

SSCSD – Dissolution Application Package

Part 1 – Dissolution Summary and Background

Dissolution Summary

The San Simeon Community Services District (SSCSD) was formed in 1961. It 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 will transfer all of SSCSD's present active services to the County of San Luis Obispo and require the formation of a new County Service Area (CSA). This would involve transferring management, administration, operations, and financial responsibilities. There would be no change in the level of services provided or in the affected territory. SSCSD would be dissolved.

Having the county provide the community's water, wastewater, and other services via a dedicated county service area 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 CSAs. SSCSD will never match these skills and the depth of resources. Service and management continuity will no longer be an issue for the community.

The CSA structure will provide stable, capable, cost-effective governance for the San Simeon community.

Below are the primary reasons for SSCSD'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.
2. The community's health and safety are the priorities.
3. 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.
4. 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.

5. In 2019, an After-the-Fact Coastal Development Permit (“ATF-CDP”) 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.
6. The district lacks the experience or staff to manage district development after a forty (40) year moratorium.
7. The district has failed to maintain its infrastructure properly.
8. The district is challenged to secure grants to cover the relocation of the wastewater treatment plant and infrastructure improvements.
9. 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).

San Simeon CSD History and General

History

San Simeon Acres (now SSCSD) is a small commercial village developed to provide tourist/recreation services along the central coast. It provides food and lodging facilities for Hearst Castle visitors and 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.

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. Expansion of multiple-family units will be anticipated to 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 to visit the central coast. The village provides the nearest accommodations for the more than 1,800,000 persons who 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 Acres Community Services District (later renamed SSCSD) was formed following an election in 1961 to provide street lighting, water, and street maintenance to the San Simeon Acres commercial strip bordering Highway 1. In the early 1980s, LAFCO investigated several alternatives for reorganizing the CSD, including consolidation with Cambria CSD, incorporation, formation into a CSA, or, as it remains today, a community services district.

The San Simeon Community Services District currently provides water services to this area from wells along Pico Creek with a permitted total production of 140 acre-feet. The wells can produce 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 CSD currently services approximately 400 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 be in multiple family units to provide second homes or retirement units or serve those working in the local businesses. Economic development is oriented to tourism and recreation. Motels, restaurants, and specialty retail shops serving visitors to the central coast have been developed.

SSCSD - Ten-Year Operational History and Present Status

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

In 2014, SSCSD faced a complete collapse/shutdown of operations, administration, and management when its provider of these services, APTwater Services LLC, parent company, went bankrupt. APTwater Services stopped paying district bills, including electric bills and those of other suppliers. This was costly because the district had continued to pay APTwater Services for some time despite them failing to pay its suppliers. Ultimately, the district had to pay these bills. The final blow came when it stopped payroll for its staff running San Simeon – operators, the district office staff, and the district general manager.

This was a convoluted and conflicted situation. At the time, Charles Grace was the general manager of the startup company APTwater Systems LLC while simultaneously contracting himself out as the General Manager of San Simeon CSD. APTwater Systems' parent company 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 person's salaries until a contract for services could be completed with his company. A major service disruption was avoided.

With the assistance of a 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. Under his company's new contract, he continued acting as San Simeon's General Manager with the district, paying his company for operations, administration, and his general manager services. However, there was no record of him officially being appointed the district's general manager or taking the required oath of office.

The emergency services contract with Grace's new company prevented a complete shutdown of SSCSD's critical water and wastewater services.

This kind of close-call situation should never happen to San Simeon or any other community. If a contractor is used for essential community services, it must be of sufficient size, experience, and financial stability.

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 Charles Grace's company, Grace Environmental Services (GES), 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. This was later confirmed by the District Attorney and Grace's attorneys.

Grace's company was relatively small.

At San Simeon's site, he 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, he had refused to disclose the names of the operators to the public. For this, he received a violation for failure to adequately disclose operator credentials. He finally disclosed using Morro Bay employees on weekends to aid operations.

This thin staffing level and secrecy of operations staff and associated certification levels are unacceptable for contractors operating critical water and wastewater services. During the Covid pandemic, there was a concern that the senior operator could become ill, leaving the district in a compromised position.

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 by 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 has 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.

June 2023 to Present – Abrupt Change of Services from GES Leading In-Part to the Present Unstable Situation

In 2023, the San Luis Obispo County District Attorney's Office concluded a multiyear investigation and found that GES contracts with SSCSD violated state laws, including conflict of interest laws. For most of the past ten years, the district has been operating with a conflict of interest. The district general manager had provided all district services via his own company.

The final County Superior Court settlement agreement effectively required the immediate removal of Charles Grace as San Simeon's General Manager. This resolved the main conflict of interest and violation of state law but left the district without a general manager. Further, Grace was not allowed to bid on replacement services at the end of his contract.

The situation became unstable at that point.

A San Simeon resident applied for the interim general manager position and was appointed soon after. He remains in that position as of the date of this paper.

The new board terminated GES's contract entirely on September 18, 2023.

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 multiple operators trained on San Simeon's water and wastewater systems.

SSCSD - Governance and Representation – District Board Instability

In 2022, at the strong recommendation of then-District Counsel Minnery, San Simeon CSD was divided into five voting districts/areas to comply with the California Voting Rights Act. The district has two hundred registered voters. 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.

Pew Research conducted a study: “For the first time, Pew Research asked a question about who seeks out these offices and found that about 2% of Americans say they have ever run for federal, local, or state elected office.”

So, 2% of the population seek office over their entire lifetime. SSCSD has 450 residents and 200 registered voters. Statistically, one can conclude that it will be difficult for San Simeon to fill seats in each of the tiny voting areas.

Canvassing several other counties, the next smallest CSD that went to district voting was in the thousands of registered voters. SSCSD is likely the smallest community to redistrict in the State.

It is more challenging for small and disadvantaged San Simeon to maintain a five-member board or even a three-member board. With a three-member board, things become uncertain when someone is ill, on vacation, or out on business. Board turnover presents more problems.

San Simeon CSD is currently operating with a four-member board, which was only created with some resident arm-twisting. As a result, an area of the community has been left without representation.

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

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.

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.