

San Simeon Community Services District
Dissolution Summary and Background

Summary

The San Simeon Community Services District (“San Simeon CSD” or “District”) was formed in 1961. The District currently provides water, sewer, road maintenance, street lighting, and weed abatement to approximately four hundred (400) residents and hotels for transient visitors.

The District faces an increasingly complex environment for services and management that is internally unsustainable and unresolvable. The District has become unstable.

The plan is to transfer all of the District’s present active services 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 all services currently provided by the District. This transition would involve transferring management, administration, operations, and financial responsibilities from the District to the new CSA.

Having the County provide San Simeon’s water, wastewater, and other services via a dedicated CSA has many advantages. The County has a sizeable skilled staff, including engineering, permitting, accounting, finance, legal, administration, and operations. These resources can be applied to benefit the newly formed CSA. In contrast, San Simeon CSD will never be able to match these skills and the depth of resources. Further, service and management continuity, which has been an ongoing struggle for the District, will no longer be an issue for the community under the CSA.

The community’s health and safety are the priorities. The CSA structure will provide stable, capable, cost-effective governance for the San Simeon community.

Below are the primary reasons in support of San Simeon CSD's dissolution and transfer of service provisioning to a new CSA:

1. San Simeon needs a long-term, stable, capable governance structure to continue providing critical services to our disadvantaged community. The District has tried various governance and operations approaches and faced multiple challenges over the years. District management and administration remain unacceptably deficient. There is no backup.

2. In 2022, under the California Voting Rights Act, the community's two hundred voters were divided into five mini-voting districts, adversely impacting governance. The District has struggled to maintain a five-member Board of Directors ("Board") given the limited number of available and willing candidates. The District currently has four Board members and one vacant Board seat.
3. A 2019 After-the-Fact Coastal Development Permit from the California Coastal Commission requires the District to move its wastewater treatment plant away from the ocean where it is currently located, which has become an increasingly urgent task due to rising tide levels. The District has also failed to maintain its infrastructure properly and needs to make improvements. The District lacks the resources to secure grants to cover the relocation of the wastewater treatment plant and infrastructure improvements.
4. The District lacks the experience or staff to manage District development after a forty (40) year moratorium, which remains in place.
5. The District only has approximately two hundred (200) residential and commercial ratepayers and an annual budget of approximately One Million Two Hundred Thousand Dollars (\$1,200,000). The District does not have the resources to meet the San Simeon community's needs.

History of San Simeon and the District

San Simeon Acres is a small commercial village developed to provide tourist/recreation services along the central coast. San Simeon provides food and lodging facilities for Hearst Castle visitors as well as tourists driving the scenic Highway 1 route between San Luis Obispo and the Monterey Peninsula. San Simeon Acres evolved from a 1940 sale of the area by W.R. Hearst to permit recreation development. Present uses are concentrated on the frontage roads along Highway 1. The village reserve line encompasses approximately 100 acres, surrounded on its East side by Hearst Ranch areas devoted to grazing. On the West are the bluffs and beach of the Pacific Ocean. Future development can only occur within the presently subdivided area. The Service Area Boundary and Sphere of Influence are the same as the County's Village Reserve line.

Residential Multi-Family. The areas beyond the commercial frontage are designated for multiple-family residential uses. These include the existing mobile home park and scattered multiple-family units. It is anticipated that expansion of multiple-family units will include triplex, apartments, and townhouse developments. In addition, expansion of commercial uses such as motels beyond the frontage may be appropriate following developmental review.

Commercial Retail. Commercial development in San Simeon is oriented to the traveling public using Highway 1 in visiting the central coast. The village provides the nearest accommodations for the more than 1,800,000 persons that visit Hearst San Simeon Historical Monument annually. Frontage roads to the east and west of Highway 1 provide access to the commercial areas.

The San Simeon CSD was formed following an election in 1961 for the purpose of providing street lighting, water, and street maintenance to the San Simeon Acres commercial strip bordering Highway 1. In the early 1980's, LAFCO investigated several alternatives for reorganizing the District, which included consolidation with Cambria Community Services District, incorporation, formation into a CSA, or, as it remains today, a Community Services District.

The San Simeon CSD currently provides water services to this area from wells located along Pico Creek with a permitted total production of 140 acre-feet. The wells are capable of producing over 400 acre-feet per year, but any increase would require approval from the State Water Resources Control Board and California Coastal Commission. The wastewater treatment service was added in 1964. The San Simeon CSD currently provides services to the approximately 160 permanent residents and up to 1,500 transient visitors.

The permanent population in San Simeon is limited, as very little year-round residential development has occurred. Anticipated future growth could include multiple family units to provide second homes or retirement units, or to serve those who work in the local businesses. Current economic development is oriented to tourism and recreation. Motels, restaurants, and specialty retail shops serving visitors to the central coast have been developed.

San Simeon CSD - Ten-Year Operational History and Present Status

The 2014 Emergency – The District Faced Complete Shutdown of Water and Wastewater Operations and Administration

In 2014, San Simeon CSD faced a complete collapse and shutdown of operations, administration, and management when its provider of these services, parent company APTwater Services LLC, went bankrupt. APTwater Services stopped paying district bills including electric bills and bills from other suppliers. This was costly because the District continued to pay APTwater Services for some time despite APTwater Services failing to pay their suppliers, and ultimately the District had to pay the suppliers' bills. Finally, APTwater Services stopped payroll for its staff running San Simeon including operators, the district office staff, and the district general manager.

The relationship with APTwater Services was a convoluted and conflicted situation. At the time, Charles Grace ("Grace") was the general manager of the startup company, APTwater

Systems LLC, which was working with the District through APTwater Services, while Grace simultaneously contracted himself out as the General Manager of San Simeon CSD. APTwater Systems' parent company, APTwater Services LLC, had gone bankrupt without notice to the District and ultimately stopped paying Grace. To Grace's credit, he stepped in and personally paid the operators and administration persons salaries until a contract for services could be completed with his company. A major service disruption was avoided.

With the assistance of the prominent San Simeon hotel officer/owner, an emergency services contract was arranged and signed on August 14, 2014, with Grace's own company Grace Environmental Services ("GES"), a company Grace had formed one year earlier in Ventura. The emergency services contract with Grace's new company prevented a complete shutdown of San Simeon CSD's critical water and wastewater services. Under his company's new contract, Grace continued acting as the District's General Manager, paying his company for operations, administration, and Grace's general manager services. However, there was no record of Grace officially being appointed the District's general manager or taking the required oath of office.

January 2016 to September 2023 – Grace Environmental Services LLC Provides Operations, Administration, and General Manager Services

In January 2016, a five-year plus two-year extension contract was sole-sourced to Grace's company, Grace Environmental Services, a single-member LLC. At the end of that seven-year term, the agreement was extended one year to January 2024. Grace continued as the district general manager. Again, there was no record of him officially being appointed the district's general manager or taking the oath of office, which was later confirmed by the District Attorney and Grace's attorneys.

At San Simeon's site, Grace had one senior operator and a trainee. Neither of them was full-time in San Simeon. In 2022, the long-time San Simeon CSD operator decided to move out of state. For a half-year, the San Simeon wastewater treatment plant was operated with a lower-than-required skill level operator. Grace received a notice of violation from the California Water Quality Control Board for doing this. In addition, Grace refused to disclose the names of the operators to the public. For this, he received a violation for failure to adequately disclose operator credentials. Grace finally disclosed that he was using Morro Bay employees on weekends to aid operations.

2023 Water Supply Emergency

In the spring of 2023, San Simeon experienced a day or so of heavy rainfall. This caused tremendous amounts of ultrafine particles to be washed into Pico Creek. The District's filtration systems were unable to filter out these ultrafine particles. Potable water had to be hauled in special tankers from Cambria to San Simeon for over two days. The water was pumped from a Cambria fire hydrant in front of the Veteran's Hall.

This heavy rainfall was a rare event. This situation would have been avoided had the district upgraded its aging, undersized water storage reservoir to new, larger water storage tanks as have been proposed for many years. Larger storage tanks would have provided several days to a week of potable water, covering periods of heavy rainfall and associated ultrafine particles in Pico Creek. See the infrastructure section below for more on the district's water storage challenges.

June 2023 to Present – Abrupt Change of Services from Grace Environmental Services LLC Leading, In Part, to the Present Unstable Situation

In 2023, a multiyear investigation by the San Luis Obispo County District Attorney's Office concluded and found the contracts between Grace Environmental Services contracts and the District created a financial conflict of interest that violates California law.

The final court settlement agreement effectively required the immediate removal of Grace as the District's general manager and Grace Environmental Services from working for the District as either the manager or providing the District's operations. This resolved the main conflict of interest and violation of state law but left the District without a general manager.

A San Simeon resident, Dr. Patrick Faverty, applied for the interim general manager position and was appointed interim general manager soon after that. He remains in that position currently.

The new District Board terminated Grace Environmental Services' contract entirely on September 18, 2023. There has been an abrupt hostile transition of operations, administration, and general management.

A solid and much larger operations company was selected and has taken over water and wastewater operations, Fluid Resource Management ("FRM"). To FRM's credit and experience, the transition of water and wastewater operations was flawless. They now have six operators trained on San Simeon's water and wastewater systems.

The San Simeon CSD's instability over the past ten years shows the District's ongoing vulnerability and need for a change of organization. Dissolution and organization under a CSA would provide the stability, resources, and structure that the District currently lacks and would not be able to achieve on its own.

San Simeon CSD - Governance and Representation – District Board Instability

In 2022, San Simeon CSD was divided into five voting districts/areas to comply with the California Voting Rights Act. The district has only two hundred registered voters total. These mini-voting areas went into effect with the November 2022 elections. In early 2023, two directors resigned. Eventually, one candidate came forward for Area A. No candidate came forward from Area C, which has only twenty-four registered voters. That area remains

unrepresented. Given the limited number of eligible voters in each area, it has been and will continue to be difficult for San Simeon to fill all of the District's Board seats.

Canvassing several other counties, the next smallest CSD that went to district voting had thousands of registered voters. San Simeon CSD is likely the smallest community to redistrict in the California. It is more challenging for small and disadvantaged San Simeon to maintain a five-member board or even a three-member board. Governing with a three-member board is difficult because a Board member could be ill, on vacation, or out on business. Board turnover presents more problems.

San Simeon CSD is currently operating with only four of the five Board seats filled, which was only created with some resident arm-twisting. As a result, an area of the community has been left without representation through its vacant Board seat.

It is unlikely that the community will ever again have elections in which residents can choose from multiple candidates. Instead, local and County appointments and uncontested elections will be the norm for San Simeon CSD.

The change to mini-voting districts/areas in San Simeon has raised serious concerns about the District's continued governance. A community services district must have a capable and stable governance structure to provide critical water and wastewater services for present and future needs, but the District cannot even fill all of its Board seats.

A CSA provides a more stable governance structure through experienced staff resources and a Board of Supervisors for final decision-making. The proposed new San Simeon CSA can have an advisory council representing the San Simeon community's interests if there are concerns about ongoing representation.

