



BUSINESS ACTION ITEM STAFF REPORT

ITEM 6B. ADOPTION OF RESOLUTION 24-XXX FOR DISSOLUTION OR RESOLUTION 24-XXX FOR DIVESTITURE. DISCUSS, REVIEW, AND ADOPT A RESOLUTION DIRECTING STAFF TO PREPARE A RESOLUTION OF APPLICATION FOR DISSOLUTION, OR ADOPT A RESOLUTION DIRECTING STAFF TO PREPARE A RESOLUTION OF APPLICATION FOR DIVESTITURE.

Summary:

The San Simeon Community Services District (“District”), formed in 1961, provides water, sewer, road maintenance, street lighting, and weed abatement to approximately four hundred (400) residents and transient visitors. The District has had ongoing challenges in providing these services as a consequence of staffing and administrative difficulties.

As part of providing services, the District is required to meet regulatory requirements for its infrastructure. Due to Coastal Commission requirements, the District is faced with the need to move its wastewater treatment plant away from its current location, near the ocean, as it has become increasingly clear that ocean tide levels continue to rise. The costs to comply with Coastal Commission requirements are estimated to be around Twenty Million Dollars (\$20,000,000), far exceeding the District’s annual budget of approximately One Million Two Hundred Thousand Dollars (\$1,200,000). Grant funding is necessary to meet these requirements and serve the District’s disadvantaged community. The County of San Luis Obispo is far better equipped to secure the needed funding.

Beyond the fiscal difficulties the District faces, the District has also faced challenges in providing continuity of services at an administrative level. In 2022, the District Board of Directors (“Board”) passed Resolution 22-446, transitioning to a district-based electoral system to comply with the California Voting Rights Act. This has limited the number of eligible candidates to serve on the Board, and the District has struggled to maintain a full five-member Board. Currently, the District continues to operate with a four-member Board, with a Board Vice-Chair, serving as the Board Chair, and an Interim General Manager. In addition, the District has faced investigations from the Fair Political Practices Commission (“FPPC”) and the San Luis Obispo District Attorney’s Office which resulted in abrupt changes to management, administration, and operations of the District. Further, addressing development-related activities and legal actions against the District are continuing issues the District lacks the resources to address.

The District is considering its options to apply to the San Luis Obispo Local Agency Formation Commission (“LAFCO”) to either cease providing wastewater and water services through divestiture of those powers in the District or to dissolve as a special district. The District may dissolve or divest in accordance with the process set forth in the Cortese-Knox-Hertzberg Local Government Reorganization Act of 2000 (the “Reorganization Act”), Government Code Section 56000 – 57550. The dissolution of a district is the disincorporation, extinguishment, or termination of the district’s existence and the cessation of all its corporate powers. Divestiture is the elimination of a power or divesting a district’s power to another agency.

Under the Reorganization Act, a proposal for either dissolution or divestiture must be made by a Resolution of Application by the District’s Board of Directors (“Board”) and must be submitted with a plan for services prepared pursuant to Government Code section 56653. Among other requirements, the plan for services must include a proposal identifying a successor agency that would take over providing the District’s services. Once LAFCO receives the proposal from the District, it must take action on the application after conducting a public hearing. (Gov. Code § 56824.14(a).) However, before LAFCO can recommend approval of the proposal, the proposed successor agency must agree to absorb responsibility for providing the District’s services.

The LAFCO Executive Director explained during the Board meeting on December 7, 2023, that the dissolution or divestiture application process can take nine (9) to twelve (12) months or longer. The most logical successor agency would be the County of San Luis Obispo (“County”). During the Board meeting on December 7, 2023, District 2 Supervisor for the County, Bruce Gibson, indicated that although the County’s Board of Supervisors ultimately would decide whether the County agrees to take responsibility for the District’s services, Mr. Gibson was willing to help facilitate any necessary conversations between the District and the County to assist the District’s efforts. The proposed resolutions highlight the District’s urgent need for dissolution or divestiture and the need for assistance from the County to move either process forward.

Board Actions:

1. The Board may approve the Resolution for Dissolution, or the Board may approve the Resolution for Divestiture.
2. The Board may approve the Resolution for Dissolution or the Resolution for Divestiture, subject to any changes as directed by the Board; or
3. The Board may reject both Resolutions in their entirety.