
City of Vista

2026 Wastewater Rate Study Final Report – March 2026

Prepared by: Water Resources Economics, LLC



**Water Resources
Economics**

PROMOTING THE VALUE AND
PRICE OF WATER SERVICE

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March 16, 2026

Ken Knatz, PE
Sewer Engineering Manager
City of Vista | Buena Sanitation District
200 Civic Center Drive
Vista, CA 92084

Subject: City of Vista Wastewater Rate Study Report

Dear Mr. Knatz,

Water Resources Economics, LLC (WRE) is pleased to submit this 2026 Wastewater Rate Study Report to the City of Vista (City). This report documents the results and recommendations of the City's wastewater rate study. The goal of the study was to develop a three-year schedule of wastewater rates that will sufficiently fund the City's wastewater system expenses, allow the City to meet its financial goals within the study period, and comply with cost-of-service principles.

This study utilized industry-standard rate-setting methodology and incorporates guidance provided by the City Council. Our project team has a proven track record of developing fair and equitable wastewater rates for numerous public agencies in California over the past 25 years. We are confident in our ability to develop sound wastewater rates that satisfy the requirements of Proposition 218.

It has been a pleasure assisting the City with this engagement, and we appreciate the support provided by yourself, the City Council, and other City staff during this study.

Sincerely,

A handwritten signature in black ink, appearing to read 'Sanjay Gaur'.

Sanjay Gaur
President

A handwritten signature in black ink, appearing to read 'Hannah Phan'.

Hannah Phan
Principal Consultant

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1. EXECUTIVE SUMMARY

1.1 SYSTEM OVERVIEW

The City of Vista (City) owns and operates approximately 216 miles of sanitary sewer system that collect wastewater from approximately 17,300 residential, commercial, and industrial accounts. The City contracts with Encina Wastewater Authority (Encina) to provide wastewater treatment services and pump station operations.

1.2 RATE STUDY OVERVIEW

Public retail wastewater agencies in California typically conduct a cost-of-service study every five years to ensure that customers are appropriately charged for wastewater service and to reestablish the cost-of-service nexus that is required by Proposition 218. The City has engaged Water Resources Economics, LLC (WRE) to conduct a comprehensive wastewater rate study, with the following objectives:

- Evaluate a five-year financial plan scenario to meet financial targets for Fiscal Year (FY) 2027 to FY 2031
- Conduct a cost-of-service analysis based on the most recent data and customer characteristics
- Develop a three-year wastewater rate schedule for FY 2027 through FY 2029

1.3 LEGAL REQUIREMENTS

Legal considerations relating to retail wastewater rates in California focus heavily on Proposition 218, which was enacted in 1996 and is now reflected in Article XIII C and Article XIII D of the California Constitution. Proposition 218 states that “property related fees and charges” (which include retail wastewater rates) may not exceed the proportional cost of providing the service to the customer and may not be used for any purpose other than providing said service. The practical implication is that public retail wastewater agencies in California must demonstrate a sufficient nexus between the costs incurred by the agency to provide wastewater service and the rates charged to customers. The primary means by which retail wastewater agencies address this requirement is by conducting a “cost-of-service analysis.”

Proposition 218 also affects the rate adoption process by requiring agencies to hold a public hearing to adopt rates. The agency must mail public hearing notices to all customers no fewer than 45 days prior to the public hearing. The public hearing notices must clearly show all proposed rate changes, provide information on the public hearing date/time/location, and provide instructions on how customers may protest the proposed rate changes. If a majority of customers submit a protest, the proposed rate changes cannot be adopted.

1.4 RATE-SETTING METHODOLOGY

This study was conducted using industry-standard methodology and includes the following steps:

1. **Financial Plan:** Annual revenues and expenses are projected over the rate-setting period to determine the magnitude of rate increases needed to maintain financial sufficiency. Financial policies, such as reserve targets, are also evaluated and updated if necessary.
2. **Cost-of-Service Analysis:** Costs are allocated to customers in proportion to use of and burden on the wastewater system. The overall goal is to establish a robust nexus between the costs incurred by an agency and the rates charged to customers, as required by Proposition 218.
3. **Rate Design:** The existing rate structure is evaluated, and potential changes are identified. A multi-year proposed rate schedule is then calculated directly from the results of the financial plan and cost-of-service analysis.
4. **Rate Study Documentation:** A rate study report is developed to document the proposed rate development process. This provides transparency and enhances compliance with Proposition 218 requirements. This document serves as the report for this rate study.

1.5 ADDITIONAL INFORMATION AND DISCLAIMERS

This report summarizes the data, analyses, processes, and results of the City's wastewater rate study. Some important information to keep in mind when reading the report includes the following:

- All study projections are based on the best available data as of December 2025.
- All table values are rounded to the nearest digit shown unless stated otherwise. However, all calculations are based on precise values. Attempting to manually recreate the calculations described in this report from the values displayed in tables may therefore produce slightly different results.
- All current and proposed rates and charges in this report are shown on an annual basis.

1.6 CURRENT WASTEWATER RATES

The City's current wastewater rate structure, shown in **Table 1-1**, is charged annually on the San Diego County Property Tax bill and includes the following components:

- Single Family and Multi-Family Residential rates are based on number of dwelling units
- Industrial and Commercial rates include a fixed component based on equivalent dwelling units (EDU), a strength-based component based on hundred cubic feet (hcf) of estimated wastewater flows and strength category, and an extra strength component based on pounds of biochemical oxygen demand (BOD) and suspended solids (SS)
- Capacity rental charges are based on excess EDU usage

Table 1-1: Current Wastewater Rates

Line	Current Sewer Rates	Units Charged	All Customers
1	Residential		
2	Single Family	per unit/year	\$708
3	Multi-Family	per unit/year	\$495
4			
5	Industrial/Commercial		
6	Fixed Portion	per EDU owned	\$177
7			
8	Strength Portion		
9	Low Strength	per HCF	\$6.56
10	Medium Strength	per HCF	\$7.70
11	High Strength	per HCF	\$11.00
12			
13	Extra Strength		
14	BOD Rate	per LB	\$0.89
15	SS Rate	per LB	\$0.65
16			
17	Capacity Rental Charge	per excess EDU used	\$546

1.7 FINANCIAL PLAN

WRE worked closely with City staff and the City Council to determine the financial plan scenario that best suits the City’s needs. The results and recommendations of the wastewater rate study are driven by the City’s financial performance, input from City staff, and feedback and direction from the City Council.

FACTORS AFFECTING FINANCIAL PERFORMANCE

The wastewater system’s financial performance is driven by the ability of the current wastewater rates to meet the City’s funding needs. To maintain financial sufficiency, wastewater rates must fully fund operations and maintenance (O&M) costs, capital improvement plan (CIP) expenditures, and any relevant financial policies, which typically include target reserve balances and debt coverage.

The key factors affecting financial performance include:

- **Substantial capital investment needs over the next five years:** The cost of planned capital projects over the next five years (FY 2027 through FY 2031) is approximately \$81.3 million based on the findings of the 2025 Sewer Master Plan.
- **Increases in Encina costs:** Encina charges the City operating and capital costs to treat wastewater flows from the City’s customers. The charges have increased by an average of approximately 10 percent per year for the past 10 years. These increases, in addition to aging infrastructure needs, add pressure to the City’s wastewater rates,.

PROPOSED REVENUE ADJUSTMENTS AND DEBT ISSUANCES

Overall annual increases in wastewater rate revenues resulting from rate increases are referred to as “revenue adjustments.” WRE worked with the City Council and City staff to determine the most appropriate financial plan scenario, which is shown in **Table 1-2**. The proposed financial plan scenario includes three years of proposed and two years of projected revenue adjustments, which are required to maintain financial sufficiency and resiliency.

Table 1-2: Proposed Financial Plan Scenario

Line	Fiscal Year	Revenue Adjustment	Effective Month	Debt Proceeds	
1	FY 2027	5.5%	July	\$0	Proposed
2	FY 2028	5.5%	July	\$0	Proposed
3	FY 2029	5.5%	July	\$0	Proposed
4	FY 2030	5.5%	July	\$15,000,000	Forecasted
5	FY 2031	5.5%	July	\$0	Forecasted

Under this proposed financial plan, the City will meet its reserve targets and coverage requirements for all years of the planning period.

1.8 PROPOSED WASTEWATER RATES

WRE worked closely with the City Council and City staff to determine the most appropriate wastewater rate structure that meets the City’s needs.

PROPOSED RATE STRUCTURE CHANGES

The main objective of the rate study was to conduct a comprehensive cost-of-service analysis while maintaining as much of the current wastewater rate structure as possible to minimize customer impacts. The City’s current wastewater rate structure includes an annual service charge based on customer class and a variable rate for commercial/industrial customers based on annual usage.

After examining current customer classification and discussion with City staff regarding customer usage patterns, WRE recommends the following changes:

- Reducing the gallons per day (gpd) definition from 200 gpd per EDU to 160 gpd due to reductions in wastewater flow.
- Currently, the City provides laundry and car wash discounts to customers who request a variance due to their water recirculation practices. However, upon further investigation, it is found that all discharge for these facilities would enter the wastewater system. Thus, no discount should be offered.
- Among the commercial customers, some have separate irrigation meters, and some do not. For customers with separate irrigation meters, the City should bill based on the actual water

usage since irrigation is accounted for in a separate meter. For customers without irrigation meters, the City should bill based on the lowest two months of water usage to account for irrigation usage which does not enter the wastewater system.

PROPOSED THREE-YEAR WASTEWATER RATE SCHEDULE

The proposed three-year wastewater rate schedule in this section is based on the proposed rate structure and methodology changes, the updated cost-of-service analysis, and the proposed revenue adjustments. The rate schedule shows the proposed wastewater rates to be implemented in July 2026 through July 2028.

Table 1-3: Proposed Three-Year Wastewater Rate Schedule

Line			Current Rate	7/1/2026	7/1/2027	7/1/2028
1	Residential					
2	Single Family	per unit/year	\$708	\$744	\$785	\$829
3	Multi-Family	per unit/year	\$495	\$521	\$550	\$581
4						
5	Industrial/Commercial					
6	Fixed Portion	per EDU owned	\$177	\$215	\$227	\$240
7						
8	Strength Portion					
9	Low Strength	per HCF	\$6.56	\$6.07	\$6.41	\$6.77
10	Medium Strength	per HCF	\$7.70	\$7.52	\$7.94	\$8.38
11	High Strength	per HCF	\$11.00	\$12.58	\$13.28	\$14.02
12						
13	Capacity Rental Charge	per excess EDU used	\$546	\$671	\$671	\$671

2. FINANCIAL PLAN

2.1 FINANCIAL PLAN METHODOLOGY

The purpose of a financial plan is to project revenues, expenses, cash flows, reserve balances, and debt coverage over a multi-year period to assess financial sufficiency and performance and to determine the amount of required rate revenue. For this study, the planning period is from FY 2027 through FY 2031; data for FY 2026 are shown when needed to represent actual or budgeted data inputs. The key steps in developing a financial plan for a wastewater enterprise are below:

- **Revenue projections:** Annual revenues from rates and other miscellaneous sources are projected over the planning period. Rate revenues are projected based on current rates to establish baseline revenues from which the need for additional rate increases can be evaluated.
- **Expense projections:** Annual expenses are projected over the study period, including O&M expenses, debt service, and CIP costs. CIP funding options (grants, debt, etc.) are evaluated.
- **Financial policy evaluation:** Key financial policies include debt coverage requirements and reserve targets. Debt coverage requirements are typically explicitly stated in official agreements on outstanding debt issuances. Reserve targets are typically set by an agency's elected officials and may need to be periodically evaluated and updated.
- **No revenue adjustments financial plan projections:** Cash flow, reserve balances, and debt coverage are projected over the study period in the absence of additional rate increases. Projected reserve balances and debt coverage are then compared to the agency's financial policy requirements and targets. The no revenue adjustments financial plan provides a baseline for evaluating the need for rate increases.
- **Proposed financial plan projections:** The magnitude and timing of annual proposed revenue increases over the study period are evaluated and determined based on the agency's financial policies, financial performance, and policy objectives. Proposed rate increases (referred to as "revenue adjustments") should generate sufficient revenue to recover the agency's expenses, maintain adequate reserves, and meet all debt coverage requirements. The proposed financial plan determines the total annual rate revenue requirement over the study period.

2.2 REVENUES

CURRENT WASTEWATER RATES

The City's current wastewater rate structure (**Table 2-1**) is charged annually on the San Diego County Property Tax bill and includes the following components:

- Single Family and Multi-Family Residential rates are based on number of dwelling units
- Industrial and Commercial rates include a fixed component based on equivalent dwelling units (EDU), a strength-based component based on hundred cubic feet (hcf) of estimated wastewater flows and strength category, and an extra strength component based on pounds of biochemical oxygen demand (BOD) and suspended solids (SS)
- Capacity rental charges are based on excess EDU usage

Table 2-1: Current Wastewater Rates

Line	Current Sewer Rates	Units Charged	All Customers
1	Residential		
2	Single Family	per unit/year	\$708
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4			
5	Industrial/Commercial		
6	Fixed Portion	per EDU owned	\$177
7			
8	Strength Portion		
9	Low Strength	per HCF	\$6.56
10	Medium Strength	per HCF	\$7.70
11	High Strength	per HCF	\$11.00
12			
13	Extra Strength		
14	BOD Rate	per LB	\$0.89
15	SS Rate	per LB	\$0.65
16			
17	Capacity Rental Charge	per excess EDU used	\$546

CUSTOMER ACCOUNTS AND USAGE

This section details the customer accounts for all years of the study, which are referred to as the units of service. Units of service represent the quantity of billing units that are subject to the City’s wastewater rates and charges.

Table 2-2 shows the projected number of Residential and Industrial/Commercial customer accounts though FY 2031. City staff provided actual customer data for FY 2025. This study assumes an annual growth rate of 0.6% in customer accounts and usage during the study period, which was the average growth between FY 2020 and FY 2024.

Table 2-2: Projected Customer Accounts/Units

Line	Customer Data	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031
1	Residential EDU						
2	Single Family	16,177	16,275	16,372	16,470	16,569	16,669
3	Multi-Family	11,584	11,654	11,724	11,794	11,865	11,936
4							
5	Industrial/Commercial						
6	Number of EDU	9,136	9,191	9,246	9,302	9,358	9,414
7							
8	Number of HCF						
9	Low Strength	252,116	253,628	255,150	256,681	258,221	259,770
10	Medium Strength	151,054	151,960	152,872	153,789	154,712	155,640
11	High Strength	150,986	151,892	152,804	153,720	154,643	155,571
12							
13	Extra Strength						
14	BOD	0	0	0	0	0	0
15	SS	0	0	0	0	0	0
16							
17	Excess EDU Used	1,697	1,697	1,697	1,697	1,697	1,697

REVENUES FROM CURRENT RATES

Table 2-3 shows the calculated wastewater rate revenues for the study period based on the current effective wastewater rates (Table 2-1) and the projected customer accounts/units (Table 2-2).

Table 2-3: Calculated Rate Revenues at Current Rates

Line	Calculated Revenues	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031
1	Residential	\$17,187,785	\$17,290,911	\$17,394,657	\$17,499,025	\$17,604,019	\$17,709,643
2	Single Family	\$11,453,660	\$11,522,382	\$11,591,516	\$11,661,065	\$11,731,032	\$11,801,418
3	Multi-Family	\$5,734,125	\$5,768,529	\$5,803,140	\$5,837,959	\$5,872,987	\$5,908,225
4	Industrial/Commercial	\$6,095,003	\$6,131,573	\$6,168,362	\$6,205,372	\$6,242,604	\$6,280,060
5	Fixed Revenue	\$1,617,159	\$1,626,862	\$1,636,623	\$1,646,443	\$1,656,322	\$1,666,260
6	Variable Revenue	\$4,477,843	\$4,504,711	\$4,531,739	\$4,558,929	\$4,586,283	\$4,613,800
7	Extra Strength	\$0	\$0	\$0	\$0	\$0	\$0
8	Total Rate Revenue	\$23,282,787	\$23,422,484	\$23,563,019	\$23,704,397	\$23,846,623	\$23,989,703

REVENUE SUMMARY

Table 2-4 shows the summary of projected revenues for the study period. City staff provided the budgeted revenues for FY 2026 and FY 2027; all other years are projected based on the relevant assumptions or calculations.

Sewer Service Charges, or wastewater rate revenue (Line 1), are equal to the Total Rate Revenue from Table 2-3 (Line 8).

Table 2-4: Revenue Summary

Line	Revenues	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031
1	Sewer Service Charges	\$23,282,787	\$23,422,484	\$23,563,019	\$23,704,397	\$23,846,623	\$23,989,703
2	Capacity Rental Charge Revenue	\$926,562	\$926,562	\$926,562	\$926,562	\$926,562	\$926,562
3	Operating Revenues	\$2,932,418	\$3,120,134	\$2,270,603	\$1,857,195	\$1,804,908	\$1,802,486
4	Capital Revenues	\$650,000	\$650,000	\$650,000	\$650,000	\$650,000	\$650,000
5	Total - City of Vista	\$27,791,767	\$28,119,180	\$27,410,184	\$27,138,154	\$27,228,094	\$27,368,751

2.3 OPERATING EXPENSES

WRE worked with City staff to determine the most appropriate escalation factors for various operating expense categories in the City’s budget. **Table 2-5** shows the expense escalation factors used to inflate O&M expenses from FY 2026 through FY 2031.

Table 2-5: Operating Expenses Escalation Factors

Line	Expense	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031
1	Salaries & Benefits	5.5%	5.5%	5.5%	5.5%	5.5%	5.5%
2	Professional Services	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%
3	Operating Expenses	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
4	Utilities	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
5	Allocated Costs	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
6	Encina	9.0%	9.0%	9.0%	9.0%	9.0%	9.0%
7	Capital	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%
8	Transfers Out	-100.0%	-100.0%	-100.0%	-100.0%	-100.0%	-100.0%

Table 2-6 shows the summary of O&M expenses for the study period. City staff provided the budgeted O&M expenses for FY 2026 and FY 2027. The budgeted values are escalated each year based on the escalation factors in **Table 2-5**.

Table 2-6: Operating Expenses

Line	Operating Expenses	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031
1	Salaries & Benefits	\$4,443,228	\$4,627,254	\$4,881,753	\$5,150,249	\$5,433,513	\$5,732,356
2	Professional Services	\$1,348,155	\$1,351,756	\$1,399,067	\$1,448,035	\$1,498,716	\$1,551,171
3	Encina Treatment Facility	\$7,703,572	\$8,088,750	\$8,816,738	\$9,610,244	\$10,475,166	\$11,417,931
4	Operating Expenses	\$305,434	\$305,560	\$314,727	\$324,169	\$333,894	\$343,910
5	Utilities	\$85,479	\$86,742	\$91,079	\$95,633	\$100,415	\$105,435
6	Allocated Costs	\$2,757,444	\$2,788,777	\$2,872,440	\$2,958,614	\$3,047,372	\$3,138,793
7	Capital Outlay	\$55,680	\$418,860	\$435,614	\$453,039	\$471,161	\$490,007
8	Transfers to Other Funds	\$10,100,337	\$9,588,370	\$0	\$0	\$0	\$0
9	Total Operating Expenses	\$26,799,329	\$27,256,069	\$18,811,419	\$20,039,982	\$21,360,236	\$22,779,604

2.4 DEBT SERVICE

EXISTING AND PROPOSED DEBT SERVICE

Table 2-7 shows the City’s annual debt service for the study period. The City has existing debt service payments on a State Revolving Fund (SRF) loan of approximately \$1.9 million each year. The proposed financial plan scenario also includes a new debt issuance in FY 2030 of \$15.3 million (assuming a 5% interest rate, a 30-year term, and 2% issuance costs).

Table 2-7: Existing and Proposed Debt Service

Line	Debt Service	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031
1	Existing Debt Service	\$1,885,347	\$1,885,347	\$1,885,347	\$1,885,347	\$1,885,347	\$1,885,347
2	Proposed Debt Service					\$995,685	\$995,685
3	Total - Debt Service	\$1,885,347	\$1,885,347	\$1,885,347	\$1,885,347	\$2,881,032	\$2,881,032

2.5 CAPITAL IMPROVEMENT PLAN

CAPITAL IMPROVEMENT PROJECTS

Table 2-8 shows the City’s five-year CIP; project costs are inflated by 4% per year starting in FY 2026 (see **Table 2-5**, Line 7), except for the pipeline rehabilitation costs.

Table 2-8: Capital Improvement Projects

Line	Capital Improvement Projects	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031
1	Encina Wastewater Authority Capital Improvement Project	\$6,422,824	\$9,433,408	\$9,777,935	\$5,196,355	\$8,107,189	\$8,000,000
2	Vista Pipeline Rehabilitation	\$500,000	\$500,000	\$500,000	\$500,000	\$500,000	\$500,000
3	VC2: Vista/Carlsbad Interceptor Rehab	\$0	\$0	\$0	\$0	\$0	\$0
4	OV1: Pipeline Access Improvements	\$0	\$0	\$0	\$0	\$0	\$0
5	VC3: Vista/Carlsbad Interceptor Sewer Upsize	\$400,000	\$0	\$0	\$2,249,728	\$9,358,868	\$0
6	Buena Vista Pump Station Replacement	\$0	\$0	\$0	\$1,124,864	\$4,679,434	\$0
7	FOG Abatement Raceway Pump Station	\$0	\$0	\$0	\$0	\$0	\$0
8	Raceway Pump Station Emergency Overflow Basin Repair	\$0	\$0	\$0	\$0	\$0	\$0
9	Sewer Master Plan	\$0	\$0	\$0	\$0	\$0	\$0
10	Via Centre Capacity Improvement	\$800,000	\$0	\$0	\$0	\$0	\$0
11	South Santa Fe Capacity Improvement	\$500,000	\$0	\$0	\$0	\$0	\$0
12	Public Works Building C Improvements	\$186,000	\$1,096,160	\$0	\$0	\$0	\$0
13	North Santa Fe Ave - East Dr to Washington St	\$1,447,992	\$6,023,647	\$0	\$0	\$0	\$0
14	North Melrose Dr - Copper Dr to West Vista Way	\$0	\$1,022,112	\$4,251,986	\$0	\$0	\$0
15	Hill Dr and Flower Ln up to Tylee St	\$0	\$311,501	\$1,295,843	\$0	\$0	\$0
16	North Santa Fe Ave - W Bobier Dr to W Indian Rock Rd	\$0	\$194,688	\$809,902	\$0	\$0	\$0
17	E Broadway - S Citrus Ave to S Santa Fe Ave/Veterans Park	\$0	\$0	\$614,176	\$2,554,971	\$0	\$0
18	Maryland Dr. and Olive Ave. to Melrose Dr.	\$0	\$0	\$524,412	\$2,181,552	\$0	\$0
19	Total - Vista Sewer Capital Replacement	\$10,256,816	\$18,581,516	\$17,774,254	\$13,807,470	\$22,645,492	\$8,500,000

CAPITAL FINANCING PLAN

Table 2-9 shows the capital financing plan. The proposed financial plan scenario includes a debt issuance of \$15 million in FY 2030, which will fund \$15 million in capital projects in FY 2030 (Line 9). All other project costs will be funded by wastewater rates (Line 10).

Table 2-9: Capital Financing Plan

Line	Capital Financing Plan	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031
1	Total CIP	\$10,256,816	\$18,581,516	\$17,774,254	\$13,807,470	\$22,645,492	\$8,500,000
2	CIP Execution Rate	100%	100%	100%	100%	100%	100%
3	Executed CIP	\$10,256,816	\$18,581,516	\$17,774,254	\$13,807,470	\$22,645,492	\$8,500,000
4							
5	New Debt	\$0	\$0	\$0	\$0	\$15,000,000	\$0
6	New Debt Balance	\$0	\$0	\$0	\$0	\$15,000,000	\$0
7							
8	Vista Sewer Capital Replacement						
9	Debt Funded	\$0	\$0	\$0	\$0	\$15,000,000	\$0
10	Rate Funded	\$10,256,816	\$18,581,516	\$17,774,254	\$13,807,470	\$7,645,492	\$8,500,000
11	Total - Vista Sewer Capital Financing Plan	\$10,256,816	\$18,581,516	\$17,774,254	\$13,807,470	\$22,645,492	\$8,500,000

2.6 FINANCIAL POLICIES

RESERVE POLICY

The City's current reserve policy maintains cash on hand to meet short-term cash imbalances, to execute CIP projects, and to cover unexpected repairs.

The City currently has an adopted reserve policy that consists of the following components:

- Operating Reserve Target: 50% of annual operating expenses
- Rate Stabilization: 15% of previous 5-year average of Encina wastewater treatment plant costs
- Emergency Capital: \$2.9 million

The reserve target for the study period ranges from approximately \$12.67 million (FY 2027) to \$15.6 million (FY 2031) in the City's reserve funds.

DEBT COVERAGE REQUIREMENT

The City's current debt coverage requirement is 125% of annual debt service. To meet coverage requirements, net revenues (revenues less operating expenses) must be 125% or more of annual debt service.

2.7 NO REVENUE ADJUSTMENT FINANCIAL PLAN

NO REVENUE ADJUSTMENT FINANCIAL PLAN SCENARIO

Table 2-10 shows the no revenue adjustment financial plan, which assumes no revenue adjustments and no debt issuance. This scenario is used to evaluate the ability of the current wastewater rates to meet the City's financial targets and to determine the need for revenue adjustments.

Table 2-10: No Revenue Adjustment Financial Plan Scenario

Line	Fiscal Year	Revenue Adjustment	Effective Month
1	FY 2027	0.0%	July
2	FY 2028	0.0%	July
3	FY 2029	0.0%	July
4	FY 2030	0.0%	July
5	FY 2031	0.0%	July

NO REVENUE ADJUSTMENT CASH FLOW PROJECTIONS

Table 2-11 shows the cash flow projections for the no revenue adjustment financial plan. Revenues (Lines 1-7) are from **Table 2-4**. Operating expenses (Lines 9-14) are from **Table 2-6**. Net operating revenue (Line 26) is equal to the difference between total revenues (Line 7) and total operating expenses (Line 14). Debt service (Lines 16-19) is from **Table 2-7**. Rate funded CIP (Line 23) is the total capital projects (Line 11) from **Table 2-9**. The no revenue adjustment scenario assumes no new debt; all CIP is expected to be rate funded. Net cash flow (Line 28) is equal to the net operating revenue (Line 26) less debt service (Line 19) and rate-funded capital (Line 23).

The net operating revenue in this scenario is positive for all years of the study period, meaning the City’s current revenues are sufficient to fund its operating expenses. However, the net cash flow in the no revenue adjustment scenario is negative for all years, meaning that the City’s current revenues are not sufficient to fund its debt service and annual CIP.

Table 2-11: Projected Cash Flows (No Revenue Adjustment Financial Plan)

Line	Cash Flow Projections	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031
1	Revenues						
2	Rate Revenues at Existing Rates	\$23,282,787	\$23,422,484	\$23,563,019	\$23,704,397	\$23,846,623	\$23,989,703
3	Revenue Adjustments	\$0	\$0	\$0	\$0	\$0	\$0
4	Capacity Rental Charge Revenue	\$926,562	\$926,562	\$926,562	\$926,562	\$926,562	\$926,562
5	Operating Revenues	\$2,932,418	\$3,120,134	\$2,192,007	\$1,735,292	\$1,442,269	\$1,171,917
6	Capital Revenues	\$409,099	\$650,000	\$650,000	\$650,000	\$650,000	\$650,000
7	Subtotal - Revenues	\$27,550,866	\$28,119,180	\$27,331,588	\$27,016,251	\$26,865,454	\$26,738,182
8							
9	Operating Expenses						
10	Operating Costs	\$6,182,296	\$6,371,312	\$6,686,626	\$7,018,086	\$7,366,538	\$7,732,873
11	Encina Treatment Costs	\$7,703,572	\$8,088,750	\$8,816,738	\$9,610,244	\$10,475,166	\$11,417,931
12	Allocated Costs	\$2,757,444	\$2,788,777	\$2,872,440	\$2,958,614	\$3,047,372	\$3,138,793
13	All Other Costs, less Transfers	\$55,680	\$418,860	\$435,614	\$453,039	\$471,161	\$490,007
14	Subtotal - Operating Expenses	\$16,698,992	\$17,667,699	\$18,811,419	\$20,039,982	\$21,360,236	\$22,779,604
15							
16	Debt Service						
17	Existing Debt	\$1,885,347	\$1,885,347	\$1,885,347	\$1,885,347	\$1,885,347	\$1,885,347
18	Proposed Debt	\$0	\$0	\$0	\$0	\$0	\$0
19	Subtotal - Debt Service	\$1,885,347	\$1,885,347	\$1,885,347	\$1,885,347	\$1,885,347	\$1,885,347
20							
21	Capital Projects						
22	Debt Funded	\$0	\$0	\$0	\$0	\$0	\$0
23	Rate Funded	\$10,256,816	\$18,581,516	\$17,774,254	\$13,807,470	\$22,645,492	\$8,500,000
24	Subtotal - Capital Projects	\$10,256,816	\$18,581,516	\$17,774,254	\$13,807,470	\$22,645,492	\$8,500,000
25							
26	Net Revenue	\$10,851,874	\$10,451,481	\$8,520,170	\$6,976,268	\$5,505,219	\$3,958,578
27	Net Revenue Less Debt	\$8,966,527	\$8,566,134	\$6,634,823	\$5,090,922	\$3,619,872	\$2,073,232
28	Net Cash Flow	(\$1,290,289)	(\$10,015,381)	(\$11,139,431)	(\$8,716,549)	(\$19,025,620)	(\$6,426,768)

NO REVENUE ADJUSTMENT FUND BALANCE PROJECTIONS

Table 2-12 shows the fund balance projections for the no revenue adjustment financial plan. Based on the sources (Lines 3-10) and uses (Lines 12-16) of funds, the City’s fund balances will be negative by the end of FY 2030. By the end of the study period in FY 2031, the City’s fund balances will be approximately negative \$18.2 million, having dropped from a starting balance of \$43.9 million in FY 2026. This represents a loss of \$62.2 million in five years.

Table 2-12: Projected Fund Balances (No Revenue Adjustment Financial Plan)

Line	Fund Balance Projections	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031
1	Combined Beginning Fund Balance	\$43,977,260	\$41,760,410	\$30,818,466	\$18,752,474	\$9,109,363	(\$10,842,819)
2							
3	Sources of Funds						
4	Rate Revenues at Existing Rates	\$23,282,787	\$23,422,484	\$23,563,019	\$23,704,397	\$23,846,623	\$23,989,703
5	Revenue Adjustments	\$0	\$0	\$0	\$0	\$0	\$0
6	Operating Revenues	\$1,416,092	\$1,459,432	\$1,459,432	\$1,459,432	\$1,459,432	\$1,459,432
7	Capital Revenues	\$409,099	\$650,000	\$650,000	\$650,000	\$650,000	\$650,000
8	Debt Proceeds	\$0	\$0	\$0	\$0	\$0	\$0
9	Investment Earnings	\$1,516,326	\$1,660,702	\$732,575	\$275,860	(\$17,163)	(\$287,515)
10	Subtotal - Sources of Funds	\$26,624,304	\$27,192,618	\$26,405,026	\$26,089,689	\$25,938,892	\$25,811,620
11							
12	Uses of Funds						
13	Operating Expenses	\$16,698,992	\$17,667,699	\$18,811,419	\$20,039,982	\$21,360,236	\$22,779,604
14	Debt Service	\$1,885,347	\$1,885,347	\$1,885,347	\$1,885,347	\$1,885,347	\$1,885,347
15	Capital Projects	\$10,256,816	\$18,581,516	\$17,774,254	\$13,807,470	\$22,645,492	\$8,500,000
16	Subtotal - Uses of Funds	\$28,841,155	\$38,134,561	\$38,471,019	\$35,732,799	\$45,891,074	\$33,164,951
17							
18	Ending Balance	\$41,760,410	\$30,818,466	\$18,752,474	\$9,109,363	(\$10,842,819)	(\$18,196,149)

NO REVENUE ADJUSTMENT FINANCIAL PERFORMANCE

The City’s financial performance is evaluated based on its reserve targets and debt coverage requirements, as shown in **Table 2-13**. Under the no revenue adjustment financial plan, the City will not meet its reserve targets from FY 2029 to FY 2031. The City will, however, be able to meet its debt coverage requirements throughout the study period without revenue adjustments.

Table 2-13: Forecasted Financial Performance (No Revenue Adjustment Financial Plan)

Line	Financial Performance	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031
1	Debt Coverage Target						
2	Required Debt Coverage	125%	125%	125%	125%	125%	125%
3	Calculated Debt Coverage	576%	554%	452%	370%	292%	210%
4	Meets Coverage?	Yes	Yes	Yes	Yes	Yes	Yes
5							
6	Reserve Target						
7	Operating Cash Flow	\$8,349,496	\$8,833,850	\$9,405,709	\$10,019,991	\$10,680,118	\$11,389,802
8	Rate Stabilization	\$876,876	\$932,608	\$1,026,820	\$1,136,913	\$1,235,907	\$1,340,834
9	Capital Repairs and Replacement						
10	Emergency Capital Replacement	\$2,900,000	\$2,900,000	\$2,900,000	\$2,900,000	\$2,900,000	\$2,900,000
11	Total Reserve Target	\$12,126,372	\$12,666,458	\$13,332,530	\$14,056,904	\$14,816,025	\$15,630,636
12	Total Reserves	\$41,760,410	\$30,818,466	\$18,752,474	\$9,109,363	(\$10,842,819)	(\$18,196,149)
13	Meets Reserve Target?	Yes	Yes	Yes	No	No	No

Figure 2-1 shows the comparison of revenues and the revenue requirement for the no revenue adjustment financial plan. The stacked bars represent the revenue requirements, or costs: blue for O&M expenses, gray for debt service, and green for rate funded CIP. The City will not be adding to its reserves (light blue) in this scenario. The current revenue, shown as a solid line, is lower than the revenue requirements, meaning that revenues are insufficient to fund necessary costs.

Figure 2-1: Revenue Requirements vs. Revenues (No Revenue Adjustment Financial Plan)

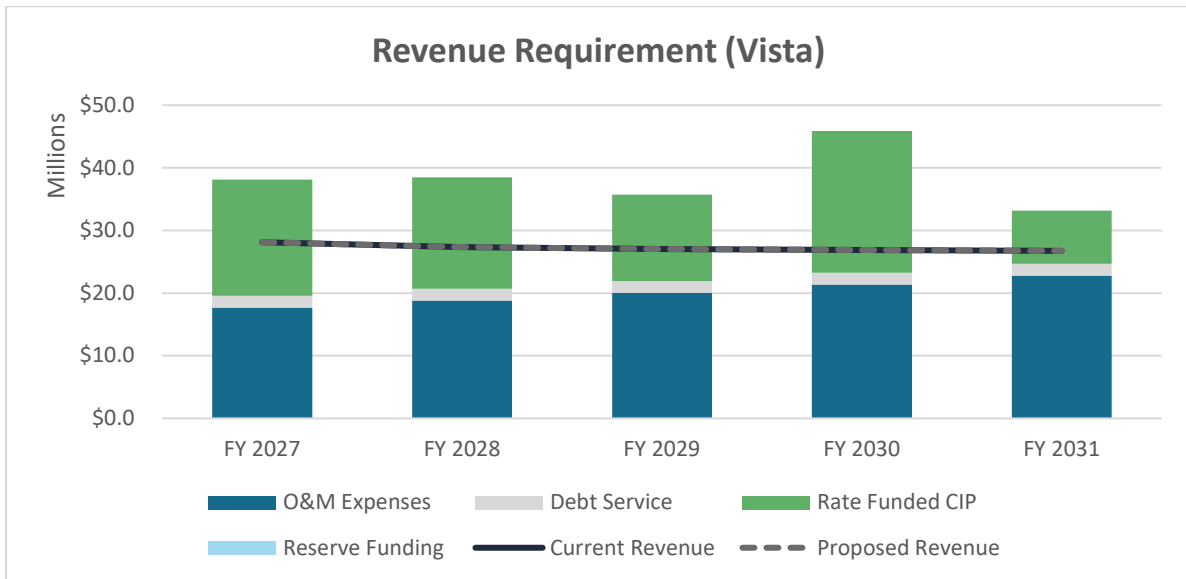


Figure 2-2 shows the debt coverage projections in the no revenue adjustment financial plan. The required debt coverage (dashed line) is equal to 125%. The City will meet its debt coverage requirements for the entirety of the study period without any rate adjustments. This is also reflected in Line 4 of Table 2-13.

Figure 2-2: Projected Debt Coverage (No Revenue Adjustment Financial Plan)

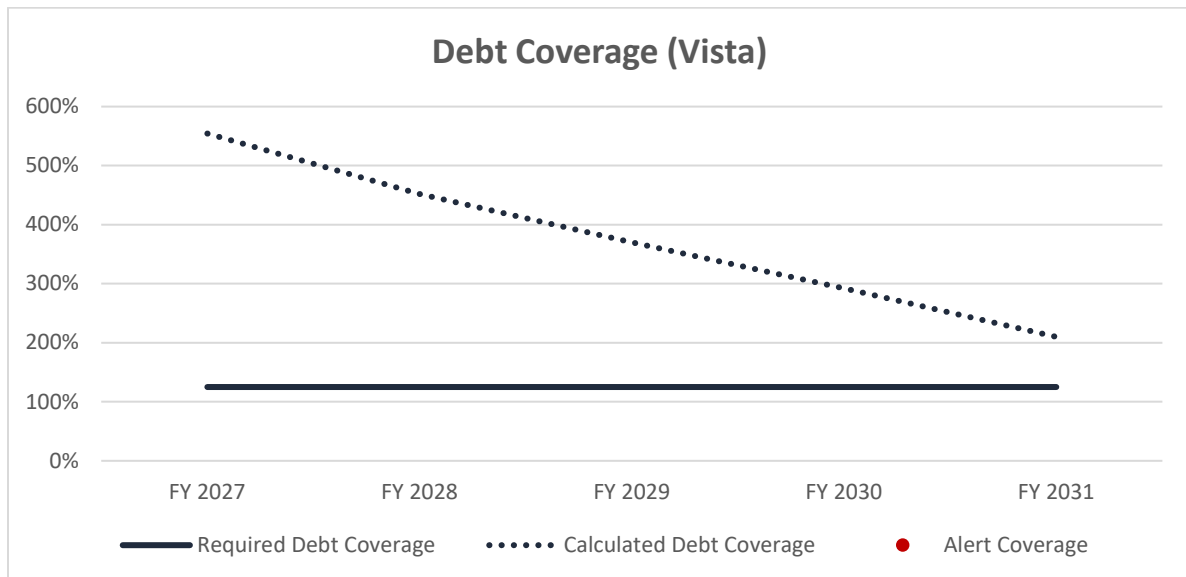
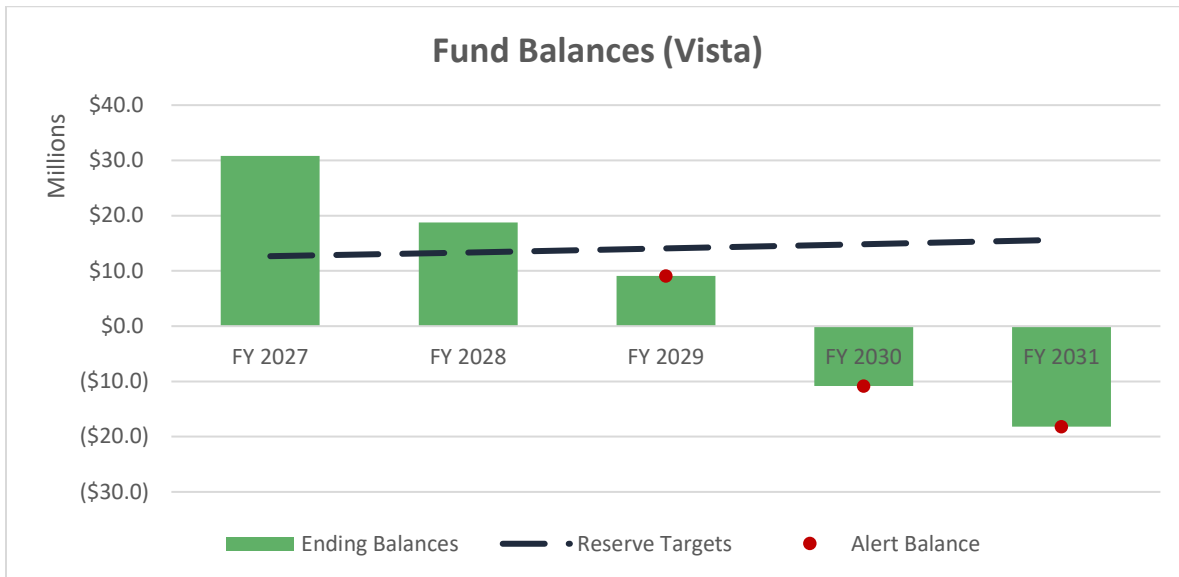


Figure 2-3 shows the fund balance projections in the no revenue adjustment financial plan. The City's ending balance (green bars) will not meet reserve targets (dashed line) starting in FY 2029. The City's fund balances will be negative by FY 2030.

Figure 2-3: Projected Fund Balances (No Revenue Adjustment Financial Plan)



2.8 PROPOSED FINANCIAL PLAN

PROPOSED FINANCIAL PLAN SCENARIO

The proposed financial plan includes three years of proposed revenue adjustments, two years of forecasted adjustments, and a debt issuance in FY 2030, as shown in **Table 2-14**. These adjustments are needed to maintain the City’s financial sufficiency and were developed based on direction from the City Council.

Table 2-14: Proposed Financial Plan Scenario

Line	Fiscal Year	Revenue Adjustment	Effective Month	Debt Proceeds	
1	FY 2027	5.5%	July	\$0	Proposed
2	FY 2028	5.5%	July	\$0	Proposed
3	FY 2029	5.5%	July	\$0	Proposed
4	FY 2030	5.5%	July	\$15,000,000	Forecasted
5	FY 2031	5.5%	July	\$0	Forecasted

PROPOSED CASH FLOW PROJECTIONS

Table 2-15 shows the cash flow projections for the proposed financial plan. Revenues (Lines 1-7) are from **Table 2-4**. Operating expenses (Lines 9-14) are from **Table 2-6**. Net operating revenue (Line 26) is equal to the difference between total revenues (Line 7) and total operating expenses (Line 14). Debt service (Lines 16-19) is from **Table 2-7**. Rate funded CIP (Line 23) is from **Table 2-9**. The proposed financial plan assumes debt proceeds of \$15 million in FY 2030. All remaining CIP is expected to be rate funded. Net cash flow (Line 28) is equal to the net operating revenue (Line 26) less debt service (Line 19) and rate-funded capital (Line 23).

Table 2-15: Projected Cash Flows (Proposed Financial Plan)

Line	Cash Flow Projections	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031
1	Revenues						
2	Rate Revenues at Existing Rates	\$23,282,787	\$23,422,484	\$23,563,019	\$23,704,397	\$23,846,623	\$23,989,703
3	Revenue Adjustments	\$0	\$1,288,237	\$2,663,210	\$4,130,287	\$5,695,161	\$7,363,879
4	Capacity Rental Charge Revenue	\$926,562	\$926,562	\$926,562	\$926,562	\$926,562	\$926,562
5	Operating Revenues	\$2,932,418	\$3,120,134	\$2,270,603	\$1,857,195	\$1,804,908	\$1,802,486
6	Capital Revenues	\$409,099	\$650,000	\$650,000	\$650,000	\$650,000	\$650,000
7	Total - Revenues	\$27,550,866	\$29,407,416	\$30,073,394	\$31,268,441	\$32,923,255	\$34,732,631
8							
9	Operating Expenses						
10	Operating Costs	\$6,182,296	\$6,371,312	\$6,686,626	\$7,018,086	\$7,366,538	\$7,732,873
11	Encina Treatment Costs	\$7,703,572	\$8,088,750	\$8,816,738	\$9,610,244	\$10,475,166	\$11,417,931
12	Allocated Costs	\$2,757,444	\$2,788,777	\$2,872,440	\$2,958,614	\$3,047,372	\$3,138,793
13	All Other Costs, less Transfers	\$55,680	\$418,860	\$435,614	\$453,039	\$471,161	\$490,007
14	Total - Operating Expenses	\$16,698,992	\$17,667,699	\$18,811,419	\$20,039,982	\$21,360,236	\$22,779,604
15							
16	Debt Service						
17	Existing Debt	\$1,885,347	\$1,885,347	\$1,885,347	\$1,885,347	\$1,885,347	\$1,885,347
18	Proposed Debt	\$0	\$0	\$0	\$0	\$995,685	\$995,685
19	Total - Debt Service	\$1,885,347	\$1,885,347	\$1,885,347	\$1,885,347	\$2,881,032	\$2,881,032
20							
21	Capital Projects						
22	Debt Funded	\$0	\$0	\$0	\$0	\$15,000,000	\$0
23	Rate Funded	\$10,256,816	\$18,581,516	\$17,774,254	\$13,807,470	\$7,645,492	\$8,500,000
24	Total - Capital Projects	\$10,256,816	\$18,581,516	\$17,774,254	\$13,807,470	\$22,645,492	\$8,500,000
25							
26	Net Revenue	\$10,851,874	\$11,739,717	\$11,261,975	\$11,228,459	\$11,563,019	\$11,953,027
27	Net Revenue Less Debt	\$8,966,527	\$9,854,371	\$9,376,628	\$9,343,112	\$8,681,987	\$9,071,995
28	Net Cash Flow	(\$1,290,289)	(\$8,727,145)	(\$8,397,625)	(\$4,464,358)	\$1,036,496	\$571,995

PROPOSED FUND BALANCE PROJECTIONS

Table 2-16 shows the fund balance projections for the proposed financial plan. Based on the sources (Lines 3-10) and uses (Lines 12-16) of funds, the City’s fund balances will be approximately \$17.15 million at the end of the study period in FY 2031.

Table 2-16: Projected Fund Balances (Proposed Financial Plan)

Line	Fund Balance Projections	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031
1	Combined Beginning Fund Balance	\$43,977,260	\$41,760,410	\$32,106,703	\$22,782,516	\$17,391,596	\$17,501,529
2							
3	Sources of Funds						
4	Rate Revenues at Existing Rates	\$23,282,787	\$23,422,484	\$23,563,019	\$23,704,397	\$23,846,623	\$23,989,703
5	Revenue Adjustments	\$0	\$1,288,237	\$2,663,210	\$4,130,287	\$5,695,161	\$7,363,879
6	Operating Revenues	\$1,416,092	\$1,459,432	\$1,459,432	\$1,459,432	\$1,459,432	\$1,459,432
7	Capital Revenues	\$409,099	\$650,000	\$650,000	\$650,000	\$650,000	\$650,000
8	Debt Proceeds	\$0	\$0	\$0	\$0	\$15,000,000	\$0
9	Investment Earnings	\$1,516,326	\$1,660,702	\$811,171	\$397,763	\$345,476	\$343,054
10	Subtotal - Sources of Funds	\$26,624,304	\$28,480,854	\$29,146,832	\$30,341,879	\$46,996,693	\$33,806,069
11							
12	Uses of Funds						
13	Operating Expenses	\$16,698,992	\$17,667,699	\$18,811,419	\$20,039,982	\$21,360,236	\$22,779,604
14	Debt Service	\$1,885,347	\$1,885,347	\$1,885,347	\$1,885,347	\$2,881,032	\$2,881,032
15	Capital Projects	\$10,256,816	\$18,581,516	\$17,774,254	\$13,807,470	\$22,645,492	\$8,500,000
16	Subtotal - Uses of Funds	\$28,841,155	\$38,134,561	\$38,471,019	\$35,732,799	\$46,886,759	\$34,160,636
17							
18	Ending Balance	\$41,760,410	\$32,106,703	\$22,782,516	\$17,391,596	\$17,501,529	\$17,146,962

PROPOSED FINANCIAL PERFORMANCE

Table 2-17 shows the forecasted financial performance for the proposed financial plan. Under this plan, the City will meet its reserve targets in all years of the planning period. The City will also meet its debt coverage requirements in all years with the proposed revenue adjustments.

Table 2-17: Forecasted Financial Performance (Proposed Financial Plan)

Line	Financial Performance	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031
1	Debt Coverage Target						
2	Required Debt Coverage	125%	125%	125%	125%	125%	125%
3	Calculated Debt Coverage	576%	623%	597%	596%	401%	415%
4	Meets Coverage?	Yes	Yes	Yes	Yes	Yes	Yes
5							
6	Reserve Target						
7	Operating Cash Flow	\$8,349,496	\$8,833,850	\$9,405,709	\$10,019,991	\$10,680,118	\$11,389,802
8	Rate Stabilization	\$876,876	\$932,608	\$1,026,820	\$1,136,913	\$1,235,907	\$1,340,834
9	Capital Repairs and Replacement						
10	Emergency Capital Replacement	\$2,900,000	\$2,900,000	\$2,900,000	\$2,900,000	\$2,900,000	\$2,900,000
11	Total Reserve Target	\$12,126,372	\$12,666,458	\$13,332,530	\$14,056,904	\$14,816,025	\$15,630,636
12	Total Reserves	\$41,760,410	\$32,106,703	\$22,782,516	\$17,391,596	\$17,501,529	\$17,146,962
13	Meets Reserve Target?	Yes	Yes	Yes	Yes	Yes	Yes

Figure 2-4 shows the comparison of revenues and the revenue requirement for the proposed financial plan scenario. The stacked bars represent the revenue requirements, or costs, while the dotted line represents the proposed revenue. By FY 2030, the proposed revenue will be sufficient to fund operating expenses, debt service, and rate funded CIP.

Figure 2-4: Revenue Requirements vs. Revenues (Proposed Financial Plan)

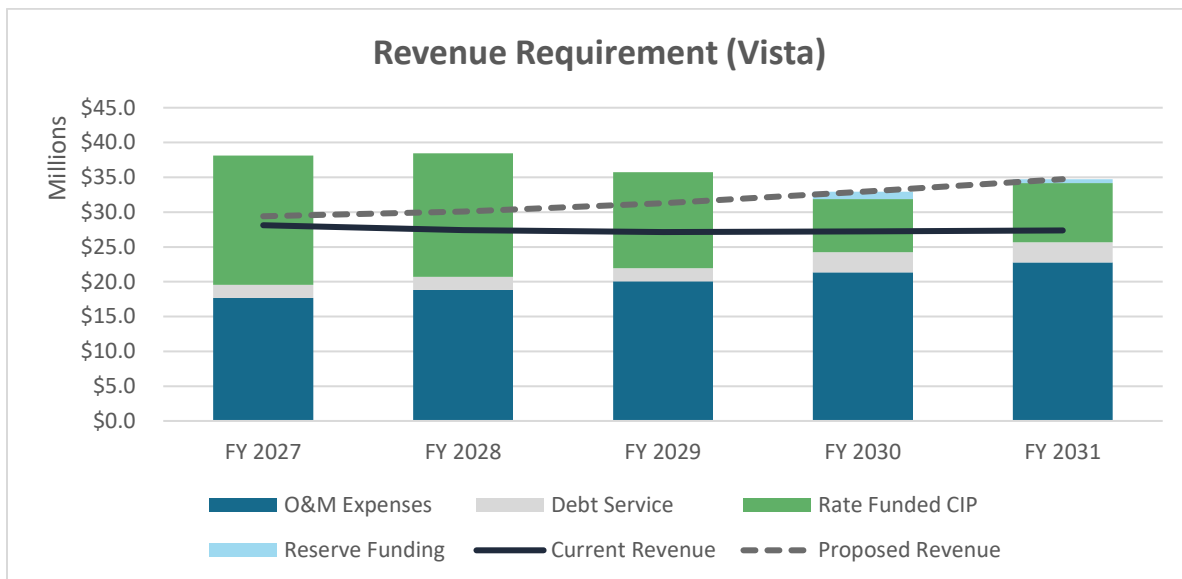


Figure 2-5 shows the debt coverage projections in the proposed financial plan. The required debt coverage (solid line) is equal to 125%. The City is expected to meet its debt coverage requirements for all years of this scenario.

Figure 2-5: Projected Debt Coverage (Proposed Financial Plan)

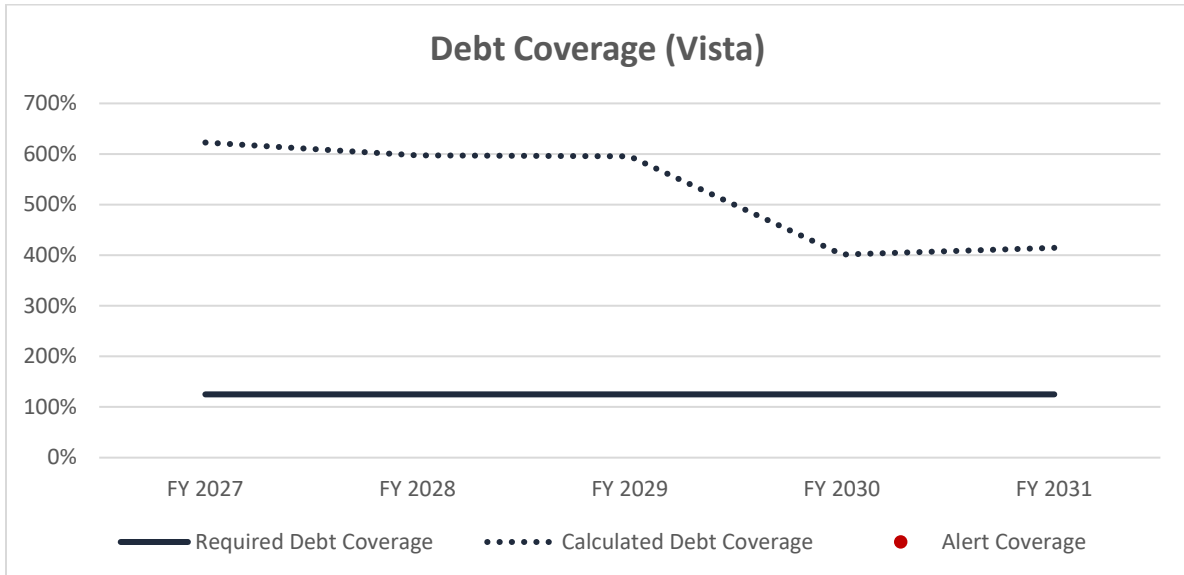
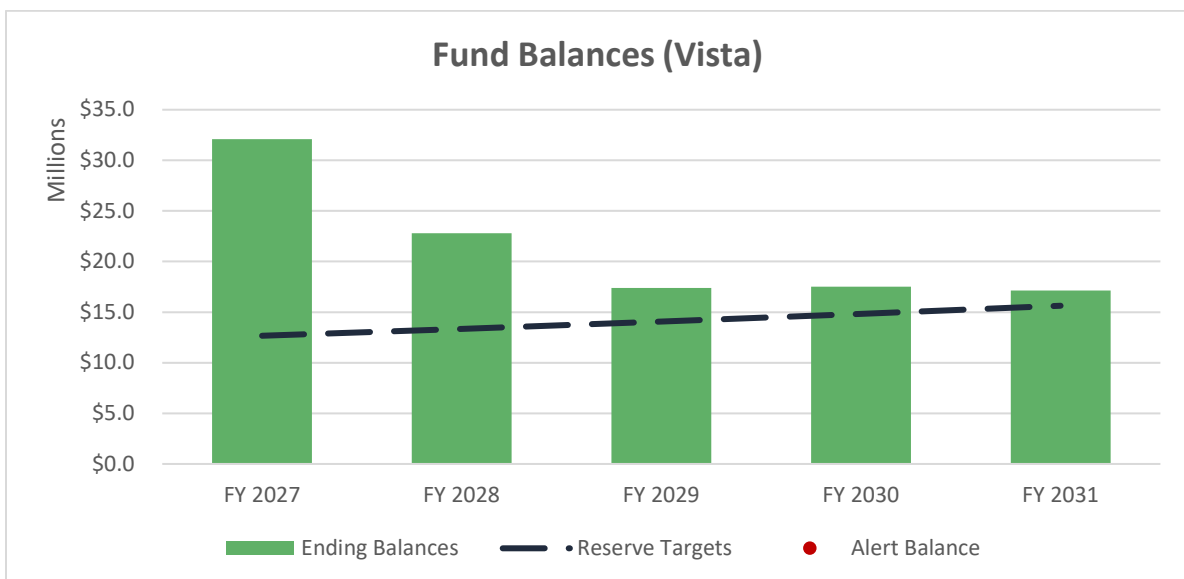


Figure 2-6 shows the fund balance projections in the proposed financial plan. The City’s ending balance (green bars) will meet the reserve target (dashed line) in all five years of the study period.

Figure 2-6: Projected Fund Balances (Proposed Financial Plan)



3. COST-OF-SERVICE ANALYSIS

3.1 COST-OF-SERVICE METHODOLOGY

A cost-of-service (COS) analysis is a technical process used to determine the cost of providing wastewater service to the City’s customers based on each customer’s use of and burden on the wastewater system. The COS analysis is the basis of the nexus between the costs incurred by the utility to provide wastewater service and the wastewater rates charged to customers, which is a requirement of Proposition 218.

The COS methodology is based on industry standards set forth by the Water Environment Federation (WEF). The overall goal of the cost-of-service analysis is to develop “unit costs,” which provide the basis from which proposed rates are calculated. Note that although the study period spans multiple years, the cost-of-service analysis is limited to a single representative year referred to as the “test year.” The test year in this study is FY 2026.

The key steps in conducting a cost-of-service analysis are outlined below:

- **Revenue requirement determination:** The revenue requirement for the test year is determined based on the results of the proposed financial plan and divided into primary sub-components (operating, capital, etc.).
- **Cost functionalization:** Operating and capital costs are evaluated and assigned to “functional categories” in the wastewater system (e.g., flow, treatment, billing, etc.). This provides a proportional breakdown of system costs by functional category.
- **Revenue requirement allocation to cost causation components:** Functionalized costs are allocated to “cost causation components” (e.g., flow, BOD, TSS, billing, etc.), which are used to attribute customers’ use of the system to the City’s functional costs.
- **Unit cost development:** The allocation of revenue requirements for each individual cost causation component is divided by the appropriate units of service to establish unit costs for the test year. Unit costs provide the basis from which proposed rates are calculated.

3.2 REVENUE REQUIREMENT

The total rate revenue requirement for the test year, FY 2026, is based on the financial plan projections (**Table 2-15**) and is allocated between the Operating, Capital and Revenue Offset components, as shown in **Table 3-1**. The Operating revenue requirement consists of operating expenses (Line 2). The Capital revenue requirement includes debt service (Line 3), rate-funded CIP (Line 4), capital revenue (Line 8), capacity rental charge revenue (Line 9), and adjustments for cash from reserves (Line 15; from **Table 2-15**, Line 28). The Revenue Offset includes all other revenues and interest income (Lines 10-11). The total revenue requirement (Line 18) is equal to the amount of rate revenue collected in FY 2026 (**Table 2-15**, Line 2).

Table 3-1: FY 2026 Revenue Requirement

Line	FY 2026 Revenue Requirement	Operating	Capital	Rev. Offset	Total
1	Revenue Requirements				
2	Operating Expenses	\$16,698,992	\$0	\$0	\$16,698,992
3	Debt Service	\$0	\$1,885,347	\$0	\$1,885,347
4	Rate Funded CIP	\$0	\$10,256,816	\$0	\$10,256,816
5	Subtotal - Revenue Requirements	\$16,698,992	\$12,142,163	\$0	\$28,841,155
6					
7	Revenue Offsets				
8	Capital Revenue	\$0	(\$409,099)	\$0	(\$409,099)
9	Capacity Rental Charge Revenue	\$0	(\$926,562)	\$0	(\$926,562)
10	All Other Revenues			(\$1,416,092)	(\$1,416,092)
11	Interest Income			(\$1,516,326)	(\$1,516,326)
12	Subtotal - Revenue Offsets	\$0	(\$1,335,661)	(\$2,932,418)	(\$4,268,079)
13					
14	Adjustments				
15	Cash to/(from) Reserves	\$0	(\$1,290,289)	\$0	(\$1,290,289)
16	Subtotal - Adjustments	\$0	(\$1,290,289)	\$0	(\$1,290,289)
17					
18	Total - Revenue Requirement	\$16,698,992	\$9,516,213	(\$2,932,418)	\$23,282,787

3.3 MASS BALANCE

The next step in the cost-of-service analysis is to complete a mass balance, which is detailed in this section. Wastewater flow data is not typically metered, which means that a mass balance must be completed in order to estimate the wastewater flow and strength for each customer class.

Wastewater flow and strength estimates are based on known data (such as total flows into the treatment plant, inflow and infiltration, commercial users water use data and strength factors) and relevant assumptions (residential wastewater use per person). Mass balances are typically used to verify the assumed flow and strength units for each customer class.

Table 3-2 shows the wastewater flow for the industrial and commercial class in FY 2025, which is the latest full year of actual data. The strength estimates are based on the current definition for each customer type in the City.

Table 3-2: Wastewater Flow and Strength Estimates

Line	FY 2025	Flow	BOD	TSS
1		hcf	mg/L	mg/L
2	Industrial/Commercial			
3	Low Strength	250,612	200	200
4	Medium Strength	150,153	450	240
5	High Strength	150,086	1,000	600

Table 3-3 shows the mass balance calculations. The total treatment plant influent flow (Line 2) is the total amount of wastewater flow and strength that entered the treatment plant in FY 2025, based on Encina’s records. Based on historical records, the inflow and infiltration (Line 3) is estimated at 4 percent. The total non-residential flow and strength data are from **Table 3-2** (Lines 3-5), converted into lbs/year. The residential flow and strength estimates (Lines 11-13) are calculated by subtracting the total non-residential flow and strength (Lines 7-9) from the net treatment plant flow and strength (Line 4). This calculation is compared with the assumed residential flow and strength from **Table 3-4** (Lines 3-4) to see if the assumptions are consistent with influent data. In this case, the difference is minimal, meaning that the flow and strength assumptions are reasonable.

Table 3-3: Mass Balance

Line	FY 2025	Flow	BOD	TSS
1		hcf/year	lbs/year	lbs/year
2	Total Treatment Plant Influent Flow	2,548,198	5,367,724	3,743,936
3	Less Inflow & Infiltration	101,928	95,441	95,441
4	Net Treatment Plant Influent Flow	2,446,270	5,272,284	3,648,495
5				
6	Industrial/Commercial	550,851	1,671,561	1,099,970
7	Low Strength	250,612	312,882	312,882
8	Medium Strength	150,153	421,789	224,954
9	High Strength	150,086	936,889	562,134
10				
11	Residential	1,895,419	3,600,723	2,548,525
12	Single Family	1,255,522	2,385,112	1,688,138
13	Multi-Family	629,322	1,195,522	846,169

3.4 UNITS OF SERVICE

Table 3-4 shows the units of service by customer class. The industrial and commercial flow and strength is taken from **Table 3-3**. The residential flow is calculated by multiplying the number of EDU (from **Table 2-2**) by 160 gpd. This number is most aligned with the results from the mass balance, indicating that the flow definition per EDU has reduced from the current assumed 200 gpd per EDU.

Table 3-4: Units of Service by Customer Class

Line	Customer Class	Flow	BOD	TSS	EDU
1		hcf/year	lbs/year	lbs/year	
2	Residential	1,896,153	3,602,118	2,549,513	27,762
3	Single Family	1,263,055	2,399,423	1,698,267	16,177
4	Multi-Family	633,098	1,202,696	851,246	11,584
5					
6	Industrial/Commercial	554,156	1,681,590	1,106,570	9,136
7	Low Strength	252,116	314,759	314,759	
8	Medium Strength	151,054	424,320	226,304	
9	High Strength	150,986	942,511	565,506	

3.5 FUNCTIONAL CATEGORIES

After determining the revenue requirement and units of service, the next step in the cost-of-service analysis is to allocate the City’s costs into various functional categories. These categories represent the main functions of the City’s wastewater system and include:

- **Collection:** costs related to the wastewater collection system
- **Treatment:** costs related to treating wastewater
- **Water Quality Protection:** costs related to stormwater services
- **General:** costs that are not directly attributable to any other functional category
- **Revenue Offset:** non-rate revenue that can be used to offset a portion of the rate

WRE evaluated and allocated the operating expenses for FY 2026 (**Table 2-6**) to the most closely associated functional categories within the wastewater system, as shown in **Table 3-5**. The detailed allocation of the operating expense budget to the functional categories is included in the **Appendix**.

Table 3-5: Operating Costs by System Function

Line	Cost Function	Operating Expenses	Percent of Total
1	Collection	\$6,182,296	37.0%
2	Treatment	\$7,703,572	46.1%
3	General	\$2,813,124	16.8%
4	Total	\$16,698,992	100.0%

WRE evaluated and allocated the City’s CIP (**Table 2-8**) to the most closely associated functional categories within the wastewater system, as shown in **Table 3-6**. The detailed allocation of the capital assets to the functional categories is included in the **Appendix**.

Table 3-6: Capital Expenses by System Function

Line	Cost Function	Capital Expenses	Percent of Total
1	Collection	\$43,345,676	47.3%
2	Treatment	\$46,937,711	51.3%
3	General	\$1,282,160	1.4%
4	Total - Capital	\$91,565,547	100.0%

Table 3-7 shows the percentage cost allocation for each functional category into the various cost components. The City’s wastewater system has five main functions: Flow, BOD, TSS, General, and Water Quality Protection. WRE worked with City staff to determine the cost allocation for each of the system functions. Collection costs (Line 1) are allocated entirely to Flow. Treatment costs (Line 2) are allocated partially to Flow with the remainder split between BOD and TSS. General costs (Line 3) are entirely allocated to General, and Water Quality Protection costs (Line 4) are allocated entirely to Water Quality Protection.

Table 3-7: Functional Cost Allocation

Line	Cost Function	Flow	BOD	TSS	General	Water Quality Protection	Total
1	Collection	100%	0%	0%	0%	0%	100%
2	Treatment	24%	38%	38%	0%	0%	100%
3	General	0%	0%	0%	100%	0%	100%
4	Water Quality Protection	0%	0%	0%	0%	100%	100%

3.6 OPERATING COST ALLOCATION

Table 3-8 shows the operating cost allocation by cost component. The functionalized operating expenses from **Table 3-5** are allocated based on the cost component allocation factors in Table 3-7. The operating allocation (Line 5) is derived from the total operating expenses by cost component (Line 4) and represents the proportion of the Operating revenue requirement that will be allocated to each cost component.

Table 3-8: Operating Cost Allocation

Line	Operating Expenses	Flow	BOD	TSS	General	Water Quality Protection	Total
1	Collection	\$6,182,296	\$0	\$0	\$0	\$0	\$6,182,296
2	Treatment	\$1,820,369	\$2,941,601	\$2,941,601	\$0	\$0	\$7,703,572
3	General	\$0	\$0	\$0	\$2,813,124	\$0	\$2,813,124
4	Total - Operating	\$8,002,665	\$2,941,601	\$2,941,601	\$2,813,124	\$0	\$16,698,992
5	Operating Cost Allocation	47.9%	17.6%	17.6%	16.8%	0.0%	100.0%

3.7 CAPITAL COST ALLOCATION

Table 3-9 shows the capital cost allocation by cost component. The functionalized capital assets from **Table 3-6** are allocated based on the cost component allocation factors in **Table 3-7**. The capital allocation (Line 5) is derived from the total CIP by cost component (Line 4) and represents the proportion of the Capital revenue requirement that will be allocated to each cost component.

Table 3-9: Capital Cost Allocation

Line	Capital Expenses	Flow	BOD	TSS	General	Water Quality Protection	Total
1	Collection	\$43,345,676	\$0	\$0	\$0	\$0	\$43,345,676
2	Treatment	\$11,091,473	\$17,923,119	\$17,923,119	\$0	\$0	\$46,937,711
3	General	\$0	\$0	\$0	\$1,282,160	\$0	\$1,282,160
4	Total - Capital	\$54,437,149	\$17,923,119	\$17,923,119	\$1,282,160	\$0	\$91,565,547
5	Capital Cost Allocation	59.5%	19.6%	19.6%	1.4%	0.0%	100.0%

3.8 REVENUE REQUIREMENT ALLOCATION

Table 3-10 shows the cost-of-service allocation prior to any adjustments and the adjusted cost-of-service allocations after the General cost reallocation. The Operating costs (Line 1) are equal to the total Operating revenue requirements (**Table 3-1**, Line 18) allocated to each cost component based on the Operating allocation (**Table 3-8**, Line 5). The Capital costs (Line 2) are equal to the total Capital revenue requirements (**Table 3-1**, Line 18) allocated to each cost component based on the Capital allocation (**Table 3-9**, Line 5). The Revenue offset (Line 3) is equal to the total Revenue Offset revenue requirements (**Table 3-1**, Line 18). Note that the total cost-of-service (Line 4) is equal to the total rate revenue requirement for FY 2026 (**Table 3-1**, Line 18).

The next step is to reallocate General costs (Line 5) based on the proportion of costs in each cost component (except General and Revenue Offset) in the initial allocation. The total revenue requirement (Line 6) stays the same after the General cost reallocation.

Table 3-10: Revenue Requirement Allocation

Line	Revenue Requirement	Flow	BOD	TSS	General	Water Quality Protection	Revenue Offset	Total
1	Operating Costs	\$8,002,665	\$2,941,601	\$2,941,601	\$2,813,124	\$0	\$0	\$16,698,992
2	Capital Costs	\$5,657,538	\$1,862,712	\$1,862,712	\$133,252	\$0	\$0	\$9,516,213
3	Revenue Offsets	\$0	\$0	\$0	\$0	\$0	(\$2,932,418)	(\$2,932,418)
4	Total - COS (Initial)	\$13,660,203	\$4,804,313	\$4,804,313	\$2,946,376	\$0	(\$2,932,418)	\$23,282,787
5	General Cost Allocation	\$1,729,700	\$608,338	\$608,338	(\$2,946,376)	\$0	\$0	\$0
6	Total - COS (General)	\$15,389,903	\$5,412,651	\$5,412,651	\$0	\$0	(\$2,932,418)	\$23,282,787

3.9 UNIT COST DERIVATION

Table 3-11 shows the unit cost calculations for each cost component based on the revenue requirement allocation results (**Table 3-10**). The Final COS (Line 1) is divided by the units of service for

each cost component (Line 3) to arrive at the unit cost per component (Line 6). Units of service are from **Table 3-4**. Flow and Revenue Offset costs are divided by total hcf of estimated wastewater flow for all classes. BOD costs are divided by total lbs of BOD per year for all classes, and TSS costs are divided by total lbs of TSS per year for all classes.

Table 3-11: Unit Cost Calculations

Line	Unit Cost	Flow	BOD	TSS	Revenue Offset
1	Final COS	\$15,389,903	\$5,412,651	\$5,412,651	(\$2,932,418)
2					
3	Units of Service	2,450,309	5,283,708	3,656,082	2,450,309
4	Units	hcf	lbs/yr	lbs/yr	hcf
5					
6	Unit Cost	\$6.28	\$1.02	\$1.48	(\$1.20)
7	Units	hcf	lbs/yr	lbs/yr	hcf

3.10 COST-OF-SERVICE BY CUSTOMER CLASS

Table 3-12 shows the total COS by customer class and cost component. The unit costs for each cost component (**Table 3-11**) are multiplied by the units of service (**Table 3-4**) to determine the total cost for each class. Note that the total COS (Line 10) is equal to the total rate revenue requirement (**Table 3-1**, Line 18).

Table 3-12: Cost-of-Service by Customer Class

Line	Customer Class	Flow	BOD	TSS	Revenue Offsets	Total
1	Residential					
2	Single Family	\$7,932,996	\$2,457,978	\$2,514,201	(\$1,511,566)	\$11,393,609
3	Multi-Family	\$3,976,364	\$1,232,046	\$1,260,228	(\$757,663)	\$5,710,975
4						
5	Industrial/Commercial					
6	Low Strength	\$1,583,488	\$322,441	\$465,986	(\$301,720)	\$2,070,194
7	Medium Strength	\$948,739	\$434,675	\$335,032	(\$180,774)	\$1,537,672
8	High Strength	\$948,315	\$965,512	\$837,205	(\$180,694)	\$2,570,338
9						
10	Total	\$15,389,903	\$5,412,651	\$5,412,651	(\$2,932,418)	\$23,282,787

4. WASTEWATER RATES

4.1 WASTEWATER RATE OVERVIEW

The proposed wastewater rate schedule was developed based on the results of the proposed financial plan and cost-of-service analysis. The key steps in developing the proposed rate schedule are outlined below:

- **Test year rate development:** Rates are calculated under the proposed rate structure for the cost-of-service test year (FY 2026). Rate calculations directly incorporate the unit costs developed in the cost-of-service analysis. The test year rates are first calculated on a revenue neutral basis and are then increased based on the proposed financial plan revenue adjustments. Although total rate revenues in the first year of adjustments (FY 2027) are designed to increase by the proposed revenue adjustment percentage (5.5% in FY 2027), the proposed percentage increase to each rate/charge varies due to the updated cost-of-service allocations.
- **Rate schedule development:** Proposed rates for the full study period are calculated by increasing the cost-of-service rates by the proposed annual revenue adjustment percentages from the proposed financial plan.

4.2 PROPOSED CHANGES TO THE RATE STRUCTURE

The main objective of the rate study was to conduct a comprehensive cost-of-service analysis while maintaining as much of the current wastewater rate structure as possible to minimize customer impacts. The City's current wastewater rate structure includes an annual service charge based on customer class and a variable rate for commercial/industrial customers based on annual usage.

After examining current customer classification and discussion with City staff regarding customer usage patterns, WRE recommends the following changes:

- Reducing the gallons per day (gpd) definition from 200 gpd per EDU to 160 gpd due to reductions in wastewater flow.
- Currently, the City provides laundry and car wash discounts to customers who request a variance due to their water recirculation practices. However, upon further investigation, it was found that all discharge for these facilities enters the wastewater system. Thus, no discount should be offered.
- Among the commercial customers, some have separate irrigation meters, and some do not. For customers with separate irrigation meters, the City should bill based on the actual water usage since irrigation is accounted for in a separate meter. For customers without irrigation meters, the City should bill based on the lowest two months of water usage to account for irrigation usage which does not enter the wastewater system.

4.3 REVENUE ADJUSTMENTS

Table 4-1 shows the annual revenue adjustments based on the proposed financial plan scenario. The revenue neutral COS charges are increased by the revenue adjustments to determine the proposed wastewater rates.

Table 4-1: Proposed Revenue Adjustments

Line	Fiscal Year	Revenue Adjustments	Effective Date	
1	FY 2027	5.5%	7/1/2026	Proposed
2	FY 2028	5.5%	7/1/2027	Proposed
3	FY 2029	5.5%	7/1/2028	Proposed
4	FY 2030	5.5%	7/1/2029	Forecasted
5	FY 2031	5.5%	7/1/2030	Forecasted

4.4 WASTEWATER RATE CALCULATION

Table 4-2 shows the revenue-neutral residential annual service charge rate calculation based on the revenue requirement (**Table 3-12**) and the number of EDUs in each customer class (**Table 3-4**).

Table 4-2: Residential Rates Calculation

Line	Customer Class	Revenue Requirement	Number of EDUs	Revenue Neutral Rate (\$/EDU)
1	Residential			
2	Single Family	\$11,393,609	16,177	\$704.29
3	Multi-Family	\$5,710,975	11,584	\$493.00

Table 4-3 shows the revenue-neutral industrial/commercial annual service charge rate calculation based on the revenue requirement (**Table 3-12**) and the number of EDUs and amount of flow in each customer class (**Table 3-4**). The current fixed charge represents approximately 30 percent of the total rate revenue. To minimize changes, WRE retained the 30 percent allocation for the fixed charge. The variable rate recovers the remaining 70 percent of the revenue requirement.

Table 4-3: Industrial/Commercial Rates Calculation

Line	Customer Class	Revenue Requirement	Fixed Charge	Variable Rate	# of EDUs	Flow (hcf)	Revenue Neutral Rate
1	Industrial/Commercial	\$6,178,204	\$1,853,461	\$4,324,742	9,136		\$202.86
2	Low Strength	\$2,070,194	\$621,058	\$1,449,136		252,116	\$5.75
3	Medium Strength	\$1,537,672	\$461,302	\$1,076,370		151,054	\$7.13
4	High Strength	\$2,570,338	\$771,101	\$1,799,236		150,986	\$11.92

4.5 PROPOSED RESIDENTIAL WASTEWATER CHARGE

Table 4-4 shows the proposed residential annual service charges for FY 2027 based on the results of the proposed financial plan and the COS analysis. The revenue neutral rate (**Table 4-2**) is increased by the FY 2027 revenue adjustment in **Table 4-1** to arrive at the proposed FY 2027 wastewater rate.

Table 4-4: Proposed Residential Wastewater Charge after Adjustment

Line	Customer Class	Revenue Neutral Rate (\$/EDU)	FY 2027 Adjustment	Proposed Wastewater Charge (\$/EDU)
1	Residential - City			
2	Single Family	\$704	5.5%	\$744
3	Multi-Family	\$493	5.5%	\$521

4.6 PROPOSED COMMERCIAL WASTEWATER CHARGE

Table 4-5 shows the proposed industrial/commercial annual service charges for FY 2027 based on the results of the proposed financial plan and the COS analysis. The revenue neutral rate (**Table 4-3**) is increased by the FY 2027 revenue adjustment in **Table 4-1** to arrive at the proposed FY 2027 wastewater rate.

Table 4-5: Proposed Commercial Wastewater Charge after Adjustment

Line	Industrial/Commercial	Unit	Revenue Neutral Rate (\$/EDU)	FY 2027 Adjustment	Proposed Wastewater Charge (\$/EDU)
1	Fixed Portion				
2	City Limits	per EDU owned	\$203	5.5%	\$215
3					
4	Strength Portion				
5	Low Strength	per HCF	\$5.75	5.5%	\$6.07
6	Medium Strength	per HCF	\$7.13	5.5%	\$7.52
7	High Strength	per HCF	\$11.92	5.5%	\$12.58

4.7 PROPOSED CAPACITY RENTAL CHARGE

Table 4-6 shows the capacity rental charge calculation, which is applied to all commercial/industrial customers who exceeded their owned capacity based on their wastewater flow.

WRE retained the same methodology as the previous rate study as it is based on industry accepted methodology for a capacity rental charge calculation.

Currently, customers who exceed their owned EDU capacity are renting additional capacity from the City. Thus, the capacity rental charge is calculated on the “utility basis approach”, which includes a weighted average cost of capital (WACC).

The Rate of Return (Line 4) is calculated by multiplying the WACC (Line 1) by the total assets owned by the City (Lines 2-3). Annual depreciation of those assets is added to the Rate of Return (Line 4) to arrive at the Total Rate of Return (Line 8).

The Total Rate of Return (Line 8) is divided by the total number of EDUs in the system to arrive at the annual rate of return per EDU (Line 11). Finally, the FY 2025 annual rate of return per EDU is inflated to FY 2027 dollars using the projected ENR annual construction cost index.

Table 4-6: Proposed Capacity Rental Charge Calculation

Line	FY 2025 Values	
1	Weighted Average Cost of Capital (WACC)	4.92%
2	City of Vista Fixed Assets	\$164,008,229
3	Encina Wastewater Authority Assets	\$46,434,126
4	Rate of Return	\$10,353,764
5	Annual Depreciation	
6	City of Vista	\$8,677,120
7	Encina Wastewater Authority	\$3,866,165
8	Total Rate of Return	\$22,897,049
9		
10	Total Number of EDUs	36,678
11	Annual Rate of Return per EDU	\$624.27
12	Projected ENR Index Increase (2026 - 2027)	107.4%
13	Annual Rate of Return per EDU (FY 2027)	\$671.00

4.8 PROPOSED WASTEWATER RATE SCHEDULE

The proposed three-year sanitation rate schedule is based on the updated COS analysis and the proposed revenue adjustments in the three-year period. **Table 4-7** shows the proposed wastewater rates to be implemented in July 2026 through July 2028.

Table 4-7: Proposed Sanitation Rates Schedule

Line			Current Rate	7/1/2026	7/1/2027	7/1/2028
1	Residential					
2	Single Family	per unit/year	\$708	\$744	\$785	\$829
3	Multi-Family	per unit/year	\$495	\$521	\$550	\$581
4						
5	Industrial/Commercial					
6	Fixed Portion	per EDU owned	\$177	\$215	\$227	\$240
7						
8	Strength Portion					
9	Low Strength	per HCF	\$6.56	\$6.07	\$6.41	\$6.77
10	Medium Strength	per HCF	\$7.70	\$7.52	\$7.94	\$8.38
11	High Strength	per HCF	\$11.00	\$12.58	\$13.28	\$14.02
12						
13	Capacity Rental Charge	per excess EDU used	\$546	\$671	\$671	\$671

4.9 CUSTOMER IMPACTS

Table 4-8 shows the monthly residential customer impacts based on the first year of proposed wastewater rates. Residential single-family customers will see an annual increase of \$36 or \$3 per month and multi-family customers will see an annual increase of \$26 or \$2.17 per month.

Table 4-8: Proposed Residential Customer Impacts

Line	Customer Class	Current Bill	Proposed Bill	Difference (\$)	Difference (%)
1	Residential - Vista				
2	Single Family	\$708	\$744	\$36	5.08%
3	Multi-Family	\$495	\$521	\$26	5.25%
4	Weighted Average				5.14%

5. APPENDIX

Table 5-1: O&M Allocation

Line	O&M Allocation	FY 2026	Collection	Treatment	General	Water Quality Protection
1	Vista Sewer Operations & Maintenance					
2	Salaries & Benefits	\$4,443,228	100%			
3	Professional Services	\$1,348,155	100%			
4	Encina Treatment Facility	\$7,703,572		100%		
5	Operating Expenses	\$305,434	100%			
6	Utilities	\$85,479	100%			
7	Allocated Costs	\$2,757,444			100%	
8	Capital Outlay	\$55,680			100%	
9	Transfers to Other Funds					
10	Total - Vista Sewer Operations & Maintenance	\$16,698,992	\$6,182,296	\$7,703,572	\$2,813,124	\$0

Table 5-2: Capital Allocation

Line	CIP Allocation	6-year Total	Collection	Treatment	General	Water Quality Protection
1	Vista Sewer Capital Replacement (Fund 503)					
2	Encina Wastewater Authority Capital Improvement Project	\$46,937,711		100%		
3	Vista Pipeline Rehabilitation	\$3,000,000	100%			
4	VC2: Vista/Carlsbad Interceptor Rehab	\$0	100%			
5	OV1: Pipeline Access Improvements	\$0	100%			
6	VC3: Vista/Carlsbad Interceptor Sewer Upsize	\$12,008,596	100%			
7	Buena Vista Pump Station Replacement	\$5,804,298	100%			
8	FOG Abatement Raceway Pump Station	\$0	100%			
9	Raceway Pump Station Emergency Overflow Basin Repair	\$0	100%			
10	Sewer Master Plan	\$0			100%	
11	Via Centre Capacity Improvement	\$800,000	100%			
12	South Santa Fe Capacity Improvement	\$500,000	100%			
13	Public Works Building C Improvements	\$1,282,160			100%	
14	North Santa Fe Ave - East Dr to Washington St	\$7,471,639	100%			
15	North Melrose Dr - Copper Dr to West Vista Way	\$5,274,098	100%			
16	Hill Dr and Flower Ln up to Tylee St	\$1,607,344	100%			
17	North Santa Fe Ave - W Bobier Dr to W Indian Rock Rd	\$1,004,590	100%			
18	E Broadway - S Citrus Ave to S Santa Fe Ave/Veterans Park	\$3,169,147	100%			
19	Maryland Dr. and Olive Ave. to Melrose Dr.	\$2,705,964	100%			
20	Total - Vista Sewer Capital Replacement	\$91,565,547	\$43,345,676	\$46,937,711	\$1,282,160	\$0

Table 5-3: Encina Cost Allocation

Line	Encina Cost Allocation	FY 2026	Flow	BOD	TSS
1	Vista				
2	Encina Water Pollution Control Facility	\$5,403,604		50%	50%
3	Source Control	\$440,000		50%	50%
4	Agua Hedionda Lift Station	\$505,457	100%		
5	Buena Vista Pump Station	\$930,235	100%		
6	Raceway Basin Pump Station	\$328,328	100%		
7	Total Vista	\$7,607,624	\$1,764,020	\$2,921,802	\$2,921,802
8			23.2%	38.4%	38.4%
9	Buena				
10	Encina Water Pollution Control Facility	\$2,069,694		50%	50%
11	Source Control	\$147,285		50%	50%
12	Buena Creek Pump Station	\$702,898	100%		
13	Total Buena	\$2,919,877	\$702,898	\$1,108,490	\$1,108,490
14			24.1%	38.0%	38.0%
15					
16	Encina Treatment Allocation (Average)		24%	38%	38%