

## **San Simeon Community Services District Dissolution Application – Plan for Services**

### **Summary:**

This section of the dissolution application provides the plan for services. The plan is for a complete transfer of San Simeon Community Services District’s (“San Simeon CSD” or “District”) present active services, which include water, wastewater treatment, road maintenance, street lighting, and weed abatement, to the County of San Luis Obispo (“County”). The proposal requires the formation of a new county service area (“CSA”). There would be no change in the level of services provided or in the boundaries of the affected territory.

San Simeon CSD would be dissolved, and a new CSA would be formed to provide the services. This would involve transferring management, administration, operations, and financial responsibilities from the District to the CSA.

Although not directly requested in the plan for services under Government Code section 56653, it is important to note that San Simeon CSD does NOT have employees. All management, administration, and operations services are provided via independent contractors on limited term contracts that would terminate upon dissolution of the District.

However, transferring the Fluid Resources Management contract for water and wastewater operations to the county would seem prudent and could be negotiated directed with Fluid Resources Management. The continuity of the San Simeon community’s water and wastewater services during the transition is critical.

Regional Government Services (“RGS”) is involved with San Simeon CSD financial accounting and may be a valuable resource during the transition. The part-time bookkeeper contractor may also be helpful during this period.

The plan for services below aligns with the sub-sections identified in Government Code section 56653 and the optional supplemental responses in Government Code section 56824.12(a).

### **Plan For Services - Gov. Code § 56653**

Gov. Code § 56653 (b) (1): Enumeration and description of the services currently provided; and Gov. Code. § 56653 (b) (2): Level and range of services.

Exhibit 4.1 is the 2018 San Simeon CSD Master Plan and provides details on the District’s present services, plans for those services, and estimated infrastructure upgrade costs.

To assist in the evaluation, selected in-progress and planned actions are outlined below.

### Water

San Simeon CSD provides potable water to eleven visitor-serving hotels and residents within the 105-acre community. Approximately 230 water connections are serving 450 residents, 1,100 hotel rooms. and restaurants.

Exhibit 4.2 is San Simeon CSD's Amended License for Diversion and Use of Water PERMIT 12465 LICENSE 12272.

The District can withdraw up to 140 acre-feet annually from the Pico Creek water basin. Present usage averages 77 acre-feet per year. Hotels consume approximately 65% of the water. Hotel water usage peaks during summer and holidays, which can double the average.

Exhibit 4.3 is the Superintendent's Report Data Summary Sheet from December 2022, showing monthly treatment volumes for 2021 and 2022.

The District operates two wells located downslope of the District office adjacent to the Pico Creek lagoon. Each well can produce 300 gallons per minute of water. An aging generator backs up the two main wells.

A third standby well is located on the Hearst Ranch and rented from Hearst Corp. The District pays Hearst Corp. \$10,000 annually for this emergency standby well. The well has not been used for over ten years, so its need is questionable.

Besides the well-pumping and disinfection facilities, the District has two smaller (3-cartridge) Harmso filtration vessels. These filtration units are used during the rainy season. One unit is a pre-filter, and the second provides final filtration using certified LT-2 cartridges. Historically, during the heaviest rains, the capabilities of these small filter vessels have been exceeded. Rain flows rapidly down from Rocky Butte into Pico Creek, washing dirt and fine particles into the creek, causing turbidity levels to rise. In February 2024, the turbidity levels exceeded allowable limits by a small amount, and a citation was issued by the Division of Drinking Water to the San Simeon CSD. At this time, there are no plans to increase filtration capabilities. The Division of Drinking Water is monitoring the situation.

In 2016-2017, the District installed a Wigen Water Technologies Water reverse osmosis desalination facility. It was a \$1 million facility, including the containment building. State and Federal grants provided funding. The unit can treat 300 gallons per minute of water with chloride (salt) levels up to 3,000 mg/liter. Over the past eight years, the unit has seen limited use of approximately sixteen weeks. Its use may be required at the end of the hotel's peak visitor season and before the first rain when the wells are the lowest and seawater intrudes the Pico Creek lagoon. This facility does not have a generator backup.

The RO/Desalination facility was partially built on Hearst Corp. property without authorization or a boundary survey. It took some time to obtain an encroachment

easement agreement from Hearst Corp. The district now pays \$5,000 annually for an easement.

The San Simeon CSD's Master Plan calls for water tanks to be installed for fire protection, health, and safety. Hearst Corp. delayed issuing an easement for the District's water tanks until the RO/Desalination facility encroachment was resolved. Unfortunately, in the meantime the County and the State Water Resources Board rescinded grant funding for the District's new water tank due to these encroachment-related delays.

The San Simeon CSD's water storage currently consists of a single 150,000-gallon in-ground reservoir. It is a very old, end-of-life reservoir. It is a wood-covered, plastic-lined concrete unit located on Hearst Corp. property. An open-ended lease agreement for its location exists with Hearst Corp. that terminates when the reservoir is no longer used for its intended purpose.

A 150,000-gallon storage tank is inadequate fire suppression. The district has been planning to install new steel tank water storage facilities for many years. A request for bids for a new steel tank on Hearst Corp. property was issued in 2019. Unfortunately, as noted above, the grant funding was rescinded due to unresolved encroachment issues.

The community water supply is gravity-fed from the reservoir and distributed primarily via six-inch asbestos cement water lines, which have an estimated life of 50-70 years. Eight-inch water lines are the present standard for residential areas. The San Simeon CSD Master Plan provides details on existing and future water lines (see Exhibit 4.1).

The District contracted with Fluid Resource Management of Arroyo Grande for the District's water and wastewater services. The three-year contract began in late 2023. The contract has two one-year optional extensions.

A District challenge is lifting the nearly forty-year water moratorium. As part of a 2022 Federal Court settlement, a will-serve was issued for fifteen condominium units on Avonne Avenue. However, for any development to proceed, the County must amend the North Coast Area Plan to allow for development, which entails approval from the County and California Coastal Commission ("CCC"). The District has conducted two required studies. However, the CCC and County have not approved the amendment to the North Coast Area Plan that would allow development. The property owner the San Simeon CSD settled with demands that more progress be made lifting the moratorium.

A second will-serve letter was issued to a large hotel corporation and holdings company in San Simeon for 145 hotel units and a restaurant. It was an unusual settlement agreement in that the will-serve letter was issued in perpetuity and specified an allocation of ten acre-feet per year of water. A large water meter has already been installed. Nearly \$700,000 was paid in connection fees based on the corporation's calculations. These fees appear to

have been miscalculated and understated by approximately \$110,000. This matter remains open.

Lifting the moratorium is a major challenge for the District. The District has no experience with development and no staff to manage development. The larger developers and companies that have filed lawsuits against the San Simeon CSD have experience and legal resources that the District cannot match or compete against, as evidenced by both settlements.

### Wastewater Treatment

San Simeon CSD processes wastewater for hotels, restaurants, and residents within its boundaries. In addition, the District processes wastewater from State Parks Hearst Castle operations and nearby old San Simeon area Hearst Corp.

Exhibit 4.4 is the California Regional Water Quality Control Board's "WASTE DISCHARGE REQUIREMENTS ORDER NO. R3-2022-0003, NATIONAL POLLUTANT DISCHARGE ELIMINATION SYSTEM (NPDES) PERMIT NO. CA0047961 – SAN SIMEON COMMUNITY SERVICES DISTRICT, WASTEWATER TREATMENT PLANT, SAN LUIS OBISPO"

The existing wastewater treatment plant uses conventional-activated sludge technologies and has a design capacity of 200,000 gallons per day ("GPD") to its present capacity. The treatment plant has an older but still operational generator.

Exhibit 4.5 is a report showing monthly treatment volumes for 2021 and 2022.

Under the existing permit, the District is authorized to produce recycled water. It did so for a few years but then ceased production due to a lack of usage and the availability of nearby Cambria non-potable water. The recycling facilities remain in place but are idle.

Relative to active maintenance of the existing wastewater facilities, an aging pipe bridge carrying wastewater to the plant needs replacement. The bridge was poorly maintained for many years. Temporary repairs were made in 2022. Engineering work for a replacement bridge has been completed. Permitting for the replacement is needed, along with the issuance of bids for construction and installation. This is considered a high-priority project.

Exhibit 4.6 is Coastal Development Permit CDP 3-19-0020, dated July 18, 2019. This permit allows the continued use of the present wastewater treatment facility for up to twenty years, subject to its relocation away from the coast within those twenty years. Other terms and conditions apply, including formal five-year progress reviews. The first review is due July 11, 2024.

The permit required the completion of a Coastal Hazards Response Plan ("CHRP"), including a plan for relocating the treatment plant. The CHRP was due by July 11, 2022. One two-year extension was granted to July 11, 2024, but it will also not be met. With CCC

acknowledgment, this study has been placed on hold during the District's dissolution process. It is important to note that the County obtained a Local Coastal Program grant to fund part of the District's costs and the County's costs in the development of the CHRP for changes to the County General Plan.

Selecting the site of a new treatment facility has been controversial. The hotels, certain developers, and the prior District board majority wanted to see it tightly fit into an existing residential area away from their properties. The new Board majority (post-2022 elections) opposed that location. The current Board passed a resolution to stop further consideration of sites within District boundaries. Preliminary and encouraging discussions have been held with Hearst Corp. for a location on their property. The new treatment plant would be collocated with the District's new water tanks. This proposed site is in an area that Hearst Corp. had preliminarily found acceptable. I

Over fifty years ago, State Parks paid San Simeon CSD to increase the wastewater treatment plant's capacity from 150,000 to its present 200,000 GPD to process wastewater associated with the Hearst Castle Visitor's Center. The fifty-year agreement ended two or three years ago. A new State Parks wastewater agreement is pending. Under the original agreement, State Parks was billed at a special rate based on a percentage of total operational costs. The San Simeon CSD's plan is to take State Parks to a standard usage billing rate. Despite having twenty-five percent of the plant's capacity dedicated to State Parks wastewater treatment, Parks has not participated in any of the planning for the new treatment plant nor offered to pay any of the study costs.

The District is looking into the treatment of Hearst Corp. wastewater. It was recently discovered that San Simeon CSD has been processing nearby Hearst Corp. wastewater without the District's knowledge. The amount processed may be from 3,000 to 5,000 GPD. The wastewater appears to have been generated in the old San Simeon area by Sebastians restaurant, the Hearst wine-tasting operations, and ranch housing. Hearst Corp. wastewater treatment is complex because there is only a single 3-mile pipeline from the old San Simeon area and Hearst Castle operations to San Simeon CSD. Hearst Corp. wastewater is comingled with State Parks wastewater, and there is only a single billing to State Parks that apparently includes Hearst Corp. wastewater processing without San Simeon CSD's knowledge. The District has requested State Parks records showing the arrangement between State Parks and Hearst Corp. At this time, Sate Parks has failed to produce any records or agreements.

A beach access stairway and viewing area at the west end of Pico Avenue involves an unresolved wastewater permit issue. The District does not have parks and recreation authority, and the stairway and viewing area construction and its maintenance therefore should never have been within the District's authority. Nonetheless, in 1985, the CCC approved a Coastal Development Permit for the wastewater treatment facility conditioned

on the District maintaining the stairway and viewing area and obtaining an offer of dedication from the land owner.

The concrete beach access stairway had become unsafe and was partially closed by the District in late 2022 or 2023. The matter quickly became more complex because the stairway and part of the viewing area are on private property and outside District boundaries. There was mention of a handshake agreement between the District and a previous landowner for the District to maintain the stairway, but no documentation of this agreement or an easement agreement can be found. The District has not obtained an easement from the property owner. Further, despite knowledge of the encroachment, the District obtained a FEMA grant for armoring the bluff to protect the viewing area. The California Governor's Office of Emergency Services is investigating the funding for the FEMA grant because of false statements made on the application. The pursuit of prescriptive easement rights has been considered but is also pending because there is concern that the stairway may not be repairable in its present location due to sea level rise.

The CCC has issued a notice of violation to the District for failure to maintain the stairway and viewing area. Enforcement action is on hold pending the dissolution of San Simeon CSD. Exhibit 4.7 is the CCC violation notice and provides additional historical information.

#### Road Maintenance

There are approximately two miles of District-maintained roads in San Simeon, which are in the residential areas. The hotels and restaurants front County-maintained roads paralleling Coast Highway 1.

The district-maintained roads are in disrepair. They were not constructed to County standards, and little has been spent on maintenance. Looking at the audit reports for the period of 2016-22, approximately \$13,000 was spent on average annually on maintenance, far less than would be expected to adequately maintain the roads.

Along with numerous potholes, some larger areas of pavement need replacement. Repair quotes will be obtained when the rains cease. The County has assisted the District's interim general manager by providing a list of approved paving companies.

#### Street Lighting

Street lighting is provided and maintained by PG&E.

#### Weed Abatement

Weed abatement primarily consists of annual weed cutting, as required by CalFire. The District sends notices to lot owners for the required abatement.

#### Solid Waste

The San Simeon CSD underwent the LAFCO process to obtain solid water authority to assist with road repair costs, but the District never executed a franchise agreement with the solid waste hauling company. The District has never exercised its solid waster authority.

Gov. Code § 56653 (b)(3): An indication of when those services can feasibly be extended to the affected territory, if new services are proposed.

This section does not apply. No new services are proposed.

Gov. Code § 56653 (b)(4): An indication of any improvement or upgrading of structures, roads, sewer or water facilities, or other conditions the local agency would impose or require within the affected territory if the change of organization or reorganization is completed.

No improvements, upgrades, or other conditions would be imposed. Since the dissolution of San Simeon CSD and the creation of a CSA are for the same territory and the same services, no improvements or upgrades within the affected territory are conditions of the dissolution and establishment of a CSA.

Gov. Code § 56653 (b)(5): Information with respect to how those services will be financed.

The same services as provided today by San Simeon CSD are proposed for a new CSA. The services would be financed as they are today. Water and wastewater are enterprise funds that would continue to be financed by rates and charges: Road maintenance, street lighting, and weed abatement are non-enterprise funds that would continue to be financed by ad valorem property taxes.

Exhibit 4.8 contains the District's financial statements for Fiscal Year 2022-23, and Exhibit 4.9 is the District's most recent audit for Fiscal Year 2021-2022.

Present water and wastewater rates are provided in Exhibit 4.10. Billings are monthly. Separate rate studies were started in 2019-20 for water and wastewater but were not completed. The rate structure needs updating to align with generally accepted practices per the American Water Association M1 Principles of Water Rates, Fees, and Charges.

Fiscal Year 2023-24 was the last year of a 5-year approved Prop. 218 rate increase plan.

Exhibit 4.11 shows that as of April 29, 2024, the District's checking and savings balances totaled \$1,335,773.00. Refundable deposits included in this total were \$93,538.00 for waitlist deposits, and \$682,887.00 in capacity fees. Net available cash after deduction of refundable deposits was \$559,348.00

In June 2022, the District Attorney's Office reached a court settlement with the former San Simeon CSD general manager for violating state conflict-of-interest laws. This settlement

resulted in an abrupt change of the district's general manager, administration, and operations services. Bookkeeping services changed to a new part-time bookkeeper. RGS was hired as a consultant to review and update the District's accounts.

Fiscal year 2022-2023 books were closed in March 2024 and submitted to the auditors. Monthly financial reports are now in development. The District's books and reporting are planned to be up to date by June 2024.

**Plan For Services – Supplemental Responses Gov. Code § 56824.12 (a)**

The District is not proposing to provide a new or different function or class of services or divestiture of the power to provide particular functions or classes of services. Nonetheless, the District provides the responses below with regard to the District's existing services, which will be assumed by the new CSA after the District dissolves. Under the proposal, San Simeon CSD would be dissolved, and a new CSA would be created to assume the services.

Gov. Code § 56824.12 (a) (1): The total estimated cost to provide the new or different function or class of services within the special district's jurisdictional boundaries.

No new or different function or class of services are proposed. Exhibit 4.12 is the San Simeon CSD Budget for Fiscal Year 2023-2024 and provides the total estimated costs for providing water, wastewater, road maintenance, street lighting, and weed abatement within the District's jurisdictional boundaries.

The estimated costs provided here are based on San Simeon CSD's Fiscal Year 2023-2024 budget. County staff would be expected to provide their cost estimates for these services as part of the evaluation of this proposal.

Gov. Code § 56824.12 (a)(2): The estimated cost of the new or different function or class of services to customers within the special district's jurisdictional boundaries. The estimated costs may be identified by customer class.

No new or different function or class of services are proposed. Exhibit 4.13 provides San Simeon CSD's present service fees by type of service and customer class for the enterprise services of water and wastewater. Non-enterprise road maintenance, street lighting, and weed abatement services are paid from property taxes.

County staff would be expected to provide their estimates for these fees as part of the evaluation of this proposal.

Gov. Code § 56824.12 (a)(3): An identification of existing providers, if any, of the new or different function or class of services proposed to be provided and the potential fiscal impact to the customers of those existing providers.



No new or different function or class of services are proposed. The CSA may choose to contract with existing District service providers for the continuation of current services.

County staff would be expected to provide their estimates of costs and fees as part of the evaluation of this proposal.

Gov. Code § 56824.12 (a)(4): A written summary of whether the new or different function or class of services or divestiture of the power to provide particular functions or classes of services, within all or part of the jurisdictional boundaries of a special district, pursuant to subdivision (b) of Section 56654, will involve the activation or divestiture of the power to provide a particular service or services, service function or functions, or class of service or services.

No new or different function or class of services are proposed. Under the proposal, San Simeon CSD would be dissolved and no longer provide water, wastewater, road maintenance, street lighting, and weed abatement within the District's jurisdictional boundaries. San Simeon CSD would divest itself of all services. A new CSA would be created to assume these services.

Gov. Code § 56824.12 (a)(5): A plan for financing the establishment of the new or different function or class of services within the special district's jurisdictional boundaries.

No new or different function or class of services are proposed. Exhibit 4.12 provides San Simeon CSD's budget for Fiscal Year 2023-2024, showing revenue by source. Exhibit 4.13 provides San Simeon CSD's present service fees by type of service and customer class for the enterprise services of water and wastewater. Non-enterprise services of road maintenance, street lighting and weed abatement are paid from property taxes.

These fees and property taxes finance San Simeon CSD's present services. State and Federal loans and grants supplement these revenue sources and assist in funding infrastructure improvements.

County staff would be expected to provide their plan for financing as part of the evaluation of this proposal.

Gov. Code § 56824.12 (a)(6): Alternatives for the establishment of the new or different functions or class of services within the special district's jurisdictional boundaries.

No new or different function or class of services are proposed. A CSA would provide all existing services. This is the current proposal. The County presently operates multiple CSAs for unincorporated areas. A CSA approach allows for services to be customized for the needs of each area and fees to be independent of other communities. The CSA structure allows for community input/representation. The county has experience dealing with the needs of multiple communities via the CSA structure.

As a potential alternative, the District considered whether the Cambria Community Services District could annex the territory and services of San Simeon CSD. However, the District determined that this was not a viable option

Cambria is struggling to maintain its services. Taking on San Simeon CSD's services and associated needs is unrealistic.

For example, San Simeon CSD is facing the lifting of a forty-year development moratorium because SSCSD has water for development. If CCSD annexes San Simeon CSD, will Cambria now be able to use this water surplus for its community and keep the SSCSD moratorium in place?

Would separate fees be maintained for San Simeon services? How would property taxes be handled? Would entirely separate books be kept for San Simeon services? If so, how would San Simeon be allocated costs for CCSD staff and other services?

Dilution of representation becomes another issue, given that San Simeon has only two hundred registered voters. CCSD does not have by-district representation. SSCSD is a majority Hispanic community. Two hundred voters would disappear in the total count. The North Coast Advisory Council would become the Cambria Advisory Council, and so on.

Given the long list of challenges and limited potential benefits, the District determined that the Cambria Community Services District is not a viable alternate successor agency. The best option for the District is dissolution and creation of a CSA to provide services to the San Simeon community.