

MINUTES
SAN SIMEON COMMUNITY SERVICES DISTRICT
BOARD OF DIRECTORS SPECIAL BOARD MEETING
1350 MAIN STREET
CAMBRIA, CA 93428
Thursday, February 20, 2025
6:00 p.m.

1. CALL TO ORDER

The Special Meeting of the San Simeon Community Service District Council was called to order at 6:22 p.m. by Chair Tiwana.

2. ROLL CALL

Present: Chair Karina Tiwana, Director Jacqueline Diamond, Director Holly Le
Director Donahue,

Absent: Director Michael Donahue,

Staff Present: Patrick Faverty, Ed.D., Interim General Manager
Rachel Rappaport, Of Counsel - White Brenner LLP

3. PLEDGE OF ALLEGIANCE

The Pledge of Allegiance was held at 6:23 p.m.

4. PUBLIC COMMENT FOR ITEMS NOT ON THE AGENDA

- None

5. NON-DISTRICT REPORTS (6:24 p.m. – 6:26 p.m.):

A. Sheriff's Report – Not in attendance, no report was stated

PUBLIC COMMENT FOR THIS ITEM

- None

6. DISTRICT STAFF & COMMITTEE REPORTS (6:24 p.m. – 6:43, then resumed at 7:15 p.m.):

Public comments at the conclusion of District staff and committee reports are limited to three (3) minutes per person per item.

A. STAFF REPORTS:

- vi. **FRM Operations Report** –Stated a Summary of January 2025 and December 2024 Activities.

FRM Representative reported that testing of the wells for January has shown positive SCS results, with everything running smoothly. The wastewater plant has been proactive in making necessary repairs. While there has been a decline in visitors to the area in recent months, it is expected that the number of tourists will increase. However, with the recent rainfall, the plant may face some challenges. Despite this, both the water and wastewater filtration systems are functioning properly.

Interim General Manager inquired of the FRM representative to explain to the Board the management of wells during the rainy season versus the summer months, and whether there are any differences in their operation.

FRM Representative explained that during the summer, the wastewater treatment plant operates at optimal efficiency, while in the winter months, the biological processes are not as effective and can occasionally be overwhelmed by the increased water influx

Director Diamond asked about the virus inactivation report, specifically regarding the chlorine and Giardia readings. She noted a spike on January 5th and requested an explanation for this anomaly.

FRM Representative clarified that wastewater readings are influenced by the frequency of water flushing, which can lead to unexpected spikes. Both sets of readings are accurate. Additionally, the representative explained that the readings are not solely tied to Pico Creek; however, as the creek flows, its turbidity increases, causing the wells to fill. This process can result in the raw water side picking up materials from the surrounding pasture.

Director Diamond asked whether the readings originated from Well 1.

FRM Representative confirmed that the readings were indeed from Well 1.

Director Diamond asked whether the district should exclusively use Well 2.

FRM Representative responded affirmatively, stating that by law, both wells must be flushed and operated to ensure their readiness in case one fails. It is crucial to maintain both wells in operation, as Well 1 provides essential water supplies, including wet materials necessary for the community.

vii. Interim General Manager's Report – Stated a Summary of January 2025 and December 2024 Activities

Interim General Manager provided an update on several matters. He reported that recent rains have not affected the pipe bridge log jams. After an annual inspection by Micah Rose of the Welding Company, areas of concern were identified, with an estimated repair cost of \$8,000, which would extend the bridge's lifespan. Rose also recommended applying a tar coating to the bridge. Regarding the Pico stairway, the Interim General Manager informed the council that, according to Ellie Oliver from the Coastal Commission, the staff council agreed that the stairway does not fall under the district's general funds, meaning the district is not responsible for its repair. He also suggested to Ellie Oliver that as a solution, the Mouchwar Trust should retain ownership of the stairway, rather than transferring it to State Parks.

Director Tiwana Commented that she does not believe that the state parks should open the stairway as they operate on a different set of rules

Interim General Manager stated that the issue of the stairway is not the responsibility of the district

Chair Tiwana stated that the district is responsible if they were suggesting that the option be pursued

viii. District Financial Summary – Stated a Summary of January and December Financials.

Interim General Manager stated that the representative would not be available to present the report until 6:45 p.m. and requested that the District Financial Summary and Audit Report be presented at that time.

Chair Tiwana agreed that it may be presented at a later time

Financial Representative stated his report summary at **7:22 p.m.** The district's financial summary includes combined statements for the General, Water, and Sanitation funds, compared to figures from June 30, 2023. Key points include a decrease in the cash position from \$1.7 million to \$1.3 million, along with a corresponding decrease in total net assets. Accounts receivable increased slightly, while fixed assets decreased due to construction project additions, which were less than the depreciation of \$888,000. Liabilities decreased due to an approved legal settlement, and the district continued payments on the USDA long-term loan. As a result, total net assets decreased from \$2.7 million to \$2.34 million. The district holds \$1.3 million in cash and investments, with \$77,000 in

mutual funds, and spent \$43,473 on the pipe bridge project. Additionally, unearned revenue includes a large developer deposit currently in the district's possession, awaiting final approval from the county. The balance is recorded as unearned revenue but will be recognized as revenue once the project is approved. A key discussion point is whether the deposit is earning interest. If the county does not approve the project, the amount will need to be returned, either as the initial deposit or the deposit plus interest. Any interest earned will be recognized as capacity fee revenue and included in the restricted balance, while the deposit currently remains in unearned acquisition revenue.

Chair Tiwana asked a question regarding the unearned revenue reported from a pending development, specifically funds that are in the district's possession and earning interest.

Financial Representative responded that, without knowing the specifics of the agreement, he was unsure whether the district would need to return the principal amount or both the principal and the interest if the county denies the project.

Chair Tiwana responded by asking whether this is the advice they should follow or if legal counsel from both entities should be present to discuss the matter at a later date.

Financial Representative replied that they do not have a copy of the agreement, and the interest currently earned is not material to the district. He noted that financial statements would need to be revised if necessary. However, he stated that if the county approves the project, only the original developer deposit would be refunded, and the district would retain the interest, which should be reported. If the county denies the project, both the deposit and the interest would be credited back to the developer.

Chair Tiwana directed staff to review the development agreement, or the lack thereof, concerning the deposit made by the party, and to provide a ruling at a later date. She also stated that, for the purpose of approving the report, she believes it could be approved based on the facts currently available, pending the outcome of the review, with any amendments to be made at a later date.

Financial Representative stated that, according to the balance of the financial audit report as of June 30, 2024, the interest and income earned are not material, and therefore, no revisions to the financial statements would be necessary.

Interim General Manager explained that, after searching, they are not in possession of the report due to its location. He suggested that it would be necessary for District Counsel to identify the appropriate approach regarding the income and how much of it the District must hold as restricted versus unrestricted. He also mentioned that if the Board has the authority to restrict the funds, an ordinance or resolution may be required. He expressed uncertainty about whether the original agreement would ever be located but asked Counsel to clarify the steps the District should take if the agreement exists.

Chair Tiwana commented that if the agreement exists, it should be in a Board package and noted that the previous firm, Adamski, which the District retained as General Counsel, would have been responsible for maintaining the documents.

Interim General Manager requested if District Counsel could assist in locating the agreement with the Adamski Firm.

- ix. **District Counsel's Report** – Stated a Summary of January and December Activities.

District Counsel commented that there is nothing substantial to report

- x. **Reorganization Committee Report**- Stated a Summary of January 2025 and December 2024 Activities.

Director Diamond reported that there is nothing substantive to report as the reorganization committee has not met since December 2024. She mentioned being aware of the RFP for the county's reorganization consultant but has not received any updates from the county.

Chair Tiwana inquired about who is responsible for setting the meetings for the reorganization committee, as they have not met since December 2024.

Director Diamond responded that she, as the chairperson, had previously requested to postpone the meeting due to a lack of new information from the county. She had planned to establish a standing meeting date for the last Friday of every month, but without new updates from the county, there was no need to schedule a meeting.

Chair Tiwana emphasized that, according to government protocols, meetings should be held regardless of the presence of new business or information.

Interim General Manager informed the Board that Rebecca Campbell, the Assistant CAO, is the county representative handling the dissolution process, but no communication has been received from her in some time.

Chair Tiwana requested that, at the next meeting, a report be provided addressing the issues with the county regarding the lack of communication on this matter.

Chair Tiwana requested that a report addressing the lack of communication from the County be provided at the next meeting.

Director Le expressed confusion about the meeting date, as she had understood the meeting to be held on the second Friday of the month, rather than the last Friday.

Director Diamond clarified that the county's reorganization meetings are held on the first Friday of the month. Currently, the District Reorganization Committee meets on the last Friday, but she will propose moving the meeting date to the second Friday of the month, in alignment with the county's schedule.

Chair Tiwana asked District Counsel if the consent calendar items could be addressed next, as the financial representative was not present.

District Counsel confirmed that there are no concerns with proceeding with the consent calendar items and then circling back to the District Financial Report.

PUBLIC COMMENT FOR THESE ITEMS

- Hank Kruzick raised concerns about the financial report, highlighting that the district is legally required to provide an annual report on capacity fees within 180 days of the fiscal year's end. He suggested that the Board instruct the accounting firm to prepare this report, either as part of the audit or separately, and noted that the district may be in violation of California law for failing to do so. The report should include details on capacity fees, interest earned, and expenditures.

7. CONSENT AGENDA ITEMS (6:43 p.m. – 6:45p.m.)

A. REVIEW AND APPROVAL OF MINUTES FOR THE MEETING ON DECEMBER 5, 2024

**B. REVIEW AND APPROVAL OF DECEMBER 2024 AND JANUARY 2025
DISBURSEMENTS JOURNAL**

PUBLIC COMMENT FOR THIS ITEM

- None

Vote was taken as follows:

AYES: Tiwana, Diamond, Le

NOES:

ABSTAIN:

ABSENT: Donahue

8. BUSINESS ACTION ITEMS (6:46 p.m. - 8: 00p.m.):

A. Review and Approval of the SSCSD FY 2023-2024 Audit Report.

Financial Representative stated his report summary at **7:15 p.m.** It was stated that the final draft of the financial statements for the fiscal year ending June 30, 2024, is presented before the board. The audit opinion letter is unmodified, meaning the auditors were able to complete all required audit procedures, and the supporting documentation was in order. The auditors are comfortable with the numbers presented, and any suggested adjustments were made by the district. The final agreed-upon numbers are reflected in the statements.

PUBLIC COMMENT FOR THESE ITEMS

- None

Director Diamond made a motion to approve the 2023-2024 audit report. Chair Tiwana seconded the motion

Vote was taken as follows:

AYES: Tiwana, Diamond, Le

NOES:

ABSTAIN:

ABSENT: Donahue

B. Presentation and Discussion regarding the Proposed Prop 218 Rate Increase of 12%

Interim General Manger explained that the San Simeon CSD provides water and wastewater services to residents. In 2019, the district adopted Ordinance 121 to authorize water and wastewater rate increases, starting with a 5.8% increase for

the 2019-2020 fiscal year based on CPI, and a 3% increase for the subsequent three years. However, the district has not implemented a rate increase since 2022. The proposed 12% increase accounts for the CPI and aims to cover increased operating expenses. FRM has provided information to support this increase, which must comply with Prop 218's requirements. This includes ensuring that revenues do not exceed the proportional cost of services and notifying residents with all relevant information.

Chair Tiwana commented that the Board should review the resolution to assess if the proposed amount and parameters of the rate increase are acceptable

Director Diamond agreed that a 12% increase should be implemented, citing the impact of inflation. She noted that the district has lost revenue over the years due to the delay in rate increases, and the proposed increase might be the only way to establish a healthy revenue stream and prevent continued net losses.

Director Le inquired about the basis for determining the 12% increase.

Interim General Manager Interim General Manager explained that the 12% increase was based on several factors, including the annual CPI increase in recent years, discussions with FRM about the revenue loss due to broken water meters, the cost to repair them, and their collaborative effort to establish a number that would make the district "whole."

Director Le questioned the lack of direct voter input on the rate increase amount.

Interim General Manager clarified that the Board has the authority to set the rate increase at a different percentage if desired. If the item passes, voters will have a 45-day window to contest or complain about the increase.

Director Le expressed concern that a 12% increase might be too large and requested that more data and information be provided to both the Board and the San Simeon residents to ensure that the increase is sufficient to prevent the district from facing bankruptcy.

Chair Tiwana stated that the CPI is specific to the index being examined, including regional, business, and category-specific factors. She questioned whether the business being considered is included in the CPI increases.

Interim General Manager clarified that the district uses the Southern California Consumer Price Index (CPI) to reflect rate changes.

Chair Tiwana expressed her agreement that an increase is needed but noted that 12% may be too high for citizens to accept. She requested a detailed cost breakdown showing how the 12% figure was determined, along with the data provided by FRM to the Interim General Manager, to be reviewed and considered by the Board.

Director Diamond asked the Interim General Manager if FRM could provide the data and calculations that led to the proposed 12% increase.

Interim General Manager responded that neither he nor FRM has the numbers in writing, as the discussions were conversational. He explained that the increase is tied to the revenue lost due to broken water meters, which impacts the necessary calculations. He also noted that the law requires the increase to be sufficient to cover the necessary costs.

Chair Tiwana requested that an accounting of the necessary costs be provided.

Chair Tiwana commented that no further action will be taken on this matter at this time but asked staff to provide the requested additional information.

PUBLIC COMMENT FOR THIS ITEM

- Hank Kruzick commented that, after reviewing the financial statement from July 2024 to January 2025, the district is operating at a loss of \$189,000, which is lower than previous years. He noted that, in relation to Chair Tiwana's comments on the 12% CPI, the CPI the district uses has been consistent for many years. Kruzick mentioned that while the increase was voted on by the Budget Committee in January 2022, the main concern of the Board is the 12% increase. Despite this, he agreed that a rate increase should be implemented.

Chair Tiwana commented that, after hearing the financial report and public comments, the rate increase has been approved in the past. She noted that the previously approved estimated 8% increase in 2022 was studied and approved by the Board, and she expressed her support for the new proposed increase.

Director Le expressed her support for the rate increase but asked whether the agenda item for the 8% increase, which was approved in 2022/2023, was ever implemented.

Chair Tiwana stated that, although the 8% increase was not implemented, the district would have a basis for the inflation rates to be considered.

Interim General Manager confirmed that he would review the agenda from the spring of 2023, when the Prop 218 increase of 8% was approved.

Chair Tiwana made a motion to approve Prop 218 rate increase of 8%, based on the previously approved rate increase percentage authorized by the 2023 Budget Committee and the Board last year. Director Diamond seconded the motion.

Vote was taken as follows:

AYES: Tiwana, Diamond, Le

NOES:

ABSTAIN:

ABSENT: Donahue

_____ 5-Minute Break _____

C. Review and Discussion of San Luis Obispo County RFP for Reorganization Consultant

Interim General Manager outlined the county's expectations for a reorganization consultant. The consultant will collaborate with the district over the next decade to assess and address key issues, including the wastewater management system, road and lighting needs, and the potential for consolidated services across technical, administrative, and financial areas post-reorganization. This effort aligns with the County's strategic plan for the next 5-10 years, and the timeline for the project is set to 6 months.

Chair Tiwana noted that the deadline for receiving RFPs (Requests for Proposals) for the consultant ended on January 11.

Director Diamond asked whether the Interim General Manager knew how many applications had been submitted for the RFP.

Interim General Manager confirmed that no information had been received by the district regarding the number of applications submitted or the process. However, he is scheduled to meet with the County's Administrative Officer soon to discuss unrelated matters and assure the Board that the issue would be raised with the County.

PUBLIC COMMENT

- Hank Kruzick expressed concerns about the County's responsiveness to the District's reorganization committee. He pointed out that the County had requested a 6-month study, which would cost approximately \$250,000, and he emphasized the need for checkpoints and open communication with LAFCO and the County. Kruzick also raised concerns about the resignation of the Interim General Manager and questioned how the new consultant would coordinate with the district, given the limited number of district staff available to manage the project.

D. Discussion and Approval of the Replacement of the Broken Water Meters

Interim General Manager presented a report regarding broken water meters and the associated costs for their replacement. The estimated total cost for the replacements is \$24,475, with a 5% contingency included. Additionally, he requested an extra 5% contingency to cover any unforeseen incidents that may arise during the process.

Director Diamond agreed that replacing the broken water meters is necessary, as the district is losing out on income due to the inaccuracy of the meters.

PUBLIC COMMENT

- Hank Kruzick expressed support for the water meter replacements. He noted that when he first became involved with the district, it had been losing 17% of water, which was unbilled. The normal margin for unbilled water is between 5-7%. Currently, the district's unbilled water loss stands at 13%. Kruzick emphasized that replacing the meters should help bring the water loss rate down to 7%, which would significantly boost the district's incoming revenue.

Chair Tiwana makes a motion to approve the replacement of the broken water meter items as submitted.

Director Diamond inquired about the additional 5% contingency requested by the Interim General Manager.

Interim General Manager clarified that the requested 5% contingency is based on discussions with FRM and specifically pertains to the cost of replacing the meters, allowing for a 3-5% contingency for unforeseen issues.

Chair Tiwana withdrew her initial motion.

Director Diamond made a motion to approve the replacement of the water meters, with a total cost not to exceed \$26,000 if needed. Chair Tiwana seconded the motion.

Vote was taken as follows:

AYES: Tiwana, Diamond, Le

NOES:

ABSTAIN:

ABSENT: Donahue

11. CLOSED SESSION (8:01 p.m. – 8:17 p.m.):

Public comments on the closed session agenda are limited to three (3) minutes per person per item. The Board will adjourn to Closed Session to address the following item(s):

PUBLIC COMMENT

- None

District Counsel Reported that direction has been provided to staff

9. BOARD COMMENTS:

Director Diamond expressed a desire to comment on the current January financial statements.

Chair Tiwana clarified that Director Diamond would like to provide direction to the Interim General Manager regarding adding items to the next meeting agenda following

the January 2025 financial statements. Additionally, Director Le has requested one item be added to the agenda related to the balance sheet for January 2025.

Chair Tiwana also stated that she has one item to add to the agenda: the implementation of ACH payments to the district.

10. ADJOURNMENT (8:19 p.m.):

The Regular Meeting of the San Simeon Community Service District adjourned at 8:19 p.m.