used
- Comply with the terms of the legal documents including the continuing disclosure undertaking
- Annual financial disclosures and disclosures of certain events are made to investors

# Required Financing Professionals

- Issuer/Borrower: City of Del Mar
  - Governmental agency authorized to issue tax-exempt bonds
  - Includes City staff and City Attorney
- Municipal Advisor
  - Advisor to Issuer for strategic and policy decisions related to financing
  - Manages financing process
- Bond & Disclosure Counsel
  - Legal Counsel to Issuer on tax-exempt bonds
  - Prepares all bond documentation and provides tax-exempt opinion to bondholders
  - Prepares Official Statement (offering memorandum to bondholders)
- Underwriter (May also serve as Placement Agent)
  - Financial Firm that serves as intermediary between issuer and investors (bondholders)
  - Expertise in structuring bonds for lowest interest rate
- Trustee
  - The Trustee facilitates the collection and distribution of funds for the benefit of the bondholder



# FINANCIAL STRUCTURING CONSIDERATIONS

# Structuring Considerations

- Credit Rating
  - Publicly issued debt obtains credit rating
  - Independent review and assessment of City's credit profile
- Costs of Issuance
  - Transaction costs associated with financing can range from 1.25% to 2.25% for transaction size contemplated by City
    - Costs vary based on type of financing method
- Redemption/Prepayment Provisions
  - Bond generally have a 10-year optional redemption feature
  - Some bank lenders may allow for optional prepayment sooner; within the first few years after the start of the loan

Rating Agency's Rating Categories		
MOODY'S	S&P Global Ratings	FitchRatings
Investment Grade Rating Tiers		
Aaa	AAA	AAA
Aa1	AA+	AA+
Aa2	AA	AA
Aa3	AA-	AA-
A1	A+	A+
A2	A	A
A3	A-	A-
Baa1	BBB+	BBB+
Baa2	BBB	BBB
Baa3	BBB-	BBB-

# Capital Markets, Bonds, iBank

- Bonds & private/direct bank loan quickest source of funding (vs. State funding)
  - Money delivered to City at closing, City (or Trustee) holds the money in a Project Fund
  - Process is generally 3-4 months
- Interest rate is a function of the size, term, credit rating, tax status
  - Two methods of sale: public offering & direct (private) placement
  - Bonds can typically be pre-paid after 10-year period; generally sooner with private/direct bank loan
  - In the current market, public offering results in lower rates
- IBank Infrastructure State Revolving Fund Program
  - IBank is a State loan program that provides public financing to state and local government entities
  - Requires application process to determine project eligibility as a key first step
  - Process is approximately 5-6 months

# Public Offering vs. Private Placement

- In determining the optimal method to secure financing, a key consideration is what debt option provides best balance of interest cost and flexibility, should the City prefer to prepay its debt

## Public Offering

- **Advantages:**
  - The issuer will benefit from longer-termed options, and potentially lower borrowing costs
  - May have lower interest rates in the current market
- **Disadvantages:**
  - Requires public credit rating
  - Requires a disclosure document/Official Statement
  - Generally requires an 8-10 year commitment before bonds can be prepaid or refinanced
  - Additional financing costs for underwriting, disclosure and credit rating

## Private/Direct Placement (Bank Loan)

- **Advantages:**
  - No public credit rating
  - No disclosure document/Official Statement
  - Shorter prepayment period
  - No underwriting, disclosure or credit rating financing costs
  - Negotiation with single investor/lender
- **Disadvantages:**
  - Higher interest rate
  - Limited amortization options (5-15 years)

# Overview of IBank (State Loan Program)

- An alternative to securing funding with institutional investors, the City could potentially borrow funding from California IBank
  - Same method used by City for financing of City Hall and Town Hall
  - Requires application process with determination of project eligibility a key first step

## California Infrastructure and Economic Development Bank (IBank)

- **Program details:**
  - IBank provides public financing to state and local government entities
  - Determination of project eligibility is key first step
  - Financing process from application through funding is approximately 5-6 months
  - Charges fee of 1% of par at closing (\$17M financing results in fee of \$170,000)
  - Annual servicing fee of 0.15%
  - Requires 10-year commitment before loan can be prepaid or refinanced
  - Estimated/preliminary rate range of 4.00% - 4.50%
  - Interest rate locked upon IBank Board approval of application

# Lease Considerations

- Each method of borrowing has lease considerations
  - Master lease is generally used for a public offering with a traditional lease used for loans with one institution or government loan program

Public Offering	Private/Direct Placement (Bank Loan)	IBank or other loan program
Master lease structure can be used	A master lease structure likely requires same lender for each financing secured by the Master Lease	Traditional lease financing (single asset per each financing) applies



# CURRENT MARKET CONDITIONS

# Current Market Conditions

- Estimated current market conditions for a public offering bond transaction and a direct bank loan, each providing \$17 million in project proceeds
  - 30-year financing results in annual debt service of approximately \$1,000,000 and 15-year financing results in annual debt service of about \$1,500,000\*
- Shorter-term financing results in less interest paid overtime
- Longer term financing provides the City with more flexibility with future project costs or additional borrowings, when considering annual revenues to annual debt service

	30-Year		25-Year		20-Year		15-Year	
	Public Offering	Bank Loan	Public Offering	Bank Loan	Public Offering	Bank Loan	Public Offering	Bank Loan
All-In TIC (includes costs)*	4.19%	N/A	4.00%	4.86%	3.72%	4.68%	3.35%	4.52%
Average Annual DS Payments	\$1,005,000	N/A	\$1,090,000	\$1,190,000	\$1,220,000	\$1,330,000	\$1,460,000	\$1,585,000

\* Estimated based on market conditions on December 10, 2024

\*\*Assumed a private placement for a 30-year transaction is not likely given low to no demand from banks in this range

# Length of Term Considerations

- Optimal length of term has varying considerations

## Shorter-term Financing

- **Advantages:**
  - Lower interest rate
  - Less total debt service paid
- **Disadvantages:**
  - Higher annual debt service payment
  - Less annual available Measure Q revenues for pay-go or future projects

## Longer-term Financing

- **Advantages:**
  - Lower annual debt service payment
  - Cashflow flexibility with Measure Q revenues
- **Disadvantages:**
  - Generally higher interest rate
  - Higher total debt service paid



# BASELINE ANALYSES

# Public Offering Financing Estimates\*

- Financing terms of 15 years, 20 years, 25 years and 30 years
- Project fund deposit of \$17,000,000
- Costs of issuance totaling \$250,000
- Underwriter's discount of \$5/per \$1,000
- Standard & Poor's high-grade rating
  - Lease ratings are generally one notch lower than an issuer's credit rating
  - For example, if City obtains a rating of AAA, the lease rating would be AA+
- Public offering process generally takes 3-4 months

Public Offering				
<b>Financing Statistics*</b>				
Final Maturity (in Years)	30	25	20	15
Year estimated to mature	2055	2050	2045	2040
True Interest Cost (TIC)	4.07%	3.87%	3.56%	3.14%
All-In TIC (includes costs)	4.19%	4.00%	3.72%	3.35%
Average Annual DS Payments	\$1,005,000	\$1,090,000	\$1,220,000	\$1,460,000
Total Principal + Interest through Maturity	30,159,250	27,199,000	24,391,750	21,888,500
<b>Redemption Provisions</b>	<b>10-Year</b>	<b>10-Year</b>	<b>10-Year</b>	<b>10-Year</b>
<b>Estimated Sources and Uses of Financing Proceeds*</b>				
<b>Sources:</b>				
Par Amount of Bonds	\$15,455,000	\$15,335,000	\$15,200,000	\$15,145,000
Reoffering Premium	1,875,863	1,994,727	2,126,602	2,184,438
<b>Total Sources</b>	<b>17,330,863</b>	<b>17,329,727</b>	<b>17,326,602</b>	<b>17,329,438</b>
<b>Uses:</b>				
Deposit to Project Fund	17,000,000	17,000,000	17,000,000	17,000,000
Total Issuance Costs + Underwriter's Discount	330,863	329,727	326,602	329,438
Debt Service Reserve Fund	-	-	-	-
<b>Total Uses</b>	<b>17,330,863</b>	<b>17,329,727</b>	<b>17,326,602</b>	<b>17,329,438</b>
<b>2025 Revenues vs. Annual Debt Service*</b>				
Measure Q Revenues 1st Year/No Growth	3,500,000	3,500,000	3,500,000	3,500,000
Average Annual DS Payments	1,005,000	1,090,000	1,220,000	1,460,000
Remaining Revenues to accumulate/invest	2,495,000	2,410,000	2,280,000	2,040,000

\* All figures preliminary and estimated based on market conditions as of December 10, 2024, assumes a 10-year optional redemption; subject to change

# Private/Direct Placement (Bank Loan) Financing Estimates\*

- Financing terms of 15 years, 20 years and 25 years
- Project fund deposit of \$17,000,000
- Costs of issuance totaling \$200,000
- No underwriter's discount
- High-grade credit (no official rating required)
- Private/direct placement process generally takes 3-4 months

\* All figures preliminary and estimated based on market conditions as of December 10, 2024; subject to change

Private/Direct Placement (Bank Loan)			
<b>Financing Statistics*</b>			
Final Maturity (in Years)	25**	20	15
Year estimated to mature	2050	2045	2040
True Interest Cost (TIC)	4.75%	4.55%	4.35%
All-In TIC (includes costs)	4.86%	4.68%	4.52%
Average Annual DS Payments	\$1,190,000	\$1,330,000	\$1,585,000
Total Principal + Interest through Maturity	29,749,738	26,559,578	23,776,330
<b>Redemption Provisions</b>	<b>5-Year</b>	<b>5-Year</b>	<b>5-Year</b>
<b>Estimated Sources and Uses of Financing Proceeds*</b>			
<b>Sources:</b>			
Par Amount of Bonds	\$17,200,000	\$17,200,000	\$17,200,000
Reoffering Premium	-	-	-
<b>Total Sources</b>	<b>17,200,000</b>	<b>17,200,000</b>	<b>17,200,000</b>
<b>Uses:</b>			
Deposit to Project Fund	17,000,000	17,000,000	17,000,000
Total Issuance Costs + Underwriter's Discount	200,000	200,000	200,000
Debt Service Reserve Fund	-	-	-
<b>Total Uses</b>	<b>17,200,000</b>	<b>17,200,000</b>	<b>17,200,000</b>
<b>2025 Revenues vs. Annual Debt Service*</b>			
Measure Q Revenues 1st Year/No Growth	3,500,000	3,500,000	3,500,000
Average Annual DS Payments	1,190,000	1,330,000	1,585,000
Remaining Revenues to accumulate/invest	2,310,000	2,170,000	1,915,000

\*\* 25-year private placement may have limited bank interest.

## Next Steps

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- If the City Council approves borrowing, staff and NHA will initiate the preferred borrowing process, checking in with UPAC and the Finance Committee prior to City Council critical decision points and final loan approval.
- Staff will also coordinate the bidding process for UUD X1A and construction contract award concurrently with Council final approval of a borrowing, ensuring that funding is available in the amount needed at the time the contract is awarded.
- If the City Council does not approve borrowing, staff will pause the design process for UUDs S1A and 1B and revisit once the schedule aligns with funding availability for construction.

# Recommended Actions

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Staff recommends the City Council:

- 1) Provide direction on proceeding with financing for UUDs X1A and 1B, or delay;
- 2) If financing is supported, provide direction on public versus private borrowing; and,
- 3) Approve and authorize the City Manager to execute Task Order 3 with NHA to serve as municipal advisor for the borrowing.





**Melinda Gould**

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**From:** Tate Scott <tate.scott@gmail.com>  
**Sent:** Friday, January 31, 2025 11:20 AM  
**To:** City Clerk Mail Box  
**Subject:** Red Dot Item #8 UP Financing Options

**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.

Del Mar City Council  
1050 Camino Del Mar  
Del Mar, CA 92014

**Subject: Red Dot for Item [08] – Request for a Conventional Financial Analysis and Resident Vote on Undergrounding Project**

Dear Honorable Mayor, City Council Members, and Staff,

I am submitting this **red dot comment for Item [08]** regarding the financing options for the Undergrounding Project. As a **resident of Crest Canyon**, I will directly benefit from undergrounding due to both **fire safety and aesthetic improvements**—I currently have **three utility poles on my property**. Additionally, I am already **being assessed as part of a special assessment district created to use public funds to repair a private road—San Dieguito Drive (SDD)—which is dependent on the undergrounding project’s financing.**

Let me be clear: **I strongly support undergrounding** and recognize its value for fire safety, aesthetics, and long-term infrastructure resilience. I also acknowledge that the Council has a **critical responsibility to protect residents from wildfire risks**. However, **ensuring fire safety does not mean abandoning financial responsibility**. The two must go hand in hand, and **reckless financial decisions today could jeopardize the City's ability to fund future safety measures, emergency services, and other essential needs.**

### **The Need for Fire Safety and Financial Responsibility**

I have previously written to express concerns about the **lack of proper financial modeling**. Only after requesting a **sensitivity analysis** was one provided—yet, it was highly unconventional in that it measured cost changes **in years of delay rather than total cost increases**. This **masks the true financial impact** of cost overruns by failing to quantify how much additional money the City would need to spend.

Even within this flawed framework, the analysis **clearly showed that a mere 0.5% increase in costs would result in a 10-year delay.** Given SDG&E’s history of cost overruns, it is highly probable that costs will increase by more than 0.5%. If costs rise by **just 1%, the analysis suggests a 20-year delay**—which is entirely unsustainable.

This means that borrowing money now, **knowing cost escalations are likely, will only lead to more borrowing and further delays,** as the City will continuously have to “chase” completing the undergrounding project. Instead of ensuring timely completion, **this approach increases financial risk and could ultimately cost far more than anticipated.** Worse, it could **consume Measure Q revenues AND put the City’s overall reserves at risk, jeopardizing Del Mar’s long-term financial health.**

**I remain mystified as to why a conventional financial analysis has not been performed—one that would clearly show the full impact of this project on the City’s financial position.** A proper financial analysis would provide transparency into how various cost scenarios affect the City’s long-term ability to finance essential services and infrastructure. Further, and quite importantly it would highlight the points of risk and enable consideration of mitigation strategies.

### **The Risk of Using Public Assets as Collateral**

Additionally, the **proposal to use City assets as collateral to secure the financing further compounds the risk.** While I understand that some may argue this is standard municipal financing practice, in this case, it exposes **Del Mar’s public assets to financial uncertainty, especially if Measure Q revenues underperform or undergrounding costs escalate further.** Given that the current financial model already suggests potential long-term delays, leveraging public assets **could force the City into even more debt or force cutbacks on critical services in the future.**

The best way to ensure **long-term fire safety** is not to take on unsustainable debt, but rather to **pursue a responsible financial plan** that ensures undergrounding can be completed **without jeopardizing Del Mar’s financial health.**

### **Request for a Proper Financial Review and Public Vote**

For these reasons, I **formally request that a conventional financial analysis be conducted and presented to residents** before any final financing decisions are made. This analysis should include:

1. A **true NPV calculation** that properly discounts future costs in the context of all of Del Mar’s financial future and not just this project,
2. A **standard sensitivity analysis** that shows the impact of cost and revenue variations in **dollar terms,** not just timeline delays,
3. A clear **debt sustainability review,** demonstrating how future borrowing would affect Measure Q reserves and the City’s financial health.

Given the **significant financial implications**, the proposed **use of public assets as collateral**, and the **long-term debt commitments involved**, I urge the City Council to **place this matter on the ballot for a public vote**. This decision will have lasting financial consequences for the City and its residents, and it should not be made without full transparency and community input.

I appreciate the City's efforts to move undergrounding forward, and I look forward to a **more rigorous and conventional financial review** and a **public vote** on this critical issue. Let's make sure we move forward on undergrounding with our eyes wide open and fully informed of all the costs and risks along with strategies to reduce both.

Sincerely,

**Tate Scott**

Del Mar, CA 92014



**Melinda Gould**

---

**From:** mark rittenbaum <mark.rittenbaum@gmail.com>  
**Sent:** Friday, January 31, 2025 11:32 AM  
**To:** City Clerk Mail Box; Terry Gaasterland; Tracy Martinez; John Spelich; Dan Quirk; Ashley Jones; Laura DeMarco; Shirli Weiss  
**Subject:** Fwd: Utility Undergrounding- red dot

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 Honorable Members of The Del Mar City Council, Chairpersons of The Finance and Undergrounding Program Advisory Committees, and City Manager,

>  
> I am writing to respectfully request the following questions/ comments be addressed , as normal course due diligence and exercise of fiduciary responsibility, regarding the potential financing of the undergrounding of districts X1A, 1B, and/or the overall project. I want to acknowledge the extraordinary work that both the undergrounding and finance committees and staff have put in to date regarding the project, and these comments are by no means meant to disparage that work.

>  
> My comments principally center around the risks of financing to either the the project itself or the to the overall financial health the the City. My understanding that at this time City Council is requested to evaluate financing for Projects X1A and 1B only.

>  
> Blinding glimpses of the obvious, the economics surrounding undergrounding are significantly challenged if not broken, with an estimated \$100 million project cost ( in today's \$) to be funded by annual Measure Q revenues estimated at \$3.5 million. The current project completion on a pay as you go basis is 2059. Compare this to an estimated project cost of \$25-\$30 million, and forecasted measure Q revenue of \$2,5 million, when Measurer Q was passed in 2017, and a project completion of 2031-2045 made as recent as 2019.

>  
> This is further exacerbated by potential upward cost pressures and past unreliability in cost estimates, along with potential downward pressure on revenue estimates due to either potential unforeseen circumstances ( such as witnessed in the recent pandemic) or foreseen and potentially very real circumstances, such if the rail realignment where to economically devastate the City and its finances for a number of years.

> And of course inflation is a negative drag, as 3% inflation on a \$100 million cost is \$ 3 million, whereas on \$3.5 million revenue is \$87,500 which is then compounded annually.

>  
> Quite a delimma.....BUT, there are inherent risks associated with borrowing money ( more so in an uncertain environment ) , and these risks should be discussed .

> Borrowing money for the whole project to avoid potential inflationary effects or accelerate project completion in and of itself is a very risky, if not bad strategy, that also burdens future generations.

>  
> This is all by way of saying that I believe it is important that the City and its citizens know what's it is getting into with financing, that risks be clearly identified, and that there a NO unintended consequences of financing.

>

> Background:

>

> 1. Please provide a financial update for The City including a current balance sheet and pro forma balance sheet (post financing), current debt rating of the City, and whether the financing is anticipated to affect this debt rating , or ability to borrow funds in the future ( see 3. Below).

>

>

> 2. Master Lease Financings require the City to pledge income producing assets as collateral. Please provide a list and estimated value of all such unencumbered assets, and what assets will be available post financing for potential future financings.

>

> 3. Please confirm the impetus for financing X1A is principally related to fire risk. Please comment as to whether any districts other than X1A are considered high fire risk.

>

> 4. Based on current timelines and cost and revenue estimates, when might the Committees and City Council be asked to evaluate financing of District 2, if project delays were to otherwise occur.

>

> 5. Previously, City Council prioritized Measure Q monies for undergrounding of utility poles citywide, Downtown Streetscape, and Shores Park Master Plan. Do any Measure Q monies need to be allocated to the last 2 priorities , or is all Measure Q revenue available for undegrounding?

6. Does a public offering require voter approval ?

>

> Debt Financing of Pole Undergrounding of Districts X1A and 1B

>

> 1. Please explain how it is ensured that only Measure Q funds are used to for the Project and debt servicing, since the financing will be recourse to the general fund ? If things go really bad, it appears the general fund is at risk.

2. If project costs of X1A and 1B come in higher than the estimated \$23 million, will the gap be filled by borrowing more money, or by Measure Q funds? If more money is to be borrowed, then Council should consider limits on the amounts to be borrowed ( \$20 million ??). The answer to this question also ties into the sensitivity analyses and downside scenarios that were performed.

3. Financial Stress Test ( Page 9) indicates “ the annual debt service payment of a 15 year loan ( highest debt service payment ) represents 47% of Measure Q revenue in 2024”. Per the query in 1 above does this statement assume \$17 million is borrowed ? Again if costs run higher than anticipated will more be borrowed , thus affecting the analysis. Or is it a correct statement that in all cases only \$ 17 million will be borrowed for X1A and 1B and Measure Q revenues would have to drop to 47% of 2024 amounts to put the general fund at risk?

> 4. If more than \$17 million will be borrowed if there are cost overruns , please provide several more extreme downside scenarios beyond that previously provided to illustrate: 1) at what point City’s general fund is not insulated such that only Measure Q funds will be used to fund the debt servicing and 2) the effect on the debt required, debt maturity date and project completion date . Is there a downside scenario where total project completion is longer with debt financing than pay as you go?

>

> Thank you for your consideration.

>

> Respectfully,

> Mark Rittenbaum

- > Serpentine Dr
- > Del Mar CA
- >
- >
- > Sent from my iPad



## Melinda Gould

---

**From:** City Clerk Mail Box  
**Subject:** FW: Item 8 Red Dot: Support financing of undergrounding X1A highest wildfire hazard zone

---

**From:** Laura DeMarco <laurastanleydemarco@yahoo.com>  
**Sent:** Friday, January 31, 2025 11:50 AM  
**To:** City Clerk Mail Box <CityClerk@delmar.ca.us>  
**Subject:** Item 8 Red Dot: Support financing of undergrounding X1A highest wildfire hazard zone

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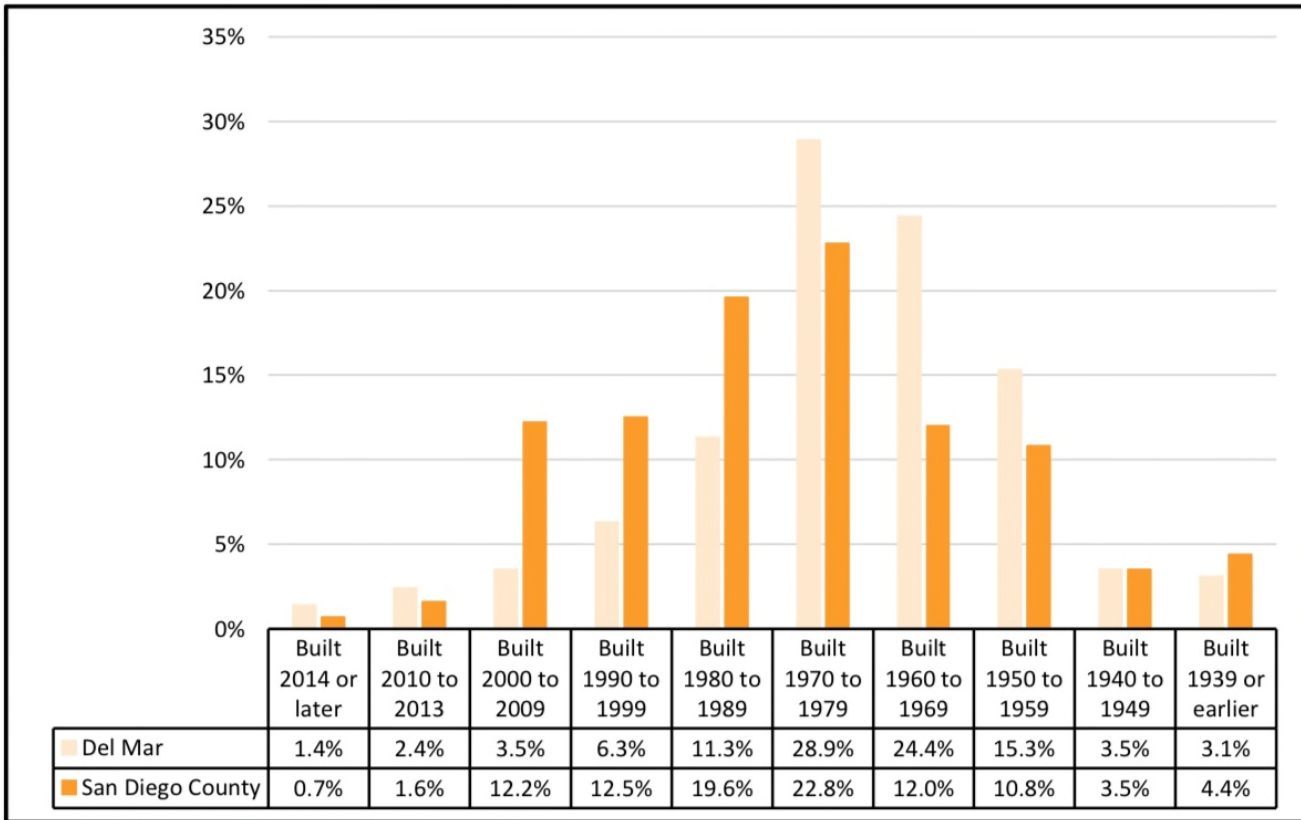
Dear Council Members and Staff,

Improving public safety is the duty and responsibility of the city of Del Mar. That is why Del Mar citizens overwhelmingly voted for the Measure Q sales tax measure to give the city the ability to finance undergrounding power lines, especially in the highest wildfire hazard areas.

The recent Eaton wildfire reminded us of the danger to our entire community during high wind storms as video showed the ignition of the fire from sparks falling from arcing transmission lines on to brush below: <https://m.youtube.com/watch?v=1WP4It7uUNs>

The wind-driven fire quickly swept through and destroyed entire neighborhoods and Altadena's charming commercial district filled with older wood structures built long before stricter fire-safe building codes were enacted in 2010. As shown in the chart below, over 96% of Del Mar's housing stock is similarly vulnerable as it was built before 2010.

**Figure 2-5: Housing Stock Age**



Source: American Community Survey, (2017).

Despite the best efforts of first responders and family members to evacuate the most vulnerable, most of the 27 people who died in the Eaton and Palisades fire were seniors over the age of 65 and/or the disabled with limited mobility. It was tragic listening to the emergency scanner communications broadcast during the first day of the Palisades fire when many of the calls were for evacuations of elderly and disabled residents at specific addresses throughout the Palisades and Malibu. As shown in the attached chart, Del Mar also has a large number of vulnerable seniors as 30% or 652 households are headed by seniors, including 186 living alone. In addition, 7.9% have disabilities.

**Table 2-13: Special Needs Groups in Del Mar (2017)**

Special Needs Group	# of People or Households	Number of Owners	% Owners	Number of Renters	% Renters	% of Total Households or Population
Households with Seniors	--	--	--	--	--	29.7%
Senior Headed Households	652	599	91.9%	53	8.1%	30.2%
Seniors Living Alone	186	166	89.2%	20	10.8%	8.6%
Persons with Disabilities*	345	--	--	--	--	7.9%
Large Households	40	40	100%	0	0.0%	1.9%
Single-Parent Households	196	34	17.3%	162	82.7%	9.1%
Female Headed Households	712	--	--	--	--	33.0%
Female Headed Households with children	75	34	45.3%	41	54.7%	3.4%
People Living in Poverty**	300	--	--	--	--	6.9%
Farmworkers <sup>1</sup>	12,335	--	--	--	--	NA <sup>1</sup>
Migrant Farmworkers <sup>1</sup>	764	--	--	--	--	NA
Permanent Farmworkers <sup>1</sup>	7,982	--	--	--	--	NA
Seasonal Farmworkers <sup>1</sup>	4,353	--	--	--	--	NA
Homeless*	120	--	--	--	--	1.5%

\*Number includes counts for surrounding cities (Encinitas, San Dieguito, and Solana Beach)  
Sources: Bureau of the Census; 2013-2017 Census and 2006-2010 ACS; Regional Housing Task Force on the Homeless, 2019.  
1. Farmworker represents US Department of Agriculture data for San Diego County. There is no available data for farmworkers specific to the City of Del Mar.

As Del Mar fire chiefs noted in their letters included in the staff report, they recommend removing dangerous overhead power lines in the highest wildfire hazard area of X1A. It is one of many steps needed to reduce wildfire risk that threatens to sweep from Crest Canyon to oceanfront houses during wind-driven infernos like the Palisades and Laguna fires. In addition to removing sources of ignition like powerlines, please enact policies recommended by the California Fire Safety Council and help organize a Del Mar Fire Safety Council to reduce wildfire risk and enable property owners to protect and insure their homes and businesses: <https://firesafesdcounty.org/event/fire-safety-workshop/>

Bottom line, please protect our community and select the best financing vehicle available to remove overhead high-voltage transmission lines, energized power lines, and corroded transformers from our brush-filled canyons, streets lined with flammable Eucalyptus and Torrey Pines, and neighborhoods continually buffeted by corrosive ocean air that causes transformers to explode and live powerlines to fall. Timeliness is critical in reducing costs as long-term interest rates are predicted to rise, construction costs escalate, and inflation ravages our purchasing power.

Thanks for your consideration,

Laura



January 31, 2025

City of Del Mar  
City Council Agenda  
February 3, 2025  
Item #8–Utilities Undergrounding Financing

Red Dot  Letter from 62 Residents of UUD X1A

Dear Mayor Gaasterland and Councilmembers,

As residents of Crest Canyon, Crest Road and the adjacent streets within Utilities Undergrounding District (UUD) X1A, we urge you to please move forward with borrowing the funds necessary to ensure that our utilities in these critical areas can be undergrounded as soon as possible. This includes engaging with NHA Advisors, so that they can serve as municipal advisor in arranging the most beneficial financing arrangement for the City. Given the serious fire and public safety risks of above-ground utility poles in these two areas—as clearly expressed by our current and former fire chiefs—it is in the best interests of the City and all Del Mar residents to begin construction as soon as possible.

As you all know, given 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 construction of UUD 1A and X1A on a go-when-ready basis. Recently, the City’s UPAC and Finance committees voted to recommend that the City obtain financing so that X1A undergrounding construction can begin.

Recently, we have witnessed the catastrophic wildfires in LA, which have killed at least 29 residents and have destroyed more than 16,000 homes. In the coastal town of the Pacific Palisades, the sheer devastation that hurricane-force Santa Ana winds can cause, spreading embers and driving fires all the way to the beach, should serve as proof that a major fire is an existential threat to all of Del Mar, not just residents of the canyon and the hill. These tragic events emphasize the significance of Finance Committee member

**Laura De Marco's previous comment 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.**

**As members of the UPAC committee have stated, 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. Like many areas of Southern California, we may not be able to eliminate our fire risk. However, it is clear that we need to exercise greater vigilance, and move as quickly as we can to reduce the risks we can. The undergrounding of our utilities should be our top priority but it should be followed by a more comprehensive wildfire prevention plan for Del Mar. Such a plan will be needed to ensure that adequate home insurance is available in the future.**

**We urge you to please vote to move forward with financing. A vote for financing is also a vote to protect Del Mar from wildfires and protect our property values.**

**Sincerely,**

**Richard & Dolores  
Davies Jamison  
Crest Road**

**Barbara & Joe Harper  
Crest Road**

**Shirley King & Art Olson  
Avenida Primavera**

**Beth Levine  
Crest Road**

**Amy Cheshire  
San Dieguito Road**

**Judy & Marc Schuckit  
Kalamath Drive**

**Sally & Ron Taylor  
Crest Road**

**Rosanne Holliday  
Crest Road**

**Ann Garland  
& Saul Levine  
San Dieguito Drive**

**Julie Korsmeyer  
Oribia Road**

**Majid Kharrati &  
Sheri Babaki  
Oribia Road**

**Tom &  
Jackie Bruskotter  
Crest Road**

**Ula Tuszewicka  
Serpentine Drive**

**Linda & Frank Chisari  
Crest Road  
Jason Dempsey  
Crest Road**

**John & Gale Graybill  
15th Street**

**Joan & Craig Brown  
Crest Road**

**Suzi & Stan Resnick  
Crest Road**

**River Cohen  
Crest Road**

**John Winfield  
Crest Road**

**Scott & Lisa Renner  
Via Alta**

**Steve & Ellen Mitgang  
Crest Road**

**Will Holliday  
Crest Road**

**Fran & Nick Frost  
Crest Road**

**Katharine Sohn  
Crest Road**

**Barb & Tim Davis  
Kalamath Drive**

**Howard Appel  
Crest Road**

**Susan & Don Instone  
Crest Road**

**Gloria Sandvik  
& Harold Feder  
Nicole & Ari Gesher  
Crest Road**

**Bertha &  
Robert Leone  
Crest Road**

**Barbara Paulovich  
Crest Road**

**Meggan Gallan  
Avenida Primavera**

**Mark Raby  
Crest Road**

**Judd & Susan Halenza  
15th Street**

**Julie Singletary  
Crest Road**

**Allan & Susan Wegner  
Crest Road**

**Rose Ann Sharp  
Crest Road**

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

**Ula Tuszewicka  
Crest Road**

**Brian Orcholski  
Crest Road**



**Melinda Gould**

---

**From:** City Clerk Mail Box  
**Subject:** FW: RED DOT: Undergrounding

---

**From:** Kimberly Jackson <[kim@vrkim.com](mailto:kim@vrkim.com)>  
**Sent:** Friday, January 31, 2025 6:57 PM  
**To:** Terry Gaasterland <[tgaasterland@delmar.ca.us](mailto:tgaasterland@delmar.ca.us)>; Ashley Jones <[ajones@delmar.ca.us](mailto:ajones@delmar.ca.us)>  
**Subject:** RED DOT: 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 Mayor Gaasterland & Council Members:

As residents of Crest Canyon, Crest Road and the adjacent streets within and near Utilities Undergrounding District (UUD) X1A, we urge you to please move forward with an accelerated financing option so that our utilities in these critical areas can be undergrounded as soon as possible. Given the serious fire and public safety risks of above-ground utility poles in these two areas, it is clearly in the best interests of all Del Mar residents to begin construction as soon as possible.

As you all know, given 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. Recently, the City's UPAC and Finance committees voted to recommend that the City obtain financing so that X1A undergrounding construction can begin.

Recently, we have witnessed the catastrophic wildfires in LA, which have killed at least 29 residents and have destroyed more than 16,000 homes. In the coastal town of the Pacific Palisades, the sheer devastation that hurricane-force Santa Ana winds can cause, spreading embers and driving fires all the way to the beach, should serve as proof that a major fire is an existential threat to all of Del Mar, not just residents of the canyon and the hill. These tragic events emphasize the significance of Finance Committee member Laura De Marco's previous comment 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.

As members of the UPAC committee have stated, 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. Like many areas of Southern California, we may not be able to eliminate our fire risk. However, it is clear that we need to exercise greater vigilance, and move as quickly as we can to reduce the risks we can. The undergrounding of our utilities should be our top priority but it should be followed by a more comprehensive wildfire prevention plan for Del Mar.

We urge you to please vote to move forward with financing. A vote for financing is also a vote to protect Del Mar from wildfires.

Sincerely,



## Kimberly Jackson

FOUNDER  
Vacation Rental Management

---



[\(503\) 957-9354](tel:(503)957-9354)



[Kim@vrkim.com](mailto:Kim@vrkim.com)



[www.vacationrentalsbykimberly.com](http://www.vacationrentalsbykimberly.com)



**From:** Dolores Davies <doloresdj@gmail.com>  
**Sent:** Sunday, February 2, 2025 9:10 AM  
**To:** Terry Gaasterland <tgaasterland@delmar.ca.us>; Tracy Martinez <tmartinez@delmar.ca.us>; John Spelich <jspelich@delmar.ca.us>; Dan Quirk <dquirk@delmar.ca.us>  
**Cc:** City Clerk Mail Box <CityClerk@delmar.ca.us>; Ashley Jones <ajones@delmar.ca.us>  
**Subject:** Red Dot ● Item #8, Feb. 3, 2025 Agenda

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.

To Mayor Gaasterland and Councilmembers:

This afternoon, we took a walk through Crest Canyon to see where some of the power lines were relative to Torrey Pine trees and other native plantings. Although there are more than 70 utility poles in UUD X1A, our observations are limited to Crest Canyon and Crest Road from the canyon access trail at Hoska Drive to just north of Amphitheatre Drive, where the high voltage lines descend into the canyon. This part of the canyon has no vehicular access.

Not surprisingly, the foliage in the canyon is extremely dry, especially the chaparral. There was no evidence of any recent brush management activity under or near the high voltage lines we observed, however it did appear that some minor pruning of Torrey Pines had occurred to avoid direct contact with high voltage lines.

Several of the Torrey Pines growing on the upward slope of the canyon appeared to tower over the high voltage lines and would very likely take down some poles if they were to fall on the power lines. A few of the Torrey Pines near the high voltage lines appeared to be in poor health.

The following photos were taken to document our observations. If any of you have not taken a walk through Crest Canyon recently, we would recommend it, and would be happy to provide guidance. Seeing the proximity of the power lines—especially the high voltage ones—to the trees, the chaparral, and other vegetation on the steep upward slope of the canyon sent a clear signal to us of the serious fire risk facing Del Mar and its residents. While we realize this risk cannot be eliminated, it is hard to see what we've described above and not feel that at least a serious risk could be reduced if the power lines were undergrounded.

Sincerely,

Richard & Dolores Davies Jamison

Crest Road



















**Melinda Gould**

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**From:** Ann Williamson <ann.williamson@gmail.com>  
**Sent:** Sunday, February 2, 2025 4:46 PM  
**To:** City Clerk Mail Box  
**Subject:** City Council Meeting Feb 3, 2025 Item 8, Consideration of Undergrounding Program Financing Options

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Dar Mayor and City Council Members,

I live in the Crest Canyon neighborhood, so of course the X1A undergrounding is important to me for fire prevention. In addition, the X1A undergrounding is tied to the San Dieguito Drive assessment district to repair San Dieguito Road to standards so it will be accepted as a City street. When we voted for the assessment district we put our faith in City Council that you would make this project work. It appears that you will need to obtain X1A financing to do that, so I urge you to obtain that financing now.

Thank you for all your work on this project.

---Ann Williamson  
Oribia Road

## Melinda Gould

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**From:** Catherine George <gegatherine@icloud.com>  
**Sent:** Sunday, February 2, 2025 5:38 PM  
**To:** City Clerk Mail Box  
**Subject:** Agenda Item #8

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As a project manager of construction, I would like to know the exact costs of this project. Material and labor broken out. This is industry standard and anything less means you are hiding kick backs, payments to developers perhaps. It just looks bad on you and again, proving yourselves to be bad leaders and bad for Del Mar.

Maybe you guys didnt get the message that President Trump is the new sheriff in town and waste will no longer be tolerated. In fact, this is a perfect project for DOGE to look into....

Catherine George

## Melinda Gould

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**From:** Peter Cramton <pcramton@gmail.com>  
**Sent:** Sunday, February 2, 2025 9:47 PM  
**To:** City Clerk Mail Box; Terry TG. Gaasterland; Tracy Martinez; John Spelich-private; Dan Quirk  
**Subject:** Red Dot for 3 Feb 2025, Item 8, Undergrounding 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.

Dear Honorable Mayor and City Council Members,

I am writing as an expert in economics and finance. I conduct research in these disciplines; see [cramton.umd.edu](http://cramton.umd.edu). Undergrounding and its financing are among the most important topics the Council will address in the next several years. Fortunately, finding the best solution in this matter is among the easiest. The train and affordable housing are a different matter.

The finance committee has reviewed professional analysis, heard testimony, and studied the issue at length. During its recent meeting, the chair made excellent comments on the topic.

The consensus of the Del Mar residents is that undergrounding is valuable to current and future residents, more than justifying its significant cost, which sadly is increasing. The remaining issue is the timing and financing of the task.

The answer is simple: *as soon as possible and with a financing path that manages risk*. A few residents and one finance committee member voiced concern about debt obligations longer than twenty years posing a burden on future generations. One even said that undergrounding was a depreciating asset. These concerns are unfounded. Undergrounding is an enduring asset. It will be enjoyed without loss today and in all future years. Your land and undergrounding endure. Undergrounding is largely impervious to fire, flood, and earthquake. The high cost of undergrounding is trenching, not the cables and utility box. The benefits of trenching last forever. Second, the talented Del Mar staff, with the oversight of the Council, can and will take steps to minimize the debt cost through optimal financial planning. This is standard and seen in the work done today. The key is to recognize transaction costs, take advantage of our municipal status, and stage debt contracts so as not to put all our eggs in one basket. I have every reason to believe that standard tasks will be properly managed.

In sum, if undergrounding is worth doing, and the residents agree, it should be done as soon as possible. This means using debt financing. Following this path is not a burden to future generations but a reward to our children, grandchildren, and great-grandchildren for the intelligence of your decision-making today.

Thank you for serving the community.

Kind regards,

Peter

901 Highland Ave, Del Mar, CA 92014

Peter Cramton

[pcramton@gmail.com](mailto:pcramton@gmail.com) [cramton.umd.edu](http://cramton.umd.edu) +1 530 408 6698

*University of Maryland and Max Planck Institute for Research on Collective Goods*

## Melinda Gould

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**From:** deftos <mdeftos@gmail.com>  
**Sent:** Monday, February 3, 2025 9:19 AM  
**To:** City Clerk Mail Box  
**Subject:** Red Dot Item 8

**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.

Del Mar City Council,

Millions of dollars of public money has been slated to be spent and is now being considered to be spent on two projects within and adjacent to Crest Canyon: the San Dieguito Drive Replacement Project and Utility Undergrounding of the XIA District. This raises the questions of whether this concentrated expenditure is an appropriate use of public funds, whether the projects will substantially achieve their stated public benefits, and, in the case of Utility Undergrounding, whether the possibility of incurring debt to fund the project was implicitly approved by the Del Mar electorate when it passed Measure Q.

The San Dieguito Drive Replacement Project involves using a combination of public and private funds to repair a private road, which current and prior owners let fall into disrepair. Whether private ownership of the road will be maintained and what rights this would provide the owners is not clear. The primary public benefit of this project is improved access for emergency vehicles, particularly fire trucks, which could help fight a fire in Crest Canyon and prevent it from spreading elsewhere in the city. The steep hillside of Crest Canyon increases this risk. However, the current condition of the road does not appear to limit fire truck access and aerial firefighting would likely play a major role in fighting a fire in this difficult to access area.

The primary public benefit of Utility Undergrounding of the XIA District is also fire safety. As with the San Dieguito Drive Replacement Project, this benefit is highest for residents in the immediate area, and decreases with distance from Crest Canyon. (Residents in the area would also substantially benefit from improved neighborhood aesthetics.) The fire safety benefit is primarily from mitigation of the hazard of downed power lines starting fires, particularly power lines blown down by Santa Ana winds during the fire season. The actual risk of this is not clear. The history of large, destructive fires triggered by high voltage transmission lines in areas with extensive flammable vegetation is well known. Less clear is the risk of lower voltage distribution lines in residential areas such as Del Mar. Santa Ana

winds are not new. There has been plenty of time for this risk to manifest. Has a power line in Del Mar ever been directly blown down by the wind, or started a fire?

The fire hazard of power lines in Del Mar is probably more related to their proximity to tall vegetation than to their risk of being directly blown down by wind. Wind events can cause branches or entire trees to fall onto power lines. For example, a large Torrey Pine blown down by a winter storm recently took down a power line near Crest Road. This risk can be mitigated by appropriate pruning and/or removal of large trees that pose such a risk.

The staff report states Del Mar is classified as a Tier 1 (lowest risk) high fire threat district (HFTD) by the California Public Utilities Commission (CPUC) and that SDG&E primarily focuses on managing risk in Tier 3 locations. Who is responsible for managing the fire risk of existing power lines in Del Mar? Does the City have a program to manage vegetation adjacent to power lines? How are neighboring cities, which also have fire risks associated with adjacent open space areas, mitigating this fire risk? Del Mar's Urban Forest Management and Fire Safety Plan has not been updated for 25 years.

Even with utility lines underground, vegetation, particularly large Eucalyptus and Torrey Pines, pose a fire hazard to the City, increasing the risk of propagation of fires started by any cause. Despite this, a goal of our Climate Action Plan, supported by many who are concerned about the City's fire risk, is to increase the urban canopy 3-fold, which would likely increase this risk.

Instead of borrowing hundreds of millions of dollars to fund Utility Undergrounding, perhaps it would be wiser to first spend resources on other measures to mitigate fire hazard risks. This could include programs that support fuel load reduction, codification of a requirement to maintain defensible spaces around structures (including the important Zero Zone), and appropriate maintenance of vegetation around utility lines. Expenditure of Measure Q funds for "fire safety" services was specifically mentioned in its ballot language.

Without such measures, after spending many millions of dollars of public money on Utility Undergrounding, and incurring substantial debt, Del Mar would still have substantial fire risk. A more granular study of city power lines to determine their specific risk of being directly blown down by Santa Ana winds, and specific mitigation measures to address those with elevated risk (such as fortifying these lines), seems more prudent given limited resources.

There is substantial new information since Measure Q was passed almost 10 years ago: the costs of utility undergrounding is substantially higher than was thought at the time and completion of the project in a reasonable timeframe will now

require funding through a loan. The City is now considering a “lease obligation” as a financing mechanism to work around the debt limit imposed by the California Constitution. While this might be a “very common municipal practice,” it was not mentioned in the Measure Q ballot language. Instead, the stated purpose of Measure Q was to “provide funding 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...” There is no mention of using a loan to fund Utility Undergrounding and Measure Q revenue to service the loan. The ballot measure also indicated the funds would be spent on a variety of projects and not committed overwhelmingly to Utility Undergrounding. If the ballot measure language had accurately reflected how the city is now considering using Measure Q funds, it is not known if the measure would have passed. Given this, it seems very reasonable to put the question to a vote of the Del Mar electorate. Going forward, should Measure Q funds be overwhelmingly used to service a loan necessary to fund Utility Undergrounding rather than on the panoply of services and projects mentioned in the original ballot language?

Finally, if the City Council decides to pursue financing of Utility Undergrounding through a “lease obligation,” what city property does it intend to lease out and simultaneously lease back at a fair rental value to generate payments sufficient to service the debt of the “lease obligation” financing mechanism? How much per year would that fictitious fair market lease be?

Thanks for your consideration,  
Michael Deftos

Sent from my iPhone  
Sent from my iPhone



## Melinda Gould

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**From:** Don Moser <dmoser@retailinsite.net>  
**Sent:** Monday, February 3, 2025 9:56 AM  
**To:** City Clerk Mail Box  
**Subject:** Del Mar under-grounding

**Follow Up Flag:** Follow up  
**Flag Status:** Flagged

**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.

Please open the process for unit cost approach for undergrounding and provide transparency to this process

Don moser  
226 24th St  
Del Mar CA

Don

Don Moser  
858-229-3456



**Melinda Gould**

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**From:** Joseph Potocki <jpotocki@cbtp-law.com>  
**Sent:** Monday, February 3, 2025 10:07 AM  
**To:** Terry Gaasterland; Tracy Martinez; John Spelich; Dan Quirk  
**Cc:** City Clerk Mail Box  
**Subject:** Red Dot Item #8, Feb. 3, 2025 Agenda

**Follow Up Flag:** Follow up  
**Flag Status:** Flagged

**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.

Honorable Council Members

We are long-term owners in Del Mar. We oppose borrowing money to finance this project. Measure Q was enacted to provide funding for the undergrounding project. The city should not be borrowing additional money on top of the amount being collected through Measure Q. A loan should not be obtained to and for the benefit a limited number of owners who want this project done in their neighborhood. Further, we question why the cost that was initially estimated for the entire project has significantly increase beyond any reasonable amount even accounting for inflation and increased labor costs. There needs to be transparency and full disclosure on the cost and there should be consideration given to alternative options that would be more cost effective to accomplish the objective of the Measure Q funding. We urge you to vote against taking a loan out for this work that benefits only a few. Thank you for consideration of our position.

Respectfully

**JOSEPH P. POTOCKI**



9665 Chesapeake Dr., Suite 305, San Diego, CA 92123  
T: (858) 222-8236 EXT. 104

**cbtp-law.com**



Red Dot Letter – Agenda Item 8 - Consideration of Undergrounding Program Financing Options

Dear Mayor Gaasterland and Councilmembers Martinez, Quirk and Spelich:

I am writing this letter to re-affirm my support for moving forward today with financing the Undergrounding Program (UP) in districts X1A (Crest Canyon) and 1B (Stratford North). I believe there are no compelling reasons to delay the decision to move forward with construction in these UP districts at this time.

There are a few residents who have expressed their concern about financing these UP districts with statements about “reckless financial decisions” and the “overall financial health of the City.”

At the time Measure Q was approved by the voters of Del Mar it was understood that the purpose of the 1% sales tax was to provide a dedicated source of additional revenue for long-term infrastructure projects. It was also understood at that time that this revenue stream could be used to finance large projects which would necessarily require collateral for a loan.

Financing the next two phases of UP construction has been thoroughly modeled and analyzed as you’ve seen in the excellent presentation by City Staff. A joint meeting of the Finance and UPAC committees voted almost unanimously to recommend financing construction of X1A and 1B. Future phases (UUDs 2 – 5) will be similarly modeled and analyzed before they can receive the green light from City Council. Any concerns about the “overall financial health of the City” can be answered at each stage of construction of the UP. This initial borrowing of \$17 million can be paid back to the City in less than a decade from Measure Q revenues if future City Councils decide to halt the UP for any reason.

The greatest current existential threat to the City of Del Mar would be if the above ground utility poles in Crest Canyon sparked a wildland fire during a Santa Ana event and the fire spread westward throughout the city. Delaying utility undergrounding in Crest Canyon for three years to avoid financing the construction makes no sense to me for this reason alone.

A few voices have suggested that Del Mar residents should take a vote on whether to finance the UP. We have already voted on and approved the Measure Q tax which will fund this project. A re-vote would only divide the community into those residents whose streets have already been undergrounded and those whose streets haven’t. There are 464 residences in UUD 1A (Stratford South) that are already being undergrounded. How fair would it be to the rest of the city if we re-voted on whether to finance undergrounding when a significant number of voters’ homes have already been undergrounded?

Please direct City Staff to move forward with the financing of UUD X1A and 1B.

Thank you,

Amy Cheshire



**Melinda Gould**

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**From:** City Clerk Mail Box  
**Subject:** FW: RED DOT re: Item # 8 CC Agenda for Feb. 3, 2025

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**From:** Claire Mcgreal <[clairemcg@roadrunner.com](mailto:clairemcg@roadrunner.com)>  
**Sent:** Monday, February 3, 2025 12:03 PM  
**To:** Sarah Krietor <[Skrietor@delmar.ca.us](mailto:Skrietor@delmar.ca.us)>  
**Subject:** RED DOT re: Item # 8 CC Agenda for Feb. 3, 2025

**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 Mayor and Members of the City Council,

Please accept this Red Dot in support of the Staff Report's recommendation for proceeding with financing for Undergrounding **both** Districts X1A and 1B.

The residents of X1A have done a good job advocating for financing that segment. Here, I wish to advocate specifically for 1B:

1B is actually a very small area, and should have been grouped with 1A, which is currently being undergrounded, but 1B is on a different electrical circuit. 1B contains most of our commercial district and a few residences.

Disclosure: We live in 1B, as our electrical wire comes to our house from a pole on Sea Orbit Lane, even though we live on Stratford Ct. (NE corner of Sea Orbit.)

Many if not most of the 1B lots are in the commercial zone, as Del Mar Lane, from 11th to 15th, is primarily commercial.

Reasons to Finance the Undergrounding of District 1B with X1A:

- 1. Fire Safety**
- 2. Public Safety in deterring spread of fires, and need for evacuating large numbers of residents and commercial patrons.**
- 3. Will help with holding down Insurance Costs to businesses and residents.**
- 4. Views and Aesthetics**
- 5. Costs**, as pointed out by the Staff Report.

Thank you,  
Claire McGreal



**Melinda Gould**

---

**From:** Bruce Watson <bdubswims@gmail.com>  
**Sent:** Monday, February 3, 2025 12:38 PM  
**To:** City Clerk Mail Box  
**Subject:** Undergrounding Program Financing Options

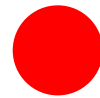
**Follow Up Flag:** Follow up  
**Flag Status:** Flagged

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City Council:

Our neighborhood self-financed our Nob Avenue undergrounding project many years ago. At that time, families paid on an "as willing" or "as able" basis. I don't feel further assessment is just or fair to these individuals. We are already contributing through the 1% Del Mar City tax. I propose the remaining neighborhoods consider this option. Even though the process was challenging we worked together for a positive outcome for everyone.

Respectfully,  
Bruce & Sandra Watson  
629 Nob Ave, Del Mar CA. 92014



**Melinda Gould**

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**From:** Terry Sinnott <sinnottdelmar@gmail.com>  
**Sent:** Monday, February 3, 2025 1:20 PM  
**To:** City Clerk Mail Box  
**Cc:** Ashley Jones  
**Subject:** Fwd: Citywide Undergrounding Program Financial Analysis

**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.

Members, Del Mar City Council.

I urge you not to pursue debt financing for your underground project. Just because you can use debt financing doesn't mean you should use debt financing.

Two observations:

1. The desire to move quickly on fire-proofing Crest Canyon is understandable. But there are cheaper, more realistic ways to prevent fires in Crest Canyon.

If residents of Crest are anxious to move forward, let's consider an assessment district.

2. As some others have pointed out, we really have not challenged the cost and schedule side of the proposed projects. We should.

I have attached a note that I sent to the Finance Committee chair back in October.

Hope that is helpful. I feel better getting this off my chest.

Terry

----- Forwarded message -----

**From:** Terry Sinnott <sinnottdelmar@gmail.com>  
**Date:** Tue, Oct 22, 2024 at 11:25 AM  
**Subject:** Citywide Undergrounding Program Financial Analysis  
**To:** <cityclerk@delmar.ca.us>  
**Cc:** Laura DeMarco <laurastanleydemarco@yahoo.com>

Laura,

You requested that I review the above for your October 22nd Finance Committee meeting.

My comments are based on my experience with the Oceanview Pines undergrounding project completed in 2006, and my career with SDG&E.

1. The design of the new underground system is like a Lego set. There are voltage requirements, but there are different ways to put the pieces together.

I would make sure that the proposed designs are critically reviewed and only convert the existing overhead capacity to underground. So you don't want the City paying for future capacity, only existing capacity. You want a Chevrolet not a Cadillac.

2. The costs developed by SDG&E come from an elaborate computer program. Every effort should be made to get detailed cost breakdowns from the utility.
3. The "inflation" in costs are real. But I would be suspicious of that covering all cost increases. I would insist on having a project over-site person on City Staff dedicated to reducing costs on a daily basis. We had that person when we built the new City Hall, and it worked very well.
4. With inflation, time is of the essence. The faster you get things done the better. So my question is whether our schedule for underground projects is too slow. We have restraints based on the Measure Q funds. But if you could group some projects together, would you get better costs/bids from our contractors?
5. Our Oceanview Pines project was an assessment district. The property owners agreed to finance the project over 20 years on their property tax bills. We did not have Measure Q funds at that time. Could there be a strategy where neighborhoods who are anxious to move forward with undergrounding.... be allowed to form their own assessment districts. That would put pressure on City staff, but it might relieve the pressure on Measure Q funds, move undergrounding along faster, and ultimately be a better result. Those areas that don't form assessment districts would have to wait their turn using Measure Q funds.

Hope that helps. That's all I have.

Terry Sinnott

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Terry Sinnott  
858 449 0846  
[www.terrysinnott.com](http://www.terrysinnott.com)

--

Terry Sinnott  
858 449 0846  
[www.terrysinnott.com](http://www.terrysinnott.com)



**Melinda Gould**

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**From:** David Foggiano <dfoggiano@gmail.com>  
**Sent:** Monday, February 3, 2025 2:29 PM  
**To:** City Clerk Mail Box  
**Subject:** City Council Meeting: Cost Transparency & Unit Cost of Materials request

**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.

Hello City Clerk,

I am reaching out today as I cannot physically attend the City Council meeting today, but have a concern I would like to voice in advance of the meeting.

I see that the undergrounding project is going to be discussed, but not necessarily the reasons for the increased cost estimates nor the actual cost of materials. Are there reports or cost breakdown that outlines these increases and the reasoning?

I am requesting that this information become public as I have concerns over the rising cost as well as the city's need to borrow more funds to complete this project.

There seems to be a disconnect with informing Del Mar residents of the true input costs for this project and to see the cost estimates rise as they have without the data being released is troublesome and even more confusing.

Are there ways to reduce these costs like outsourcing or collecting additional bids? How can this project continue to grow in cost without transparency? Without said transparency I cannot imagine Del Mar residents getting behind these potentially crippling costs.

Please let me know if anything additional is needed from me.

Thank you for adding my request to the public portion of the meeting today.

Best,

--

David Foggiano  
[dfoggiano@gmail.com](mailto:dfoggiano@gmail.com)



**Melinda Gould**

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**From:** Barbara Johansen <johansenbarbara07@gmail.com>  
**Sent:** Monday, February 3, 2025 2:45 PM  
**To:** City Clerk Mail Box  
**Subject:** Under-grounding Costs

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Sent from my iPhone

Dear Del Mar City Council,

I think it is prudent and necessary to obtain an outside consultant to evaluate the escalated costs related to the original estimate several years ago for this project. The Del Mar Community needs transparency for these expenses especially now that our city does not have the funds and will need to borrow to cover these increased expenses. This is just the beginning for necessary borrowing related to under grounding throughout Del Mar! It is worth a pause and a new evaluative study.

Barbara Johansen



**Melinda Gould**

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**From:** Thomas M. O'Neil <tmopla@physics.ucsd.edu>  
**Sent:** Monday, February 3, 2025 3:48 PM  
**To:** City Clerk Mail Box  
**Subject:** 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.

City Clerk,

I favor proceeding with the undergrounding program.

Thomas O'Neil  
532 Serpentine Drive  
Del Mar.