San Luis Obispo
Local Agency Formation Commission
Meeting Agenda
September 17, 2026, 9:00 am

MEETING

SEPTEMBER 17, 2026 –
9 A.M. BOARD OF SUPERVISORS CHAMBERS
COUNTY GOVT. CENTER
1055 MONTEREY STREET,
SAN LUIS OBISPO, CA 93408

CONTACT

ROB FITZROY
EXECUTIVE OFFICER
805-781-5795
SLO.LAFCO.CA.GOV

COMMISSIONERS

HEATHER MORENO, CHAIR, COUNTY
DAVE WATSON, VICE CHAIR, PUBLIC
DAWN ORTIZ-LEGG, COUNTY
STEVE GREGORY, CITY
ED WAAGE, CITY
ED EBY, SPECIAL DISTRICT
NAVID FARDANESH, SPECIAL DISTRICT
BRUCE GIBSON, COUNTY ALTERNATE
CARLA WIXOM, CITY ALTERNATE
JOHN JOYCE, SPECIAL DISTRICT ALTERNATE
MICHAEL DRAZE, PUBLIC ALTERNATE

MEETING PARTICIPATION

- **To submit a written comment**, please reference the agenda item and submit your comments by email to mbing@slo.lafco.ca.gov, through the online submission form at slo.lafco.ca.gov, or by U.S. mail to 1042 Pacific St, Suite A, San Luis Obispo, CA, 93401. All correspondence received will be distributed to the Commission and become part of the official record for the Commission meeting.

- **To submit a pre-recorded verbal comment,** please call (805) 781-5795, state and spell your name, reference the agenda item to which your comment pertains, and leave your message. All comments received will be distributed to the Commission and become part of the official record for the Commission meeting.

- **To provide live comment**, please attend the in-person meeting, complete a Request to Speak form, and submit it to the Commission Clerk before consideration of the applicable agenda item. Each speaker will be allotted up to three minutes to address the Commission. Applicants or their representatives will be invited to speak first following the staff report and after any questions from the Commission have been addressed.

Other Notes:

- In compliance with the Americans with Disabilities Act (ADA), if you need special assistance to participate in this meeting, please contact the Commission Clerk at 805-781-5795. Notification provided a minimum of 48 hours prior to the meeting will enable the Commission Clerk to make reasonable arrangements to ensure accessibility to this meeting. Pursuant to the ADA, the meeting room is accessible to the physically disabled.

- It is required by Government Code Section 84308 that a participant in a LAFCO proceeding who has a financial interest in the decision and who has made a campaign contribution of more than $500 to any Commissioner within 12 months prior to the proceeding must disclose the contribution. If you are affected, please notify Commission Staff before the hearing.

MEETING AGENDA

Pledge of Allegiance

Call to Order/Roll Call

Approval of the Minutes: June 18, 2026 **(Page 3 - 7)**

Non-Agenda Public Comment Period
This portion of the meeting is reserved for public comments on matters that are not listed on the regular agenda. Members of the public may submit comments using any of the three methods described above in the Meeting Participation section.

Consent Matters

A-1: **Year End Budget Report and Work Plan Update for Fiscal Year 2025-2026** **(Page 8 - 28)**

Recommendation:
Action: Receive and file the Fiscal Year 2025-2026 Year End Budget Report and Work Plan and direct the Executive Officer to submit it to the County Auditor.

Informational Matters

B-1: **Update on the Proposed Dissolution of the San Simeon Community Services District | LAFCO File No. 2-R-24** **(Page 29 - 87)**

Recommendation:
Action: Receive and file this update on the proposed dissolution of the San Simeon Community Service District.

Regular Matters

C-1: **Municipal Service Review Policies and Guidelines** **(Page 88 - 110)**

Recommendation:
Action: Approve, by motion, the proposed policies and guidelines related to the Municipal Service Review program.

Commissioner Comments

Legal Counsel Comments

Executive Officer Comments

Adjournment

Tentative Future Meeting Schedule, Subject to Change

- October 2026 – Cal Valley CSD Status Update, SOI & Annexation No. 1 to Shandon San Juan Water District, City of Paso Robles and County of San Luis Obispo Memorandum of Agreement regarding the City's 2026 SOI Update, Quarterly Budget & Work Plan Update
- November 2026 – Ground Squirrel Hollow CSD MSR & SOI Study, Linne CSD MSR & SOI Study, Squire Canyon CSD MSR & SOI Study, Annual Meeting & Holiday Calendar
- December 2026 – TBD

SAN LUIS OBISPO
LOCAL AGENCY FORMATION COMMISSION
JUNE 18, 2026, MEETING MINUTES

Call to Order

The San Luis Obispo Local Agency Formation Commission (LAFCO) meeting was called to order at 9:00 a.m. on Thursday, June 18, 2026, by Chairperson Heather Moreno in the Board of Supervisors Chambers at the County Government Center, 1055 Monterey Street, San Luis Obispo, CA 93408.

Pledge of Allegiance

Roll Call

Present: Chairperson Heather Moreno, Vice Chair Dave Watson, Commissioners Ed Eby, Navid Fardanesh, Steve Gregory, Dawn Ortiz-Legg, and Alternate Commissioner John Joyce

Absent: Commissioner Ed Waage, and Alternate Commissioners Michael Draze, Bruce Gibson, and Carla Wixom

Staff: Rob Fitzroy, LAFCO Executive Officer
Imelda Marquez-Vawter, LAFCO Senior Analyst
Melissa Morris, LAFCO Commission Clerk
Holly Whatley, LAFCO Legal Counsel (remote)

Approval of the Minutes: May 21, 2026

Chairperson Moreno announced the consideration of approval of the May 21, 2026, Regular Meeting Minutes.

Chairperson Moreno asked for Commissioner comments, announcing that it was closed shortly after hearing none.

Chairperson Moreno opened the item for public comment, announcing that it was closed shortly after hearing none.

Chairperson Moreno asked for a motion to approve the minutes.

Commissioner Fardanesh motioned to approve the minutes.

Commissioner Gregory seconded the motion.

AYES: Commissioners Fardanesh, Gregory, Eby, Ortiz-Legg, Vice Chair Watson, and Chairperson Moreno

NAYS: None

ABSTAIN: None

The motion passed unanimously.

<u>Non-Agenda Public Comment Period</u>

Chairperson Moreno opened public comment, announcing it was closed shortly after hearing none.

<u>CALAFCO Workshop Update</u>

Chairperson Moreno invited **Mr. Fitzroy** to present the item.

Mr. Fitzroy gave a briefing on topics discussed at the 2026 CALAFCO Staff Workshop.

<u>Regular Matters</u>

A-1: Municipal Service Review Program and Sphere of Influence Study Overview

Chairperson Moreno invited **Mr. Fitzroy** to present the item.

Chairperson Moreno inquired about how potential policies, such as a remediation policy, could change the outcome of a Municipal Service Review (MSR).

Mr. Fitzroy responded to questions and provided comment.

Chairperson Moreno inquired about the adoption of an MSR.

Mr. Fitzroy responded to questions and provided comment.

Commissioner Ortiz-Legg inquired about study sessions.

Mr. Fitzroy responded to questions and provided comment.

Chairperson Moreno opened the item for Commissioner questions and comments.

Commissioner Gregory inquired about options for staff in preparing recommendations for the Commission with regard to remediation periods.

Mr. Fitzroy responded to questions and provided comment.

Commissioner Gregory inquired about the dissolution process.

Mr. Fitzroy responded to questions and provided comment.

Commissioner Fardanesh inquired about sphere of influence options when an agency is considering dissolution.

Mr. Fitzroy responded to questions and provided comment.

Commissioner Fardanesh inquired about dissolution options and timelines.

Chairperson Moreno responded to questions and provided comment.

Mr. Fitzroy responded to questions and provided comment.

Commissioner Fardanesh inquired about alternative options that could have been explored for the proposed dissolution of the San Simeon Community Services District .

Mr. Fitzroy responded to questions and provided comment.

Commissioner Ortiz-Legg provided comment and examples of when study sessions may be helpful.

Vice Chair Watson inquired about how to identify successor agencies.

Mr. Fitzroy responded to questions and provided comment.

Vice Chair Watson provided comment on adopting MSRs.

Chairperson Moreno inquired about policies and options to consider when adopting an MSR.

Mr. Fitzroy responded to questions and provided comment.

Chairperson Moreno inquired about adding conditions of approval for MSRs.

Mr. Fitzroy responded to questions and provided comment.

Commissioner Ortiz-Legg provided comment regarding when to consider bringing a study session.

Mr. Fitzroy provided comment.

Vice Chair Watson provided comment regarding MSR policies and procedures.

Chairperson Moreno opened the item for public comment and invited **John Joyce** to speak.

John Joyce, LAFCO Alternate Special District Commissioner, provided comment.

Chairperson Moreno closed public comment and opened the item for Commissioner questions and comments.

Commissioner Eby inquired about LAFCO's authority in selecting the successor agency.

Ms. Whatley responded to questions and provided comment.

Commissioner Gregory inquired about the State of California as a possible successor agency.

Ms. Whatley responded to questions and provided comment.

Commissioner Ortiz-Legg provided comment on external factors.

Chairperson Moreno provided comments summarizing proposed policy changes.

Commissioner Fardanesh inquired about sphere of influence expansions and how they would be affected by policy changes.

Commissioner Ortiz-Legg responded to questions and provided comment.

Mr. Fitzroy responded to questions and provided comment.

Commissioner Gregory provided comment regarding study sessions.

Vice Chair Watson inquired about the proposed severity framework.

Mr. Fitzroy responded to questions and provided comment.

Chairperson Moreno called the meeting into recess at 10:22 am.

Chairperson Moreno called the meeting back into order at 10:31 am.

Mr. Fitzroy provided a summary of policies to be brought forward at a future meeting for consideration by the Commission.

Chairperson Moreno noted that this item is to be received and filed as an informational report on statutory requirements for Municipal Service Reviews and Sphere of Influence Studies, LAFCO's authority, available tools to address issues, and potential policy solutions.

A-2: Budget Adjustment to Fiscal Year 2025-2026 Budget for Refund Related to Dana Reserve Specific Plan Litigation

Mr. Fitzroy presented the item.

Chairperson Moreno opened the item for Commissioner questions and comments, announcing it was closed shortly after hearing none.

Chairperson Moreno opened the item for public comment, announcing it was closed shortly after hearing none.

Chairperson Moreno opened the item for Commissioner questions and comments.

Vice Chair Watson made a motion in support of the staff recommendation for Item A-2: Adopt a Resolution approving a Fiscal Year 2025-26 budget adjustment.

Commissioner Ortiz-Legg seconded the motion.

AYES: Vice Chair Watson, Commissioners Ortiz-Legg, Eby, Fardanesh, Gregory, and Chairperson Moreno

NAYS: None

ABSTAIN: None

The motion passed unanimously.

Commissioner Comments: **Commissioner Fardanesh** provided comment regarding Templeton Community Services District's anniversary celebration. **Commissioner Gregory** provided comment regarding the City of Paso Robles' July 4th celebration.

Legal Counsel Comments: None.

Executive Officer Comments: **Mr. Fitzroy** provided updates on the Special District Alternate Seat election results, as well as July and August meeting cancellations.

Adjournment: With no further business before the Commission, the meeting adjourned at 10:38 AM until the next meeting of the Commission in the Board of Supervisors Chambers at the County Government Center in San Luis Obispo.

THESE MINUTES ARE NOT OFFICIAL NOR ARE THEY A PERMANENT PART OF THE RECORD UNTIL THEY ARE APPROVED BY LAFCO COMMISSIONERS AT THE NEXT REGULAR MEETING.

Respectfully submitted,
Morgan Bing, LAFCO Analyst

San Luis Obispo Local Agency Formation Commission

TO: MEMBERS OF THE COMMISSION

FROM: ROB FITZROY, EXECUTIVE OFFICER

DATE: SEPTEMBER 17, 2026

SUBJECT: YEAR END BUDGET REPORT AND WORK PLAN UPDATE FOR FISCAL YEAR 2025-2026

RECOMMENDATION

Action: Receive and file the Fiscal Year 2025-2026 Year End Budget Report and Work Plan and direct the Executive Officer to submit it to the County Auditor.

BUDGET OVERVIEW

This report is the Fiscal Year 2025-2026 (FY 25-26) year-end report for the San Luis Obispo Local Agency Formation Commission (LAFCO). The LAFCO operating budget is comprised of four components: 1) salaries, payroll taxes, and benefits, 2) services and supplies, 3) revenues, and 4) fund balance and reserves. Day-to-day management of the budget is based on “bottom-line” principles that allow for variation within individual line-item accounts as long as the overall expenditures remain within the approved budget.

LAFCO’s budget is funded by the County, Cities, and Independent Special Districts. City and District shares are pro-rated based on general revenues reported to the State Controller’s Office on an annual basis. LAFCO also receives revenue from application fees and interest earnings.

The County Auditor-Controller-Treasurer-Tax Collector provides LAFCO with various financial services. All of LAFCO’s financial transactions are processed through the County Auditor’s financial system. This approach ensures accuracy, transparency, and accountability. The County Auditor’s Office also provides LAFCO with claims processing, invoicing, and financial review services. The County Auditor’s financial tracking system assists LAFCO in monitoring the budget and compiling budget report data, as well as providing an independent review of the budget.

FY 25-26 BUDGET SUMMARY

Executive Officer Comments. LAFCO is in a healthy budgetary and operational position. FY 25-26 resulted in budgetary savings due to decreased services and supplies expenses and increased interest income. As a result, LAFCO required a significantly smaller transfer from reserves than initially projected, thereby having a smaller financial impact overall. While the adopted FY 25-26 budget anticipated a reserve transfer of $50,000 to balance expenditures, actual revenues allowed for a reduced transfer of approximately $18,948. Overall, LAFCO ended the fiscal year under budget while maintaining a healthy reserve position.

Expenditures. Table 1 summarizes LAFCO's year-end budget status. Overall, expenditures remained below budgeted levels, with some minor variances by category. Salaries, benefits, and taxes exceeded the budget by $1,750, primarily due to slightly higher than expected Federal Insurance Contribution Act (FICA) and unemployment contributions due to a minor payroll error. In contrast, services and supplies expenditures were about 21% below budget, resulting in savings of $36,721. These savings were due to reduced spending in several line items, including legal counsel services, professional services, and office supplies.

Table 1. FY 25-26 Year End Expenditures			
	Budgeted Expenditures	**Actual Expenditures**	**Percent Expended**
Salaries / Benefits / Taxes	$704,181	$705,931	100.25%
Services / Supplies	$173,650	$136,929	79%
Totals	**$877,831**	**$842,860**	**96%**

LAFCO uses a credit card from a program implemented by the Special District Risk Management Association (SDRMA) for public agencies. LAFCO's policy is to pay each bill in full each month. The statements for April, May, and June are included as Attachment B. Additionally, with any "significant value" purchases over $400, a receipt is provided for that item for further transparency, see Attachment B.

- **April:** Microsoft Office Subscription $52.52, Costco (Commission Meeting Supplies) $58.71, Costco (Copier Refund) -$705.78, Costco (Copier Purchase) $500.24, Fedex $10.86, Clerk Recorder $164.98, Logitech $97.86

- **May:** Microsoft Office Subscription $52.52, Ralphs $33.85, Clerk Recorder $164.98, USPS $11.87,
  - *CALAFCO Staff Workshop Related Expenses*: Smart & Final $46.79, The Cliffs Hotel $251.31, Scout Coffee $19.25, SLO Olive $36.00, Michaels Stores $10.31, The Cliffs Hotel $251.31

- **June:** Microsoft Office Subscription $52.52, Trophy Hunters $13.01

Revenues. Table 2 shows a summary of overall revenue for FY 25-26. Combined application processing fee revenue and interest earned were 10% lower than projected. All agencies contributed their respective portion of the budget in a timely manner. However, due to decreased expenditures, LAFCO only used about 38% of the projected reserve funds.

Table 2. FY 25-26 Year End Revenue		
	Budgeted Revenue	**Actual Revenue**
Interest Revenue	$9,000	$22,760
Processing Fee Revenue	$30,000	$12,321
Agency Contributions	$788,831	$788,831
Use of Reserve Funds	$50,000	$18,948
Totals	**$877,831**	**$842,860**

Fund Balance (Reserves). Table 3 shows fund balance reserves. As previously noted, expenditures were lower than budgeted during the fiscal year, and therefore, it was not necessary to pull $50,000 from reserves to achieve budget targets and cover all expenditures. Instead, only $18,948 was utilized, resulting in a stronger year-end reserve balance than anticipated. The new reserve fund balance is $227,612.

Table 3. FY 25-26 Year End Reserve Fund Balance		
	Adopted FY 25-26	**Year End FY 25-26**
Beginning Reserve Fund	$242,170	$254,362
Use of Reserve Fund	$50,000	$18,948
Dana Reserve Litigation Reserve Transfer[1]		$7,801
Year End Reserve Fund	**$192,170**	**$227,612**

WORK PLAN QUARTERLY / YEAR END UPDATE

Executive Officer Comments. Overall, at year's end, it has been a busy and productive year. In alignment with the Commission's established Work Plan priorities, staff primarily focused on the MSR program while also processing applications. In addition to our typical workload of proposal application processing and MSR work, we hosted the CALAFCO statewide workshop, facilitated special district elections, participated with CALAFCO on their restructuring/improvements, attended trainings to support staff’s professional development and technical expertise, and continued to improve and streamline operations.

Work Plan Update. As adopted by the Commission, our work prioritization is as follows:

1. Process proposal applications as mandated by statute and conduct critical operations necessary for the organization to function.

[1] See staff report for Item A-2 from the June 18, 2026 LAFCO Commission Meeting for more information.

2. Prepare Municipal Service Reviews (MSRs) as mandated by statute, based on the date an MSR was last updated.
3. Execute special work efforts as directed by the Commission.

Consistent with the priorities established by the Commission for the FY 25-26 Work Plan, staff diligently worked on the following items during the fourth quarter and throughout the last fiscal year:

- City of San Luis Obispo Detachment (complete)
- Nipomo CSD annexation applications (one complete, one in progress)
- Cayucos Sanitary District annexation (in progress)
- San Simeon Community Services District Dissolution (in progress)
- County Service Area 23 Annexation Time Extension (complete)
- Santa Margarita Fire Protection District MSR and SOI Study (complete)
- Coastal San Luis Resource Conservation District MSR and SOI Study (complete)
- Upper Salinas – Las Tablas Resource Conservation District MSR and SOI Study (complete)
- Los Osos Community Services District MSR and SOI Study (complete)
- Shandon - San Juan Water District MSR and SOI Study (complete)
- Estrella - El Pomar - Creston Water District MSR and SOI Study (complete)
- City of Paso Robles MSR and SOI Study (complete)
- Independence Ranch Community Services District MSR and SOI Study (complete)
- Port San Luis Harbor District MSR and SOI Study (complete)
- California Valley Community Services District MSR and SOI Study (complete)
- Garden Farms Community Water District MSR and SOI Study (complete)
- Linne Community Services District MSR and SOI Study (in progress)
- Squire Canyon Community Services District MSR and SOI Study (in progress)
- Ground Squirrel Hollow Community Services District MSR and SOI Study (in progress)
- City of San Luis Obispo MSR and SOI Study (in progress)
- Cayucos Sanitary District MSR and SOI Study (in progress)
- Hosted the CALAFCO staff training workshop
- LAFCO Special District Alternate Seat Election & Runoff
- Participated in CALAFCO Regional meetings on the restructuring CALAFCO
- Water Mutual/Private Wastewater System Consolidation Coordination with State and Regional Water Boards
- Dana Reserve Specific Plan Litigation
- Responding and researching a number of various inquiries regarding potential future proposed changes of organization, or reorganizations, and legal issues
- Conducted ongoing critical operations, invoicing, payroll, records management, etc.
- Additional work efforts include attendance/presentations at various district public meetings to discuss LAFCO processes, response to numerous public inquiries regarding annexations, coordination with numerous districts and cities regarding potential future annexations, coordination with districts regarding activation/divestiture of powers,

responses to Public Record Act requests, reorganizing our record management systems, and LAFCO maps/GIS Boundary Data maintenance

Project Status Updates

Below is a brief status update of some projects currently in process:

- **Upper Salinas – Las Tablas Resource Conservation District Audit Status** - As part of the Commission's approval of the Upper Salinas–Las Tablas Resource Conservation District (US-LTRCD) MSR and SOI Study, several conditions of approval were adopted. One condition requires LAFCO staff to include status updates in each regular Quarterly Budget and Work Plan report during the District's LAFCO-established 12-month remediation period (February 2026 through February 2027). These updates are to address the District's progress toward completing required audits and implementing financial remediation measures. The following provides an update on the District's audit and financial remediation efforts.

  The US-LTRCD has formally engaged Moss, Levy & Hartzheim LLP to conduct audits for the fiscal years ending in 2024 and 2025. The audit report/financial statement for FY 2023-24 was completed at the end of May. The FY 2023-24 audit resulted in a clean opinion, meaning the financial statements fairly present the District's financial position in accordance with Government Auditing Standards. The District is currently working on supplying documents to MLH for the FY 2024-25 audit and expects to have this audit report no later than the end of September.

- **San Simeon CSD Dissolution** – The San Simeon CSD submitted a Resolution of Application to LAFCO on May 30, 2024. As required by the Government Code, staff provided a 30-day review letter, a copy of which was provided to your Commission. The dissolution is currently on information hold. In brief, the County, as the proposed successor agency, requested time to study the issue and would like to explore options. The LAFCO 30-day response letter details some of the items that need to be analyzed, much of which depends on how the County would like to proceed as the successor agency. The process requires a comprehensive analysis of existing and future governance structures and the services to be provided. A study was completed in August 2026 and presented to the Board of Supervisors on September 1, 2026. The Board directed County staff to return with a framework to engage state officials and agencies, evaluate the need for special legislation, collaborate with Cambria CSD to explore consolidation options, and identify funding sources and costs associated within continued involvement. LAFCO staff continue to host ongoing meetings, promote regional coordination, and provide updates to the public about the status and process. We have received a large number of inquiries on this matter.

- **Shandon San Juan Water District Annexation –** A landowner petition of application request to annex approximately 4,000 acres into the District has been formally submitted. The proposal was reviewed within the 30-day review period and placed on hold. The applicant has recently provided additional information, and the proposal is being processed accordingly. It is anticipated that the item will be presented to the Commission in October 2026.

ATTACHMENTS

Attachment A: Year End Budget Detail

Attachment B: Credit Card Statements

Attachment A

Year End Budget
Detail

	Adopted FY 25-26	Expenditures / Revenue	Percent Expended / Revenue
Expenditures Summary	**$877,831**	**$842,861**	**96%**
Revenues Summary	**$877,831**	**$842,860**	**96%**
Services and Supplies Expenditure Details			
Vehicle Stipend	$5,400	$5,400	100%
Vehicle Rental	$500	$689	138%
Computer Software	$2,000	$885	44%
Copying-Printing	$300	$0	0%
Commission Meeting Expenses	$600	$905	151%
LAFCO Insurance Policies	$22,000	$16,687	76%
IT Support	$850	$0	0%
Maintenance-Equipment	$500	$0	0%
Maintenance-Software	$500	$576	115%
CALAFCO/ SDRMA / Other Memberships	$9,000	$8,776	98%
Employee Mileage Reimbursement	$200	$139	69%
Commissioner Mileage Reimbursement	$1,500	$1,410	94%
Office Supplies	$3,000	$1,127	38%
Custodial Services	$1,800	$1,800	100%
County Auditor Services	$10,500	$10,215	97%
Legal Counsel	$38,000	$21,762	57%
Postage	$1,000	$1,111	111%
General / Commissioner Stipends	$17,000	$9,594	56%
Publication & Legal Notices	$1,000	$1,219	122%
Training	$6,000	$6,051	101%
Office Lease	$42,000	$42,000	100%
Large Equipment	$3,000	$304	10%
Small Equipment	$1,000	$0	0%
Telephone / Internet	$3,000	$3,412	114%
Travel Expenses	$3,000	$2,868	96%
Services/ Supplies Subtotal	***$173,650***	***$136,929***	**79%**
Salary, Benefits and Taxes Expenditures			
Salaries	$427,610	$427,320	100%
Federal Taxes - FICA Social Security	$26,509	$27,562	104%
Federal Taxes - Medicare	$6,200	$6,557	106%
SDI/SUI Employer Contribution	$0	$448	0%
SLOCPT Pension Rate	$145,904	$145,858	100%
Heath Insurance	$69,600	$69,750	100%
SLOCPT Pension Obligation Bond	$18,358	$18,453	101%
Deferred Compensation	$10,000	$9,984	100%
Salary, Benefits and Taxes Subtotal	***$704,181***	***$705,931***	**100%**
Total Expenditures	**$877,831**	**$842,861**	**96%**
Revenues			
Interest Earned	$9,000	$22,760	253%
Environmental Review Fees	$3,000	$1,000	33%
Sphere of Influence Fees	$3,000	$0	0%
Application Processing Fees	$24,000	$11,321	47%
Other Revenue (Transfer of Reserves)	$50,000	$18,948	38%
Agency Contributions			
Cities	$262,944	$262,944	100%
County	$262,944	$262,944	100%
Special Districts	$262,944	$262,944	100%
Total Revenue	**$877,831**	**$842,860**	**96%**
Reserves Fund Balance	**$192,170**	**$227,612**	**118%**

Attachment B

Credit Card
Statements

COLUMBIA BANK

VISA

Account Summary

Billing Cycle		04/30/2026
Days In Billing Cycle		30
Previous Balance		$356.50
Purchases	+	$885.17
Cash	+	$0.00
Balance Transfers	+	$0.00
Special	+	$0.00
Credits	-	$705.78-
Payments	-	$356.50-
Other Charges	+	$0.00
Finance Charges	+	$0.00
NEW BALANCE		**$179.39**

Credit Summary

Total Credit Line	$10,000.00
Available Credit Line	$9,820.61
Available Cash	$0.00
Amount Over Credit Line	$0.00
Amount Past Due	$0.00
Disputed Amount	$0.00

Account Inquiries

Call us at: (866) 777-9013
Lost or Stolen Card: (866) 839-3485

Go to ColumbiaBank.com

Write us at PO BOX 35142 - LB1181, SEATTLE, WA 98124-5142

Payment Summary

NEW BALANCE	**$179.39**
MINIMUM PAYMENT	**$179.39**
PAYMENT DUE DATE	**05/25/2026**

NOTE: *Grace period to avoid a finance charge on purchases, pay entire new balance by payment due date. Finance charge accrues on cash advances until paid and will be billed on your next statement.*

Corporate Activity

Trans Date	Post Date	Reference Number	Transaction Description	Amount
			TOTAL CORPORATE ACTIVITY	**$356.50-**
04/10	04/13		PAYMENT - THANK YOU SPOKANE WA	$356.50-

Cardholder Account Summary

ROBERT FITZROY #### #### ####	Payments & Other Credits	Purchases & Other Charges	Cash Advances	Total Activity
	$0.00	$52.52	$0.00	$52.52

Cardholder Account Detail

Trans Date	Post Date	Plan Name	Reference Number	Description	Amount
04/26	04/26	PPLN01		Microsoft-G154680665 701-2817490 WA	$52.52

PLEASE DETACH COUPON AND RETURN PAYMENT USING THE ENCLOSED ENVELOPE - ALLOW UP TO 7 DAYS FOR RECEIPT - *

COLUMBIA BANK
PO BOX 35142 - LB1181
SEATTLE WA 98124-5142

COLUMBIA BANK

Account Number
##

Check box to indicate name/address change on back of this coupon

AMOUNT OF PAYMENT ENCLOSED

Closing Date	New Balance	Total Minimum Payment Due	Payment Due Date
04/30/26	$179.39	$179.39	05/25/26

$ ______ . __

BL ACCT
LAFCO
1042 PACIFIC ST
SUITE A
SAN LUIS OBISPO CA 93401

6149

MAKE CHECK PAYABLE TO:

COLUMBIA BANK
PO BOX 35142 - LB1181
SEATTLE WA 98124-5142

A-1-10

35 0008 9042 0000 0000 00000000 00000000 0

BL ACCT

Account Number: #### #

Cardholder Account Summary

MORGAN BING #### #### 6	Payments & Other Credits	Purchases & Other Charges	Cash Advances	Total Activity
	$705.78-	$558.95	$0.00	$146.83-

Cardholder Account Detail

Trans Date	Post Date	Plan Name	Reference Number	Description	Amount
04/10	04/12	PPLN01		COSTCO WHSE #0741 SAN LUIS OBIS CA	$58.71
04/10	04/12			CREDIT VOUCHER WWW COSTCO COM 800-955-2292 WA	$705.78-
04/13	04/14	PPLN01		WWW COSTCO COM 800-955-2292 WA	$500.24

Cardholder Account Summary

MELISSA MORRIS #### #### ##4	Payments & Other Credits	Purchases & Other Charges	Cash Advances	Total Activity
	$0.00	$273.70	$0.00	$273.70

Cardholder Account Detail

Trans Date	Post Date	Plan Name	Reference Number	Description	Amount
04/06	04/07	PPLN01		FEDEX OFFICE 5150 SBPK SAN LUIS OBIS CA	$10.86
04/16	04/17	PPLN01		AMS*SERVICE FEE 101653 888-9147768 FL	$1.49
04/16	04/17	PPLN01		AMS*SERVICE FEE 101653 888-9147768 FL	$1.49
04/16	04/17	PPLN01		SLO CLERK RECORDER 805-7815080 CA	$81.00
04/16	04/17	PPLN01		SLO CLERK RECORDER 805-7815080 CA	$81.00
04/22	04/22	PPLN01		GLOBAL-E* LOGITECH GLOBAL-E.COM NY	$97.86

Finance Charge Summary / Plan Level Information

Plan Name	Plan Description	FCM[1]	Average Daily Balance	Periodic Rate *	Corresponding APR	Finance Charges	Effective APR Fees **	Effective APR	Ending Balance
Purchases									
PPLN01 001	PURCHASE	E	$0.00	0.06024%(D)	21.9900%	$0.00	$0.00	0.0000%	$179.39
Cash									
CPLN01 001	CASH	A	$0.00	0.06572%(D)	23.9900%	$0.00	$0.00	0.0000%	$0.00

* Periodic Rate (M)=Monthly (D)=Daily
** includes cash advance and foreign currency fees
[1] FCM = Finance Charge Method

Days In Billing Cycle: 30
APR = Annual Percentage Rate

(V) = Variable Rate If you have a variable rate account the periodic rate and Annual Percentage Rate (APR) may vary.

COSTCO
WHOLESALE

San Luis Obispo #741
1540 Froom Ranch Way
San Luis Obispo, CA 93401
(805) 541-7000

REFUND / MEMBERSHIP

1H Member 111969816911

E-Comm Order#: 1135852916
E-Comm Amount: -$705.78
E-Comm Credit: ************9256
E-Comm Type : Visa

An email receipt will be sent to the address used in the original order. Please note, bank settlement may take up to 3 business days. For additional assistance, please visit customerservice.costco.com

04/10/2026 12:22 741 121 85 608

21074112100852604101222

OP#: 608 Name: PABLO

Thank You!

Please Come Again

Whse:741 Trm:121 Trn:85 OP:608

Items Sold: 1-
1H 04/10/2026 12:22

Outlook

Fw: Your Costco.com order 1135852916 was refunded

From Morgan Bing <mbing@slo.lafco.ca.gov>
Date Fri 4/10/2026 1:26 PM
To Melissa Morris <mmorris@slo.lafco.ca.gov>

Morgan Bing | Analyst
San Luis Obispo Local Agency Formation Commission
1042 Pacific St Suite A
San Luis Obispo, CA 93401
(805) 781-3010

From: Costco Orders <Costco@orders.costco.com>
Sent: Friday, April 10, 2026 12:23 PM
To: Morgan Bing <mbing@slo.lafco.ca.gov>
Subject: Your Costco.com order 1135852916 was refunded

COSTCO WHOLESALE

View in brov

Your refund was issued.

View Order

Morgan, this email is to inform you that a refund was issued on your Costco.com order.

Refund Date
4/10/26

Refund Total
$705.78

Payment Method
$705.78 - Visa

When will I see my Costco.com refund?

Your Order

[BROTHER AIO PRINTER MFC-L]

Item 1557833

Return Quantity 1

Reason for Return

Item Refund Credit

Refund Amount

$648.99

If your "Reason for Return" is a Price Change Credit, the price for the affected item will be adjusted by the Refund Amount. If you return this item in the future, your refund amount for the return at that time will be the remaining adjusted amount.

SubTotal	$648.9
Shipping & Handling	$0.0
Tax	$56.7
Refund Total	$705.7

Please allow an additional 72 hours for your bank to reflect the credit to your account. At that time, if you still do not see the credit on your account, contact your financial institution first to determine the status of the pending credit.

Thank you for shopping Costco.com - we hope to see you again soon!

Please do not reply to this email. This is an automated email notification, and replies to this email are routed to an unmonitored mailbox.

Shop Confidently

We are committed to offering the best value to our members, with a risk-free 100% satisfaction guarantee on your membership and merchandise. Certain items have restrictions on return or refund under Costco's Return Policy. If you have questions about your membership, products you've purchased at Costco, or any additional questions regarding Costco.com, please Contact Customer Service or visit the membership counter at your local Costco.

Outlook

Fw: Your Costco.com Order Number 1277536706 is Confirmed.

From Morgan Bing <mbing@slo.lafco.ca.gov>
Date Mon 4/13/2026 12:23 PM
To Melissa Morris <mmorris@slo.lafco.ca.gov>; Rob Fitzroy <rfitzroy@slo.lafco.ca.gov>

Morgan Bing | Analyst
San Luis Obispo Local Agency Formation Commission
1042 Pacific St Suite A
San Luis Obispo, CA 93401
(805) 781-3010

From: orderstatus@costco.com <orderstatus@costco.com>
Sent: Monday, April 13, 2026 12:22 PM
To: Morgan Bing <mbing@slo.lafco.ca.gov>
Subject: Your Costco.com Order Number 1277536706 is Confirmed.

Costco Wholesale

Order Confirmation

Thank you for ordering from Costco.com. Please note, Costco will send multiple emails; (1) when product(s) are ready for pickup at your selected warehouse location or, (2) when product(s) are shipped for delivery to your selected address.

(98)2100000001277536706

Order Number	Order Placed	Membership Number
1277536706	Apr 13, 2026	111969816911

View or Change Order

Shipping Address

Morgan Bing

1042 PACIFIC ST

STE A

SAN LUIS OBISPO, CA 93401-3656

Estimated Delivery **Wednesday, April 15**

Standard: Shipping & Handling Included

Brother’s MFC-L3765CDW Digital Color Printer With Copy, Scan, and Fax

Item # 1788293

$459.99

Quantity 1

Subtotal	$ 459.99
Shipping & Handling	$ 0.00
Estimated Tax	$ 40.25
Total	$ 500.24

COLUMBIA BANK

Account Number: #

VISA

Account Summary

Billing Cycle		05/31/2026
Days In Billing Cycle		31
Previous Balance		$179.39
Purchases	+	$878.19
Cash	+	$0.00
Balance Transfers	+	$0.00
Special	+	$0.00
Credits	-	$0.00
Payments	-	$179.39-
Other Charges	+	$0.00
Finance Charges	+	$0.00
NEW BALANCE		**$878.19**

Credit Summary

Total Credit Line	$10,000.00
Available Credit Line	$9,121.81
Available Cash	$0.00
Amount Over Credit Line	$0.00
Amount Past Due	$0.00
Disputed Amount	$0.00

Account Inquiries

Call us at: (866) 777-9013
Lost or Stolen Card: (866) 839-3485

Go to ColumbiaBank.com

Write us at PO BOX 35142 - LB1181, SEATTLE, WA 98124-5142

Payment Summary

NEW BALANCE	**$878.19**
MINIMUM PAYMENT	**$878.19**
PAYMENT DUE DATE	**06/25/2026**

NOTE: *Grace period to avoid a finance charge on purchases, pay entire new balance by payment due date. Finance charge accrues on cash advances until paid and will be billed on your next statement.*

Corporate Activity

TOTAL CORPORATE ACTIVITY **$179.39-**

Trans Date	Post Date	Reference Number	Transaction Description	Amount
05/22	05/26		PAYMENT - THANK YOU SPOKANE WA	$179.39-

PLEASE DETACH COUPON AND RETURN PAYMENT USING THE ENCLOSED ENVELOPE - ALLOW UP TO 7 DAYS FOR RECEIPT - *

COLUMBIA BANK
PO BOX 35142 - LB1181
SEATTLE WA 98124-5142

COLUMBIA BANK

Account Number
###

Check box to indicate name/address change on back of this coupon

Closing Date	New Balance	Total Minimum Payment Due	Payment Due Date
05/31/26	$878.19	$878.19	06/25/26

AMOUNT OF PAYMENT ENCLOSED

$.

OLAFCO
1042 PACIFIC ST
SUITE A
SAN LUIS OBISPO CA 93401

18575

MAKE CHECK PAYABLE TO:

COLUMBIA BANK
PO BOX 35142 - LB1181
SEATTLE WA 98124-5142

A-1-17

35 0008 9042 0000 0000 00000000 00000000 0

Cardholder Account Summary

	Payments & Other Credits	Purchases & Other Charges	Cash Advances	Total Activity
IMELDA MARQUEZ #### #### #### 9	$0.00	$298.10	$0.00	$298.10

Cardholder Account Detail

Trans Date	Post Date	Plan Name	Reference Number	Description	Amount
05/05	05/07	PPLN01	24231686126740556679493	SMART AND FINAL 913 SAN LUIS OBIS CA	$46.79
05/08	05/10	PPLN01	24445006129500810501358	FSP*THE CLIFFS HOTEL AND PISMO BEACH CA	$251.31

Cardholder Account Summary

	Payments & Other Credits	Purchases & Other Charges	Cash Advances	Total Activity
ROBERT FITZROY #### #### ###	$0.00	$52.52	$0.00	$52.52

Cardholder Account Detail

Trans Date	Post Date	Plan Name	Reference Number	Description	Amount
05/26	05/26	PPLN01	24011346146100032666155	MICROSOFT#G160734950 MICROSOFT.COM WA	$52.52

Cardholder Account Summary

	Payments & Other Credits	Purchases & Other Charges	Cash Advances	Total Activity
MORGAN BING #### #### ####6	$0.00	$316.87	$0.00	$316.87

Cardholder Account Detail

Trans Date	Post Date	Plan Name	Reference Number	Description	Amount
05/05	05/06	PPLN01	24692166125409965574739	SQ *SCOUT COFFEE San Luis Obis CA	$19.25
05/05	05/07	PPLN01	24223696126030038635316	SLO OLIVE SAN LUIS OBIS CA	$36.00
05/05	05/07	PPLN01	24692166126400610021514	MICHAELS STORES 5140 SANLUISOBISPO CA	$10.31
05/08	05/10	PPLN01	24445006129500810501507	FSP*THE CLIFFS HOTEL AND PISMO BEACH CA	$251.31

Cardholder Account Summary

	Payments & Other Credits	Purchases & Other Charges	Cash Advances	Total Activity
MELISSA MORRIS #### #### ###4	$0.00	$210.70	$0.00	$210.70

Cardholder Account Detail

Trans Date	Post Date	Plan Name	Reference Number	Description	Amount
05/05	05/06	PPLN01	24445716125300747636213	RALPHS #0656 SAN LUIS OBIS CA	$33.85
05/22	05/24	PPLN01	24343116142900012115481	SLO CLERK RECORDER 805-7815080 CA	$81.00
05/22	05/24	PPLN01	24343116142900012117727	SLO CLERK RECORDER 805-7815080 CA	$81.00
05/22	05/24	PPLN01	24343116142900012617734	AMS*SERVICE FEE 101653 888-9147768 FL	$1.49
05/22	05/24	PPLN01	24343116142900012626974	AMS*SERVICE FEE 101653 888-9147768 FL	$1.49
05/28	05/29	PPLN01	24137466149001700908493	USPS PO 0568770075 SAN LUIS OBIS CA	$11.87

Finance Charge Summary / Plan Level Information

Plan Name	Plan Description	FCM[1]	Average Daily Balance	Periodic Rate *	Corresponding APR	Finance Charges	Effective APR Fees **	Effective APR	Ending Balance
Purchases									
PPLN01 001	PURCHASE	E	$0.00	0.06024%(D)	21.9900%	$0.00	$0.00	0.0000%	$878.19
Cash									
CPLN01 001	CASH	A	$0.00	0.06572%(D)	23.9900%	$0.00	$0.00	0.0000%	$0.00

* Periodic Rate (M)=Monthly (D)=Daily
** includes cash advance and foreign currency fees

Days In Billing Cycle: 31
APR = Annual Percentage Rate

[1] FCM = Finance Charge Method

(V) = Variable Rate If you have a variable rate account the periodic rate and Annual Percentage Rate (APR) may vary.

COLUMBIA BANK

BL ACCT

Account Number: #### #### ####

VISA

Account Summary

Billing Cycle		06/30/2026
Days In Billing Cycle		30
Previous Balance		$878.19
Purchases	+	$65.53
Cash	+	$0.00
Balance Transfers	+	$0.00
Special	+	$0.00
Credits	-	$0.00
Payments	-	$878.19-
Other Charges	+	$0.00
Finance Charges	+	$0.00
NEW BALANCE		**$65.53**

Credit Summary

Total Credit Line	$10,000.00
Available Credit Line	$9,934.47
Available Cash	$0.00
Amount Over Credit Line	$0.00
Amount Past Due	$0.00
Disputed Amount	$0.00

Account Inquiries

Call us at: (866) 777-9013
Lost or Stolen Card: (866) 839-3485

Go to ColumbiaBank.com

Write us at PO BOX 35142 - LB1181, SEATTLE, WA 98124-5142

Payment Summary

NEW BALANCE	**$65.53**
MINIMUM PAYMENT	**$65.53**
PAYMENT DUE DATE	**07/25/2026**

NOTE: *Grace period to avoid a finance charge on purchases, pay entire new balance by payment due date. Finance charge accrues on cash advances until paid and will be billed on your next statement.*

Corporate Activity

TOTAL CORPORATE ACTIVITY **$878.19-**

Trans Date	Post Date	Reference Number	Transaction Description	Amount
06/08	06/09	70005606160555160180049	PAYMENT - THANK YOU SPOKANE WA	$878.19-

Cardholder Account Summary

ROBERT FITZROY #### #4	Payments & Other Credits	Purchases & Other Charges	Cash Advances	Total Activity
	$0.00	$52.52	$0.00	$52.52

Cardholder Account Detail

Trans Date	Post Date	Plan Name	Reference Number	Description	Amount
06/26	06/26	PPLN01	24011346177100041868133	MICROSOFT#G167113889 MICROSOFT.COM WA	$52.52

PLEASE DETACH COUPON AND RETURN PAYMENT USING THE ENCLOSED ENVELOPE - ALLOW UP TO 7 DAYS FOR RECEIPT - *

COLUMBIA BANK
PO BOX 35142 - LB1181
SEATTLE WA 98124-5142

COLUMBIA BANK

Account Number
#

Check box to indicate name/address change on back of this coupon

AMOUNT OF PAYMENT ENCLOSED

Closing Date	New Balance	Total Minimum Payment Due	Payment Due Date
06/30/26	$65.53	$65.53	07/25/26

$.

BL ACCT0 LAFCO
1042 PACIFIC ST
SUITE A
SAN LUIS OBISPO CA 93401

5438

MAKE CHECK PAYABLE TO:

COLUMBIA BANK
PO BOX 35142 - LB1181
SEATTLE WA 98124-5142

A-1-20

35 0008 9042 0000 0000 00000000 00000000 0

Cardholder Account Summary

MELISSA MORRIS #### #### ##	Payments & Other Credits	Purchases & Other Charges	Cash Advances	Total Activity
	$0.00	$13.01	$0.00	$13.01

Cardholder Account Detail

Trans Date	Post Date	Plan Name	Reference Number	Description	Amount
06/22	06/23	PPLN01	24027326173900016000028	TROPHY HUNTERS SAN LUIS OBIS CA	$13.01

Finance Charge Summary / Plan Level Information

Plan Name	Plan Description	FCM[1]	Average Daily Balance	Periodic Rate *	Corresponding APR	Finance Charges	Effective APR Fees **	Effective APR	Ending Balance
Purchases									
PPLN01 001	PURCHASE	E	$0.00	0.06024%(D)	21.9900%	$0.00	$0.00	0.0000%	$65.53
Cash									
CPLN01 001	CASH	A	$0.00	0.06572%(D)	23.9900%	$0.00	$0.00	0.0000%	$0.00

* Periodic Rate (M)=Monthly (D)=Daily

** includes cash advance and foreign currency fees

Days In Billing Cycle: 30

APR = Annual Percentage Rate

[1] FCM = Finance Charge Method

(V) = Variable Rate If you have a variable rate account the periodic rate and Annual Percentage Rate (APR) may vary.

San Luis Obispo Local Agency Formation Commission

TO: MEMBERS OF THE COMMISSION

FROM: ROB FITZROY, EXECUTIVE OFFICER
IMELDA MARQUEZ-VAWTER, SENIOR ANALYST

DATE: SEPTEMBER 17, 2026

SUBJECT: UPDATE ON THE PROPOSED DISSOLUTION OF THE SAN SIMEON COMMUNITY SERVICES DISTRICT | LAFCO FILE NO. 2-R-24

RECOMMENDATION

Action: Receive and file this update on the proposed dissolution of the San Simeon Community Services District.

OVERVIEW

Dissolution proceedings are subject to Local Agency Formation Commission (LAFCO) review and approval. LAFCO's authority and legislative purpose are established in Government Code Section 56000 et seq. No formal action will be taken on this item at this time; however, the Commission may offer comments and ask questions.

The application for Dissolution of the San Simeon Community Services District (SSCSD) remains on hold due to the need for additional information as requested in LAFCO's 30-day Review letter dated June 26, 2024 (Attachment A). Once all the required information has been submitted, the application will be considered complete and sufficient for processing. A Certificate of Filing will then be issued and the item will be scheduled for a hearing. At the hearing, the Commission will have broad discretion, based on the entire record, to make a decision regarding the proposed dissolution.

DISTRICT OVERVIEW

The SSCSD is currently authorized to provide water, sewer, street lighting, road maintenance, solid waste, and weed abatement services, which are considered general terms further described in Government Code Section 61100. A five-member elected board of directors is intended to manage District affairs, however, to date the District only has three of the five board member positions filled. Administrative oversight of the SSCSD is temporarily being provided by County of San Luis Obispo (County) staff as emergency support under the terms of the Cal WARN 2007 Omnibus Mutual Assistance Agreement. The SSCSD has an annual expense budget of approximately $1.7 million and a total income amount of approximately $1.4 million according to the Fiscal Year 2026-2027 Budget.

WHY IS THE DISSOLUTION PROPOSED?

In 2019, SSCSD reached a settlement with the California Coastal Commission (CCC) for long-standing violations related to its wastewater treatment facility. In summary, the settlement resulted in a Coastal Development Permit (CDP) that authorized after-the-fact development and included a number of mitigation measures and conditions of approval.

The CDP also included special conditions that, in part, require SSCSD to build a new Wastewater Treatment Plant (WWTP), decommission the existing WWTP, and fully restore the site. The CDP provided the District with a 20-year limited authorization to relocate its WWTP away from the ocean where it is presently located. The relocation of the plant is to be completed by 2029, with the opportunity to receive a time extension in five-year increments up to ten additional years (i.e. to either 2034, or 2039). The initial detailed plan for the relocation was due July 2024. The cost of the relocation is not known at this time but is expected to be in the tens of millions of dollars.

As a small agency serving a disadvantaged community of only approximately 400 residents, as well as transient visitors, SSCSD determined that they have inadequate resources to meet the conditions of approval established by the CCC. On May 30, 2024, the District applied to LAFCO for the dissolution of the SSCSD. Attachment B includes a timeline of key actions to date.

APPLICATION STATUS AND COMPREHENSIVE ANALYSIS

On May 30, 2024, SSCSD submitted an application to LAFCO proposing dissolution of the District and designation of the County as the successor agency. At the time of application, no comprehensive analysis of the dissolution proposal had been prepared, limited baseline information was available, and the proposed Plan for Services did not contain the minimum information necessary for LAFCO to process the application.

On June 26, 2024, LAFCO issued its 30-Day Review of the application and placed the application on hold pending additional information and application requirements (Attachment A). Among other matters, the review identified the need for a comprehensive study to inform the Plan for Services, further evaluation of the proposed governance structure and service delivery arrangements, and development of an adequate Plan for Services that reflects the entirety of the dissolution (costs, assets, liabilities, etc.).

Following the 30-Day Review, the County agreed to assist SSCSD in evaluating the dissolution proposal and potential successor-agency alternatives. The County, in coordination with the SSCSD, subsequently commissioned a comprehensive analysis of SSCSD's existing and potential future governance structures and related service delivery considerations.

LAFCO staff have reviewed the Comprehensive Analysis of the San Simeon Community Services District, prepared by NBS and dated August 2026 (Attachment C). Staff find that the analysis addresses the intent of Item No. 1 of LAFCO's June 26, 2024, 30-Day Review (Attachment A). The analysis provides a substantially greater understanding of the governance options, service delivery, fiscal, operational, infrastructure, and administrative considerations associated with the proposed dissolution. With the study now complete, LAFCO, the County, SSCSD, and other affected agencies are better positioned to evaluate options and advance work on the remaining issues identified in the 30-day review letter, including a comprehensive Plan for Services.

Key Findings and Considerations

The NBS analysis identifies substantial infrastructure, regulatory, financial, contractual, and governance issues that will need to be addressed regardless of the ultimate outcome of the dissolution application. The most significant financial obligations are associated with SSCSD's water and wastewater systems. Importantly, the analysis concludes that the underlying capital needs are expected to be generally similar regardless of which agency ultimately assumes responsibility for providing services.

Water System. SSCSD's potable water system—including its wells, treatment system, reservoir, and distribution system—requires an estimated $21.9 million in rehabilitation and replacement investments. Significant needs include near-term reservoir replacement, future well replacement, treatment-system improvements, and phased replacement of aging distribution infrastructure.

Wastewater System. The wastewater system also requires substantial investment. The existing wastewater treatment plant is near or beyond its intended useful life and is subject to a Coastal Development Permit requiring relocation of the facility. The NBS analysis estimates approximately $17.2 million to rehabilitate the collection system and replace or relocate the wastewater treatment plant within San Simeon.

As an alternative, wastewater could potentially be conveyed approximately five miles to the Cambria Community Services District (CCSD) for regional treatment. The estimated cost of this alternative is approximately $17.3 million to $20 million, subject to additional engineering, negotiations with CCSD, permitting, and confirmation of available treatment capacity.

Taken together, the currently identified water and wastewater capital needs are approximately $39 million to $42 million. This estimate does not include certain additional costs, including electrical infrastructure, rights-of-way, environmental documentation, and ongoing operations and maintenance.

The NBS analysis also identifies several other significant liabilities and considerations that would need to be addressed as part of any future transition, including:

- An outstanding USDA water system loan of approximately $416,000;
- A pipe bridge requiring eventual replacement, with an estimated cost of approximately $700,000;
- An unresolved wastewater services agreement with State Parks concerning the Hearst Castle Visitor Center and a portion of San Simeon State Beach; and
- A settlement agreement with Cavalier Inn and V&H Holdings relating to entitlement to water and sewer service capacity.

Financial Sustainability

Funding the identified capital improvements, maintaining regulatory compliance, and supporting ongoing operations would likely require significant increases in customer rates and/or other revenues. Based on San Simeon's median household income, the community is identified by State agencies as a disadvantaged community and is also considered a disadvantaged unincorporated community under LAFCOs definition specified in Government Code Section 56033.5. This designation may improve the community's eligibility for State grants and other financial assistance.

However, the NBS analysis indicates that access to outside funding will generally depend on demonstrating financial sustainability, establishing a stable governance structure, and making sufficient progress toward project development and implementation. Accordingly, the availability of grant funding does not eliminate the need to establish a sustainable long-term funding and governance structure.

Potential Successor Agencies

The NBS analysis evaluates several potential successor agencies and identifies two options as the most viable for assuming responsibility for services currently provided by SSCSD. Other alternatives are identified as potentially feasible but less likely because they would require extraordinary measures, additional approvals, and/or further legal analysis.

1. Formation of a New County Service Area

Formation of a new County Service Area (CSA) is the governance structure proposed in SSCSD's application for dissolution. Under this approach, the County would govern a new CSA and assume responsibility for the provision of specified services, assets, liabilities, revenues, and obligations pursuant to a LAFCO-approved Plan for Services.

The CSA could directly provide services or contract with another public agency (such as the Cambria Community Services District for services as negotiated) or a private operator. Services and capital improvements would be funded through the CSA using its available revenue-raising authority, supplemented as appropriate by grants or other outside funding sources.

A comprehensive funding plan would need to be developed identifying the rates, fees, taxes, grants, and/or other revenues necessary to support ongoing operations, existing debt obligations, and anticipated capital improvements. Depending on the circumstances, the Commission's action could include conditions of approval requiring establishment of adequate revenue, including successful voter approval of a Proposition 218 rate increase or any other terms and conditions as specified under Government Code Section 56885.5 and 56886.

2. Consolidation with the Cambria Community Services District
Consolidation with the Cambria Community Services District (CCSD) represents another potential successor-agency structure. CCSD is geographically the closest local jurisdiction with authority to provide the services currently provided by SSCSD.

Under this approach, CCSD would assume responsibility for providing services within the SSCSD service area as the successor agency, subject to CCSD and LAFCO approval. This option could include consolidating the two special districts or dissolving SSCSD and annexing the area into CCSD. The NBS analysis identifies this option as potentially viable because of CCSD's geographic proximity and existing authority to provide local services. However, several challenges would need to be addressed, including the distance between the communities, infrastructure limitations, and the need for CCSD to affirmatively support and approve the arrangement.

The analysis also identifies the need for a more detailed evaluation of CCSD's existing systems, available capacity, infrastructure, and the costs of any upgrades or expansions necessary to serve the San Simeon community.

NEXT STEPS

Completion of the NBS Comprehensive Analysis represents a significant milestone in the dissolution process. The analysis provides LAFCO, the County Board of Supervisors, SSCSD, and other affected agencies with substantial information regarding the District's governance, service delivery, financial, infrastructure, and operational circumstances. This information provides a foundation for decision-makers to evaluate potential successor-agency structures and determine how the identified service and financial challenges may be addressed. However, significant work remains before LAFCO can resume formal processing of the dissolution application.

On September 1, 2026, the County Board of Supervisors reviewed the final NBS Comprehensive Analysis of the SSCSD (Attachment C) and considered four options presented by County staff. The Board directed County staff to return in the near term with a framework for the County's continued involvement in the dissolution process. The framework is expected to address strategies for engaging State officials and agencies, evaluating the potential need for special legislation, expanding collaboration with the CCSD to explore potential consolidation options, and identifying potential funding sources and costs associated with the County's continued involvement.

Once the Board of Supervisors establishes the framework and provides direction regarding the County's continued involvement, County staff will be better positioned to work with SSCSD and the affected agencies to develop the information necessary for a comprehensive Plan for Services. Among other matters, the Plan for Services will need to identify the proposed successor agency, the services to be provided, the disposition of assets and liabilities, the financial resources necessary to provide services, and the mechanisms for addressing the District's substantial infrastructure and regulatory obligations.

Following preparation of an adequate Plan for Services in compliance with Government Code Section 56653 and resolution of the outstanding items identified in LAFCO's June 26, 2024, 30-Day Review, LAFCO staff will be able to continue processing the dissolution application. Additional analysis, coordination, agency approvals, and potentially voter or other regulatory approvals may also be necessary depending on the successor-agency structure ultimately pursued.

No LAFCO hearing date has been scheduled at this time. Given the substantial work that remains, including development of the County's framework, evaluation of successor-agency alternatives, development of a comprehensive Plan for Services, resolution of outstanding application requirements, and potentially the pursuit of special legislation, it may take a year or more before the application is sufficiently developed to proceed to formal LAFCO consideration and hearings. The timing will ultimately depend on the direction provided by the County and SSCSD, the successor-agency structure selected, the complexity of the required Plan for Services, and whether legislative action or other external approvals are necessary.

ATTACHMENTS

Attachment A: 30-day Review Letter dated June 26, 2024

Attachment B: Timeline of Key Actions to Date

Attachment C: Final NBS Comprehensive Analysis of SSCSD

Attachment A

30-Day Review Letter dated
June 26, 2024

San Luis Obispo Local Agency Formation Commission

SENT VIA E-MAIL ONLY

DATE: **JUNE 26, 2024**

TO: **PATRICK FAVERTY, GENERAL MANAGER**
PATRICK@SANSIMEONCSD.ORG

FROM: **ROB FITZROY, EXECUTIVE OFFICER**
IMELDA MARQUEZ-VAWTER, ANALYST

SUBJECT: **30-DAY REVIEW OF APPLICATION FOR THE DISSOLUTION OF THE SAN SIMEON COMMUNITY SERVICES DISTRICT | LAFCO FILE NO. 2-R-24**

Dear Patrick,

Thank you for submitting the Resolution of Application to dissolve the San Simeon Community Services District (SSCSD). We understand that the SSCSD has faced many challenges over the years, and we will strive to make this process collaborative, effective, and efficient for the benefit of the community. As noted in our presentation to your Board of Directors, the dissolution process is complicated and lengthy, and given the unique challenges of the district, will require extensive coordination and analysis. We look forward to working with SSCSD, the County, and other agencies that will be involved in the process. We have included all referral responses, to date, from affected agencies in Attachment A.

This letter formally documents that the application for the proposed dissolution of the SSCSD was received in three parts on May 24, May 28, and May 30, 2024. LAFCO staff have completed an initial 30-day review of the application submittal and find that the application is incomplete and not sufficient for filing. The application will remain on hold until the items requested below are submitted pursuant to Government Code Section 56658. Once all the items requested have been submitted and the application is deemed complete, then a Certificate of Filing will be issued with a specified LAFCO hearing date. The following items are requested, in part, pursuant to Government Code Section 56652.

1. LAFCO received a referral response letter from Matthew Pontes, SLO County Administrative Officer, dated June 6, 2024, requesting the application be placed on hold to allow the County more time to review and analyze the proposal, and to allow time for direction and a formal decision of the County Board of Supervisors (BOS) (see Attachment A). It is important to note that the dissolution of any agency transferring all responsibilities and liabilities to another agency is a complicated endeavor that can take over a year to process. The process requires a comprehensive analysis of existing and future governance structures and the services to be provided. It requires a detailed Plan for Service pursuant to Government Code Section 56653. The information within the Plan for Service should be informed by a comprehensive analysis reflective of the entirety of the action. This was not provided in the application submitted by the District, and such analysis is necessary for the LAFCO Commission, the County, and other affected agencies to make a fully informed decision when considering the dissolution.

The Plan for Service submitted by the District provides some information related to potential benefits, reduced costs, etc.; however, the information contained therein does not encompass the entirety of the proposed dissolution.

As such, the application will be placed on hold, in part, until the County and District analyzes the impacts of dissolution and other alternatives, the BOS provides direction and ultimately takes action on the matter, and a Plan for Service informed by a comprehensive analysis is provided.

2. A key aspect is whether this application will include the formation of a County Service Area (CSA). Please be advised that the application submitted by the SSCSD consists solely of a dissolution. Moreover, there are several ways this application could transpire and evolve through agency coordination noted above; LAFCO will need clarification and direction from SSCSD and the County on which path is intended and being proposed.

   If the County wishes to pursue the formation of a CSA concurrently with the proposed dissolution, then the application would need to be modified to include both the dissolution of SSCSD and the formation of a CSA. In this case, the proposal would be considered a reorganization as defined in Government Code Section 56073. SSCSD and the County would need to provide LAFCO with a revised Resolution of Application, with all associated documents as outlined in the application packet. This would include, but not be limited to, a revised resolution from each applicable Board, Plan for Services, and a map and legal description of the proposed CSA.

3. As noted, no comprehensive analysis was prepared to inform the submitted Plan for Service that reflects the entirety of the dissolution. The costs, assets, liabilities, etc. that would be transferred/born to the County were not identified, nor were future rates to the existing community projected. However, we recognize that the submitted Plan for Services states that County input and analysis were not included and would be necessary. Depending on the outcome of the dissolution application and whether this ultimately becomes a reorganization, the Plan for Services document will need to be updated accordingly.

   As currently proposed, input on the Plan for Services is required from the County, as the successor agency, and should contain the information outlined in the "Plan for Services Requirements" section of the LAFCO Application and comply with Government Code Section 56653. This document should also contain analysis related to cost, time, and staffing to take on the responsibilities for winding up the affairs of the dissolved district and determine if they plan to pursue the formation of a CSA. If it is determined that the County intends to pursue CSA formation, then the Plan for Services should provide an analysis related to costs, time, and staffing to take on the responsibilities as a newly formed CSA.

   The final plan for transferring services to the County needs to include all agreed-upon arrangements for the County to assume all the district's responsibilities, including financing/funding at a defined level of service, transfers of any district assets, and any terms and conditions from any party. Please know when processing a change of organization or reorganization the Commission may impose one or more of the terms and conditions outlined in Government Code Section 56886 or other conditions of approval.

4. As SSCSD is aware, there was a legacy "Outside User Agreement" of 50 years with State Parks. This agreement has since expired. SSCSD's proposal states that the service area being transferred to the County would only consist of the existing CSD boundary. Clarification is needed as to how State Parks would continue to obtain service, as they are an existing customer of SSCSD. If a CSA is formed, the affected State Parks area currently served by SSCSD would need to be included in its boundary. Due to regulatory changes, an outside user agreement would no longer be a feasible option, so any future boundary change or formation will need to address this issue.

5. A Property Tax Agreement must be approved by resolution by the Board of Supervisors to transfer property tax revenues and annual tax increment from SSCSD. This is a required step and involves the County Auditor/Assessor and the State Board of Equalization. This process adjusts the Tax Rate Areas due to the Dissolution of the District. We have already given notice of application to the County Assessor and Auditor, as required by law. However, we understand many aspects of the dissolution are not yet known, and in particular, it is not known if the County as a Successor Agency would choose to pursue the formation of a CSA and how, if, and when taxes would be transferred. Once the aforementioned details are resolved, the appropriate path for the tax exchange process will be identified.

6. Advisement. A critical step in the process is the protest proceedings. We recommend early coordination and community involvement. If LAFCO approves the dissolution, a protest period would follow as required under Government Code Section 57092. SSCSD registered voters and landowners will have an opportunity to protest any action of LAFCO, and if certain thresholds are met, it could affect the overall outcome. If at least 25% of landowners who own at least 25% of assessed value within SSCSD protest during the protest proceedings OR if at least 25% of registered voters file a protest during protest proceedings, then the item goes to an election. If LAFCO receives 50% or more protests from the registered voters residing in SSCSD, then the action shall be terminated pursuant to Government Code Section 57078, without an election.

7. Advisement. The proposed dissolution requires discretionary action of the Commission. As such, the proposed dissolution is subject to environmental review under the California Environmental Quality Act. Based on the status of the proposed dissolution at this time it is not possible to make an environmental determination. Once sufficient details of the proposed dissolution are known, LAFCO will be able to make a determination as to how the California Environmental Quality Act will be complied with.

Once we receive the requested information, the application will be reviewed for completeness. Other information needs or questions may arise as our review of the application continues. If you have any questions or would like to arrange a meeting, please let us know. Thank you.

Attachment A: Referral Response letters from Affected Agencies

cc. Brian Pierik, LAFCO Legal Counsel
Matthew Pontes, SLO County Administrative Officer
Rebecca Campbell, SLO County Assistant Administrative Officer
Jacqueline Diamond, SSCSD Board Director
Karina Tiwana, SSCSD Board Director
Michae Donohue, SSCSD Board Director
Holly Le, SSCSD Board Director

Attachment A

Referral Response letters from Affected Agencies

COUNTY OF SAN LUIS OBISPO
ADMINISTRATIVE OFFICE
Matthew P. Pontes *County Administrative Officer*

June 6, 2024

San Luis Obispo
Local Agency Formation Commission
1042 Pacific Street, Suite A
San Luis Obispo, CA 93401

RE: LAFCO NO. 2-R-24 – Dissolution of San Simeon Community Service District

Dear Mr. Fitzroy:

This letter is to notify the San Luis Obispo Local Agency Commission (LAFCO) that the County has reviewed the referral for LAFCO File No. 2-R-24 Dissolution of San Simeon Community Services District (SSCSD) and this letter transmits the County's comments on the application and the application process.

The SSCSD's application proposes that the County assume all existing SSCSD responsibilities and liabilities. As LAFCO's referral letter states, this will require extensive review and analysis, as well as a formal decision of the County Board of Supervisors. The County formally requests that LAFCO pause consideration of the SSCSD's application for dissolution to allow the County time to review, analyze, as well as allow the County Board of Supervisors time to agendize a discussion on the SSCSD's request.

Sincerely,

Matthew P. Pontes
County Administrator

County of San Luis Obispo Government Center
1055 Monterey St., Ste. D430 | San Luis Obispo, CA 93408 | (P) 805-781-5011 | (F) 805-781-5023
admin@co.slo.ca.us | slocounty.ca.gov

June 21, 2024

Rob Fitzroy
Executive Officer, Local Agency Formation Commission
1042 Pacific Street Suite A
San Luis Obispo, CA 93401

Subject: LAFCO No. 2-R-24 | Dissolution of San Simeon Community Service District

Dear Mr. Fitzroy,

The San Luis Obispo Council of Governments (SLOCOG) staff appreciates the opportunity to review the LAFCO No. 2-R-24: Dissolution of San Simeon Community Service District application. The State of California and Federal Highways Administration designate SLOCOG as the Regional Transportation Planning Agency (RTPA) and the Metropolitan Planning Organization (MPO), respectively, for the region. While SLOCOG does not have permit or regulatory authority for land use proposals, SLOCOG is responsible for planning the long-term viability of the regional surface transportation system, and for programming funds to achieve the objectives of the adopted 2023 Regional Transportation Plan (2023 RTP). The 2023 RTP is the blueprint for our region's future transportation system and thrives to accommodate growth while improving the quality of life for the region's residents.

After reviewing the application, SLOCOG staff does not have a position on the dissolution of the San Simeon CSD. However, the application mentioned that the district-maintained roads are "in disrepair as maintenance has not been properly funded." The application showcases a larger problem that is not inherent solely to San Simeon. Our region does not spend enough on transportation to maintain and improve our systems. Most of our cities are unable to keep up with needed road maintenance. Costs have increased, but revenues have not. The unincorporated county and its communities continue to see the average road condition decline. Since 2017, this decline has continued and will continue without an influx of new funding.

San Simeon is largely a visitor serving area and under the current unincorporated funding structure, visitors do not contribute to the repair of these local roads. Twenty-five counties in California have a dedicated funding source that is guaranteed for transportation and road maintenance. We don't. Earlier this year, SLOCOG polled and engaged with the public to consider developing a voter ballot measure that would result in new, dedicated funds for road maintenance and transportation improvements. Efforts were halted in May; however, the need for new funds persists.

Thank you again for the opportunity to provide input. We wish you and all parties involved continued success. If there are any questions, please do not hesitate to contact me at (805) 788-2002 or jworthley@slocog.org.

Sincerely,

James Worthley, SLOCOG Deputy Director

Attachment B

Timeline of Key Actions to Date

TIMELINE OF KEY ACTIONS TO DATE

January 18, 2024

During the Commission's regularly scheduled meeting, the Commission directed staff to return with information regarding the status of the San Simeon Community Services District (SSCSD) and a potential divestiture or dissolution proposal. The direction followed public comment received during the public comment period for items not on the agenda.

April 18, 2024

LAFCO staff presented an informational report regarding the status of the SSCSD in response to the Commission's January 18, 2024, direction. The Study Session provided an opportunity for the Commission to discuss the District's potential divestiture or dissolution. The Commission received and filed the report.

May 30, 2024

The SSCSD submitted an application to LAFCO requesting dissolution of the District pursuant to a resolution of application

June 6, 2024

The County of San Luis Obispo (County) submitted a project referral comment letter requesting that LAFCO pause consideration of the SSCSD dissolution application to allow the County additional time to review, analyze, and discuss the proposed dissolution with the Board of Supervisors.

June 26, 2024

Within the statutory 30-day review period, LAFCO staff issued the applicant a 30-day review letter identifying additional information and application requirements needed to process the dissolution application. The application was placed on hold pending receipt of the requested information.

June 26, 2025

LAFCO staff convened a regional coordination meeting with the affected agencies to discuss the status of the dissolution process, progress on the comprehensive analysis, potential post-dissolution governance structures, and future interagency coordination. The agencies agreed to establish recurring quarterly coordination meetings, which are ongoing.

July 8, 2025

A consultant contract and SSCSD reimbursement agreement were executed following the County's Request for Proposals No. 1881 (RFP). The RFP sought consultant services to conduct a comprehensive review and analysis of the SSCSD's existing and potential future governance structures and related services.

July 30, 2025

The SSCSD Board of Directors adopted a resolution requesting emergency administrative assistance through the California Water/Wastewater Agency Response Network (CalWARN).

September 29, 2025

The County agreed to temporarily provide administrative assistance to the SSCSD through CalWARN. A County Public Works Division Manager was assigned as the primary lead within the County Public Works Department, with responsibility for overall supervision of District administration, facilities, finances, and oversight of District employees, contractors, and professional service providers.

June 10, 2026

The SSCSD Board of Directors reviewed the draft NBS Comprehensive Analysis of the SSCSD and provided comments for revisions.

August 6, 2026

The SSCSD Board of Directors received the final draft NBS Comprehensive Analysis prepared by NBS. The Board took no action on the report.

September 1, 2026

The County Board of Supervisors reviewed the final NBS Comprehensive Analysis of the SSCSD and considered four options presented by County staff. Following its discussion, the Board directed County staff to return in the near term with a framework for the County's continued involvement in the dissolution process.

The requested framework is to address:

- A strategy for engaging state officials and agencies;
- The potential need for special legislation;
- Expanded collaboration with the Cambria Community Services District to explore potential consolidation options; and

- Potential funding sources and the costs associated with the County's continued involvement.

Attachment C

Final NBS
Comprehensive Analysis
of SSCSD

COUNTY OF SAN LUIS OBISPO

Comprehensive Analysis of:

San Simeon Community Services District

August 2026

helping communities fund tomorrow

nbsgov.com

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1. Executive Summary

Background – San Simeon Community Services District

San Simeon is a small, primarily commercial village located in the County of San Luis Obispo (the "County") and was developed to provide tourist/recreation services along the central coast. It provides food and lodging facilities for State Parks (Hearst Castle) visitors and tourists driving the scenic Highway 1 route between the City of San Luis Obispo and the Monterey Peninsula. San Simeon evolved from the 1940 sale of the area by W.R. Hearst to permit recreational development. Present uses are concentrated on the frontage roads along Highway 1. The area 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.

The San Simeon Acres Community Services District was formed in 1961 and later renamed to the San Simeon Community Services District (SSCSD). The SSCSD was initially formed to provide street lighting, water, and street maintenance to San Simeon Acres.

In the early 1980s, the San Luis Obispo Local Agency Formation Commission ("LAFCO") investigated several alternatives for reorganizing the SSCSD, including consolidation with the Cambria Community Services District ("CCSD"), incorporation, reorganization into a County Service Area ("CSA")[1], or, as it remains today, a Community Services District ("CSD")[2]. The SSCSD currently provides water, sewer (added in 1964), road maintenance, street lighting, and hazardous weed abatement to its residents and associated businesses supporting transient visitors.

The permanent population within the SSCSD 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 to 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. There is currently a development moratorium.

The SSCSD has an annual expense budget of approximately $1.7M[3] and total balance sheet assets of approximately $3.3M[4]. The SSCSD is governed by a five-member, elected Board of Directors.

The current LAFCO jurisdictional boundary map is included in Figure 1 below.

[1] *Principal Act Government Code §25210-25217.4*
[2] *Principal Act Government Code §61000-61250*
[3] *See Table 2 -SSCSD Proposed Budget 2026/27*
[4] *See Table 1 - SSCSD Balance Sheet*

Figure 1. SSCSD Jurisdictional Boundary

Dissolution Summary

On May 30, 2024, the SSCSD applied to LAFCO for the dissolution of the SSCSD (the "Dissolution Application")[5,6]. Under the applicable State Government Code[7], ""Dissolution" means the disincorporation, extinguishment, or termination of the existence of a district and the cessation of all its corporate powers, except as the commission may otherwise provide pursuant to Section 56886 or for the purpose of winding up the affairs of the district". The Dissolution Application proposed the transfer all of SSCSD's present active services to the County and involved the formation of a new County CSA. This would include transferring management, administration, operations, and financial responsibilities. There was no proposed change in the level of services to be provided in the affected territory. If LAFCO approved the application, then the SSCSD would be dissolved.

LAFCO provided the SSCSD with a 30-day Review of Application for the Dissolution of the SSCSD (the "Application Response")[8]. The Application Response outlined additional information that is required for LAFCO to fully evaluate the Dissolution Application and placed the application on hold. The hold period is intended to allow the County, SSCSD and other agencies time to fully identify the issues and potential impacts of alternatives.

Goals and Approach

The Dissolution Application proposes the County as the Successor Agency. This report is prepared to provide the additional detail requested in the Application Response in order for the SSCSD, LAFCO and the County to better identify the responsibilities, obligations and liabilities of the SSCSD and to evaluate the effects of any proposed changes. This report will also provide an analysis of other Potential Successor Agencies ("PSAs") and service structures that might serve those PSAs with the estimated impacts on the PSAs and the community itself.

This report's approach is to evaluate each service provided by the SSCSD. The evaluation includes an inventory of assets, an estimate of the assets' condition, a review of the SSCSD's current funding to provide the services, a list of the PSAs, costs associated with each PSA, impacts on the levels of service provided to the SSCSD community, costs for staffing and structure to continue to provide services.

This report is intended to provide a high-level overview of key concerns, potential organizational structures, and investment priorities. The information assembled regarding required and recommended projects, and the associated cost estimates, provides a baseline to identify the key issues and plan for the continuation of services to the community.

The execution of any outcome will be subject to the approval of the necessary funding (through taxes, assessments, rates, fees, charges, etc.) to accomplish the continued provision of service. All additional future funding will be based upon refined cost estimates which will support the proposed charges and will reflect the needs of the service provider.

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[5] SSCSD Resolution #24-476
[6] LAFCO File number 2-R-24
[7] Government Code §56035
[8] Attached within Exhibit 1

Capital costs are expected to be similar, regardless of what form the successor agency takes. From this shared foundation, the engaged agencies will conduct additional review and continue detailed discussions to determine their recommendations for a path forward. Those recommendations will be subject to further review and discussion by the elected boards of the impacted agencies, as well as stakeholder vetting through the LAFCO process.

Summary Finding

The SSCSD is located in a remote area with no adjacent jurisdictions with the ability to provide local services. The CCSD is the closest[9] non-adjacent local jurisdiction with the authority to provide local services and the County is the sole overlapping local jurisdiction.

Upon considering the possible options, several potential outcomes exist for dissolution or reorganization of the SSCSD. Some outcomes are more viable than others, and this report does not explore outcomes which are considered unlikely or would require extraordinary steps, additional approvals, and further legal analysis. The two primary outcomes follow with a brief discussion of secondary outcomes.

1. As proposed in the Dissolution Application, the SSCSD is reorganized with the concurrent establishment of a new County Service Area (the "New CSA"). The New CSA assumes responsibility for the provision of selected local services and is able to utilize additional revenue-raising authority provided under CSA law which may be required to maintain the levels of service.

   The County does have a number of well-run CSAs including CSA 1 - Nipomo Area, CSA 7/7A/7C - Oak Shores, CSA 10/10A - Cayucos Area, CSA 12 - Avila Beach Area, CSA 16 – Shandon, CSA 18 - San Luis Obispo Country Club Area, CSA 23 - Santa Margarita. These County CSAs evidence an existing, successful framework to provide critical services including water and sewer services[10] and support the option to create the New CSA as the Successor Agency.

   a. NOTE: The New CSA may contract with CCSD or other parties for services as negotiated.
   b. NOTE: The New CSA will need to include State Parks within the CSA boundary[11].

2. The SSCSD is reorganized (consolidated) with the CCSD for the provision of local services.
   a. NOTE: This option may be impractical due to local governance issues associated with the distance between the communities, infrastructure limitations, and the need for CCSD approval. The scope of this analysis does not include detailed evaluation of the CCSD systems, capacity, infrastructure, or costs associated with CCSD system upgrades to provide services to SSCSD area.

Both of the above outcomes will require LAFCO approval of a specific Plan for Service addressing the transfer of any assets, liabilities, revenues, obligations and service responsibilities together with a comprehensive funding plan to ensure the provision of services. A tax exchange agreement would also be

[9] *Distance approximately 5 miles.*
[10] *https://www.slocounty.ca.gov/departments/public-works/committees-programs/county-service-areas*
[11] *LAFCO 30-day Response Letter, Attached within Exhibit 1*

required as part of the dissolution process to determine the allocation of existing property tax revenues following dissolution.

Secondary Outcomes

Several other outcomes may be legally or theoretically possible but are not considered primary outcomes at this time due to complexity, limited precedent, or the need for extraordinary approvals. The following outcomes are recognized as possible but not developed further in this report. They include:

1. Special legislation authorizing a unique service delivery or funding structure for the SSCSD community.
2. Creation of a Joint Powers Authority if two or more public agencies agree to jointly provide or manage services.
3. Privatization or contract operation by a private utility operator subject to regulatory approval, resolution of asset and liability issues, and a separate rate-setting process through the California Public Utilities Commission.
4. Formation of a mutual water company[12] for provision of water service only. This structure would require property-owner participation, transfer of water system assets, resolution of liabilities and obligations, and creation of a private governance structure.
5. Creation of individual special purpose districts such as an independent Water District[13] or a Sanitary /Sanitation District[14].
6. Creation of individual, standalone special purpose financing districts such as a Road Maintenance District[15] or a Lighting and Landscaping District[16].
7. Transfer to the State of California ("State") as a PSA. Specifically regarding the provision of water and sewer services, the State generally limits itself to setting standards, monitoring activities, and managing the State's water resources. The State does, in certain very limited circumstances related to State owned and operated facilities, provide water and/or sewer services to private property associated with supporting State facilities in remote areas. The facts regarding SSCSD and its proximity and relationship to the Hearst Castle State Park may justify the State's interest in considering this option. A specific determination by the State that SSCSD's water and wastewater services are sufficiently connected to State operations will be required to pursue this option. Consultation with the State will inform the viability of this option as it is an exceptionally rare occurrence. While the State is not considered to be a primary option to assume these local services, the State has enacted legislation which might provide State financial assistance to disadvantaged communities The SSCSD's potential participation in the following State financial assistance programs is not part of this report.

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[12] *Corporations Code §14300 et seq*

[13] *County Water District - Water Code Div. 12, California Water District - Water Code Div. 13, Municipal Water District - Water Code Div. 20. All subject to LAFCO approval*

[14] *Sanitary District - Health & Safety Code, Division 6, County Sanitation Districts - Health & Safety Code, Division 5. All subject to LAFCO approval.*

[15] *Such as Benefit Assessment Act of 1982 - Government Code §54703 et seq. Subject to Prop 218 approval.*

[16] *Landscaping and Lighting Act of 1972 - Streets & Highways Code §22500 et seq. Subject to Prop 218 approval.*

    a. Assembly Bill 805 (2024) related to inadequate sewer systems.
    b. Senate Bill 200 (2019) SAFER program related to inadequate water systems.

8. Lastly, the option to do nothing must be addressed. If nothing is done, it is likely the SSCSD will eventually not be able to provide services due to some combination of a lack of funding, leadership, infrastructure, and/or permitting to operate its systems, etc.

Summary Action

Given these findings, the County, LAFCO, and PSAs (including the County, a new County Service Area, and/or CCSD) must evaluate successor service responsibilities, long-term liabilities, including the capital and regulatory commitments associated with either rebuilding SSCSD's standalone systems or consolidating services regionally. This report provides the factual foundation for that discussion and evaluation.

2. Services and Assets

The following local services and associated assets are included in this report.

1. Water Service
2. Sewer Service
3. Road / Storm Drain Maintenance
4. Street Lighting
5. Hazardous Weed Abatement
6. Pico Stairway Maintenance
7. General Administration

The SSCSD Balance Sheet and Preliminary Budget for FY 2026/27 are included below.

Table 1. SSCSD Balance Sheet

San Simeon CSD Balance Sheet	
Fixed Assets	**As of October 31, 2025**
1400 Fixed assets	
1420 Building and structures	279,580.67
1480 Earthquake 2003	0.00
1500 Equipment	$0.45
1500a Equip-PA System	7,591. 16
1500b Equip-Muffin Monster	5,098.32
Total for 1500 Equipment	**$12,689.93**
1540 Major Water Projects	0.00
1560 Pipe bridge	29,497.00
1580 Sewer plant	869,352.16
1590 Sewer plant equipment	12,468.83
1600 Water system	235,615.43
1620 WWTP expansion	299,565.92
1630 Tertiary Project	568,063.00
1640 Wellhead Rehab Project	448,253.95
1650 Walkway access projects	26,791.00
1660 RO Unit	950,521.38
1680 Generator	18,291.00
Total for 1400 Fixed assets	**$3,750,690.27**
1450 Construction in Progress	
1670 Reservoir / Water Tanks	287,693.56
Total for 1450 Construction in Progress	**$287,693.56**
1690 Accumulated depreciation	-1,921,019.44
Total for Fixed Assets	**$2,117,364.39**
Other Assets 1830 Contingent liability reserve	0.00
Total for Other Assets	**$0.00**
Total for Assets	**$3,327,956.12**

Table 2. SSCSD Preliminary Budget FY 2026/27

	Fund Accounts	Wastewater Fund	Water Fund	Roads, Lighting, Weed Abatement		Total Preliminary Budget
Allocations		**65%**	**30%**	**5%**		**100%**
4000	**Operating Revenues**					
4005	Utility fees-waste Anticipated revenue- wastewater	$ 665,900	$0	$0	$	665,900
4010	Utility fees-water Anticipated revenue- water	$0	$587,400	$0	$	587,400
4012	Meter/Service fees Anticipated revenue- other	$0	$132,500	$0	$	132,500
4050	State Parks-wastewater	$67,100	$0	$0	$	67,100
	Total Operating Revenue	$733,000	$719,900	$0		$1,452,900
	Property Taxes					
4100	Prop Tax Income	$0	$0	$121,400.00	$	121,400
	Total Property Taxes	$0	$0	$121,400.00		$121,400
	Other Income					
8010	Interest Income - CLASS	$26,000	$12,000	$2,000		$40,000
8020	Interest- money market	$20	$9	$2		$30
8044	Grant Funds	$0	$0	$0		$0
4013	Late fees & adjustments	$0	$0	$0		$0
	Total other Income	$26,020	$12,009	$2,002		$40,030
	Total Income	**$759,020**	**$731,909**	**$123,402**		**$1,614,330**
	Expense					
6000	Accounting	$12,903	$5,955	$993	$	19,850
6020	Bank Fees	$1,098	$507	$84	$	1,689
6025	Bookkeeping	$29,368	$13,554	$2,259	$	45,181
6030	Director Fees	$2,340	$1,080	$180	$	3,600
6031	Payroll Expense	$179	$83	$14	$	275
6035	Dues and Subscriptions	$3,276	$1,512	$252	$	5,040
6045	Electrical Power	$59,632	$25,557	$0		$125,000
6050	Election Expenses	$263	$122	$20	$	405
6055	Road Maintenance	$0	$0	$0		$0
6060	RipRap Engineering	$0	$0	$0		$0
6065	Equipment Rental	$0	$0	$0		$0
6075	Insurance-PERS Health	$0	$0	$0		$0
6076	Pension Plan - PERS Retirement	$11,478	$5,297	$883		$17,658
6080	Insurance - Liability	$8,427	$3,890	$648		$12,965
6095	LAFCO Costs Apportionment	$2,265	$1,045	$174		$3,484
6100	Legal Fees	$54,600	$25,200	$4,200		$84,000
6105	Licenses and permits	$11,493	$5,305	$884		$17,682
6110	Memberships and seminars	$0	$0	$0		$0
6115	Miscellaneous expenses	$0	$0	$0		$0
6120	Office Expenses	$29,246	$13,498	$2,250	$	44,994
6125	O & M operations	$467,147	$251,540	$0	$	718,687
6130	Operating Repairs & Supplies	$0	$0	$0		$0
6135	Weed Abatement	$0	$0	$6,000		$6,000
6145	Professional Fees	$26,000	$12,000	$2,000		$40,000
6191	Emergency Water Standby	$0	$15,202	$0		$15,202
6192	Excess Repairs	$65,000	$30,000	$5,000		$100,000

	Fund Accounts	Wastewater Fund	Water Fund	Roads, Lighting, Weed Abatement	Total Preliminary Budget
6195	Website Support	$4,290	$1,980	$330	$6,600
6200	Violations				
		$789,003	$413,327	$26,171	$1,268,312
	Other Expenses				
9010	Depreciation Expense	$56,793	$26,212	$4,369	$ 87,374
9030	Capital Projects/Improvements	$0	$0	$0	$0
9020a	Water Well Loan Interest	$0	$10,525	$0	$10,525
9020b	Water Well Loan Repayment	$0	$10,165	$0	$10,165
	Capital Project - Pipe Bridge Painting	$0	$0	$0	$0
	Capital Proj- Outfall Line Repair	$0	$0	$0	$0
	Reorg Study	$74,100	$34,200	$5,700	$114,000
	Reorg County & LAFCO Labor	$9,750	$4,500	$750	$15,000
	County CalWARN Response	$124,800	$57,600	$9,600	$192,000
	Total Other Expenses	265,443	$143,202	$20,419	$429,064
	Total Expense	**$1,054,446**	**$556,529**	**$46,590**	**$1,697,376**
	Net Operating Income(Loss)	**($295,427)**	**$175,380**	**$76,812**	**($83,046)**
	Use of Reserves				**$83,046**

Water Service

Schaaf & Wheeler Consulting Civil Engineers ("Schaaf") acting as a subconsultant to NBS prepared the Potable Water System Assessment Report dated May 4, 2026 (the "Schaaf Water Report")[17]. The Schaaf Water Report is summarized below. Please refer to the Schaaf Water Report contained in Exhibit 2 for additional details.

In 2025 the SSCSD engaged Akel Engineering Group to provide an updated System-Wide Water Supply Assessment to evaluate the impact of SSCSD water demands on water supplies and to analyze the sufficiency of water supply through the horizon year of 2045. The SSCSD also retained Stillwater Sciences and Cleath-Harris Geologists in 2025 to prepare the Pico Creek Instream Flow Study. Those studies do not specifically address the infrastructure and obligations which are the focus of this report, but they are included as reference materials to inform planning discussions by the PSAs.

SYSTEM OVERVIEW

The SSCSD potable water system consists of two shallow groundwater wells (constructed 1952 and 1967) drawing from the Pico Creek–influenced basin; a treatment building with cartridge filtration (185 gpm) and reverse osmosis (266.5 gpm permeate); a partially buried 150,000-gallon concrete reservoir; and a gravity-fed distribution network. The distribution network largely dates to the 1960s–1970s and is predominantly asbestos cement pipe ("ACP").

[17] *Attached within Exhibit 2*

The SSCSD water system provides services to residential and commercial properties as well as water for fire protection throughout the community. An overview of the water system is shown below.

Figure 2. SSCSD Water System Overview

The SSCSD contracts with Fluid Resource Management ("FRM") to operate the water system. FRM has been the contract operator for approximately 3 years, and thus, their knowledge of the system is limited to their experiences.

CONDITION & USEFUL LIFE

Schaaf reports that conversations with FRM indicate that the water supply system is in good condition overall. The only area of particular concern is the reservoir. Each component of the water system is summarized below with an estimate of its remaining useful life. With the exception of the reservoir, none of the existing facilities require *immediate* repair or replacement.

Water Wells: The existing well equipment, piping, pumps, building, and electrical equipment are functioning and in good condition, with the only visible signs of distress being corrosion of certain exterior components which is common given the site's proximity to the ocean.

With proper maintenance and continued upkeep, Schaaf estimates that the wells and their appurtenances have 20 to 25 years of useful life remaining, with the following caveats:

- Operators noted that the standby generator is not in good condition, and likely should be replaced.
- Rotating mechanical equipment like pumps, typically has a replacement interval between 10 and 15 years.

▪ Typically, shallow wells can have lifespans of 50 years or more, depending on the materials of construction. The two existing wells were constructed in 1952 and 1967. Though there are no indications of an imminent well failure, the two existing wells are past their typical expected lifespan, and it would be prudent to budget for their replacement. Schaaf & Wheeler also noted that the existing concrete well pedestals do not appear to conform to modern dimensions required by the California Division of Drinking Water (DDW).

Water Filtration & Treatment: The primary treatment system employs cartridge filters and is in very good condition with approximately 10–15 years of useful life remaining. However there is supply-chain risk to secure replacement cartridge filters. On the occasion when the groundwater contains elevated chlorides, a different method is used. The water is treated using a Reverse Osmosis ("RO") system. The RO system is in good condition with approximately 15-20 years of useful life remaining.

Reservoir: The existing reservoir is the most critical item for immediate replacement and should be replaced as soon as possible.

The existing water reservoir is located on Hearst property under an easement granted June 9, 1972 to SSCSD by the Hearst Corporation ("Hearst"). In a letter dated February 1, 2017, Hearst outlined preliminary terms for SSCSD and Hearst to negotiate a modification of the existing easement to accommodate relocation and expansion of the water reservoir capacity. That non-binding Letter of Intent ("2017 LOI") noted requirements including but not limited to: a) conditions for maximum capacity and viewshed; and b) approvals by Hearst and California Rangeland Trust, including review by their own experts and lawyers. The deadline for the 2017 LOI expired in December 2018 without completion of a formal agreement. The document does provide a roadmap to restart discussions to explore relocated and/or expanded use of Hearst property.

Per SSCSD's Master Plan, the amount of required storage is 1.6 million gallons. This is necessary to maintain safe drinking water, meet Division of Drinking Water standards, and provide critical fire storage. The Master Plan was prepared by Phoenix Civil Engineering and adopted by the SSCSD board in 2018. The Master Plan includes analysis and phasing of capital improvements for potable water, wastewater, recycled water and road systems. The fire suppression storage requirement was calculated based on California Fire Code. The Master Plan notes that in many communities such as this, the fire storage requirement exceeds the requirements for operational and emergency drinking water. The Master Plan contemplates replacement and expansion of water storage capacity through the phased installation of four storage tanks of 400,000 gallons each. In 2020, Phoenix Engineering delivered a set of 95% submittal plans to SSCSD for Phase 1 of the water system improvements. The plans included engineering for installation of the first water tank, and site construction for the second tank with installation scheduled for Phase 2.

Distribution: FRM indicated no issues with the existing distribution system, however the Master Plan does indicate upsizing and/or replacement of the majority of the water system as well as the construction of several new pipelines to increase fire flow capacity of the system. Schaaf recommends budgeting for replacing at least 1% of the distribution system annually, though that timeline may need to accelerate depending on future conditions of the pipeline. By replacing 1% annually, pipeline replacement budgets can be aligned with an expected pipeline life of 100 years. This could be extrapolated to replacing 10% every 10 years in order to make the replacement project meaningful in size. Although this may need to be accelerated drastically to prevent issues from the existing pipes exceeding their service life.

ADDITIONAL CONSIDERATION - FIRE FLOW & REFILL

The existing system is not capable of meeting the current fire flow demands of 6,000 GPM for 4 hours. Construction of a substantially increased reservoir would allow the existing system to meet a portion of the current fire flow requirements. However, without a water source capable of refilling the tank in the required 8 hours, the system will remain noncompliant. The lack of a total of 3,000 gallons per minute of well production and treatment capacity means that the water system is likely to remain noncompliant regardless of improvements made.

If a water source capable of meeting the required fire flow replenishment rate were available, the treatment systems would need to be substantially upsized to accommodate the substantially increased flow with a minimum required capacity of 3,000 GPM. Schaaf recommends alternative fire protection strategies should be coordinated with the appropriate fire authority.

IMPROVEMENT SCHEDULE PRIORITIES

1. Reservoir – treat as near-term critical project;
2. Wells – initiate phased replacement, prioritize generator replacement;
3. Treatment – maintain and plan mid-life refurbishment over 10–20 years;
4. Distribution – implement a programmatic replacement plan (≥1%/yr) including upsizing and hydrant additions as per the Master Plan.

IMPROVEMENT COSTS

The estimated costs to implement the improvements and equipment replacements identified above are shown in the table below. Note that costs are presented in May 2026 dollars and include a 30% hard construction cost contingency, a 15% allocation of estimated construction costs to fund engineering designs, permits and administration. Also included is a 30% allocation of estimated project costs to fund Successor Agency staffing efforts associated with planning, negotiations, and execution of siting the facilities, connections, survey etc. These costs do not include annual ongoing costs such as electricity, replacement parts, or other maintenance and operating expenses.

Table 3. SSCSD Preliminary Water System Rehabilitation Costs

Item		Units	Quantity	Unit Cost	Extended Cost
Wells					
	Replacement Well Drilling and Construction	EA	2	$ 250,000.00	$ 500,000.00
	Well Mechanical Equipment (Per Well)	EA	2	$ 150,000.00	$ 300,000.00
	Electrical Controls	LS	1	$ 250,000.00	$ 250,000.00
	Standby Generator	LS	1	$ 200,000.00	$ 200,000.00
	Misc. Improvements	LS	1	$ 50,000.00	$ 50,000.00
				Well Subtotal	**$ 1,300,000.00**
Treatment System*					
	Filter System Package	LS	1	$ 200,000.00	$ 200,000.00
	RO System Package	LS	1	$ 250,000.00	$ 250,000.00
	Misc. Improvements	LS	1	$ 50,000.00	$ 50,000.00
				Treatment System Subtotal	**$ 500,000.00**
Reservoir					
	Replacement Reservoir	EA	4	$ 1,250,000.00	$ 5,000,000.00
	Misc. Site Improvements	LS	1	$ 300,000.00	$ 300,000.00
				Reservoir Subtotal	**$ 5,300,000.00**
Distribution System**					
	Pipeline Replacement	LF	10500	$ 500.00	$ 5,250,000.00
	Hydrant Replacement	EA	31	$ 5,000.00	$ 155,000.00
	Misc. Pipeline Improvements	LS	1	$ 25,000.00	$ 25,000.00
				Distribution System Subtotal	**$ 5,430,000.00**
				Grand Subtotal	**$ 12,530,000.00**
				Construction Cost Contingency (30%)	**$ 3,759,000.00**
				Estimated Engineering and Administrative Costs (15%)	**$ 1,879,500.00**
				Successor Agency Staffing Costs (30%)	**$ 3,759,000.00**
				Grand Total	**$ 21,927,500.00**

* Treatment System is not identified for immediate replacement - cost included to provide budgeting estimate.

** Suggest replacement of distribution system at 1% equivalent annual rate to align with proposed design life of replacement system components.

ALTERNATIVE WATER SERVICE OPTIONS

Service from Cambria: It may be technically feasible to obtain water service from CCSD through the construction of a new transmission pump station and pipeline, running parallel to Highway 1 but the CCSD does not have sufficient water available to meet the current water demands within its existing service area. As of August 2025, there are a total of 676 single-family, multi-family, and commercial properties on the water waitlist for CCSD. Because CCSD does not currently have sufficient water to meet its own demand, it is not considered a viable alternative and is not considered further.

Desalination System: A seawater desalination system would provide the SSCSD with a locally controlled, drought-resilient water supply that is independent of imported water or groundwater basin constraints.

However, it is a capital-intensive, energy-dependent, and operationally complex system that would be heavily scrutinized, particularly along the Central Coast. Key hurdles include:

- Infrastructure limitations – Desalination is energy-intensive, it is not clear that there is sufficient electrical capacity to provide reliable power.
- Environmental limitations – This will require preparation of an EIR. Furthermore, construction will require a coastal development permit from the Coastal Commission. Additional state and federal permitting would be required from CDFW, DDW, RWQCB, USACE, NOAA/NMFS, and local agencies. Typically, desalination projects require more than 20 permits.
- Potential Public Opposition – Environmental watchdog groups concerned about coastal development and environmental impacts.
- Timeline – Navigating the hurdles and challenges of constructing and permitting a desalination system for San Simeon is likely to take 10 or more years.
- Additional environmental issues – The desalination plant will require preparation of an Environmental Impact Report ("EIR"), as well as coordination with Caltrans for potential encroachment into their ROW. Furthermore, construction may require a coastal development permit from the Coastal Commission.

Ideally, the desalination system would have a capacity of 3,000 GPM to meet the required fire tank refill rate, but doing so will substantially oversize the system for regular operation. If constructed, a Desalination system should be sized to accommodate the maximum day demand, as identified in the Master Plan. Sizing for the maximum day demand will not allow for a fast enough tank refill, but it may be possible to coordinate with the fire marshal to develop alternative, acceptable methods of compliance such as additional fire storage.

The estimated costs to construct a desalination system are shown in the table below. Note that costs are presented in May 2026 dollars and include a include a 30% hard construction cost contingency, a 15% allocation of estimated construction costs to fund engineering designs, standard permits and administration. Also included is a 30% allocation of estimated project costs to fund Successor Agency staffing efforts associated with planning, negotiations, and execution of siting the facilities, connections, etc. Lastly a 30% allocation of the force main and desalination plant cost is included for the special permits required specifically for desalination plants.

These costs do not include costs associated with, rights-of-way, additional studies such as a required EIR, extending necessary electrical services to sites not currently supplied with sufficient electrical power, etc. These costs do not include annual ongoing costs such as electricity, replacement parts, or other maintenance and operating expenses.

Table 4. SSCSD Preliminary Desalination Plant Cost Estimate

Item		Units	Quantity	Unit Cost	Extended Cost
Forcemain Pipeline*					
	8-inch PVC C900 (Connection to (E) System)	LF	200	$ 400.00	$ 80,000.00
	Surge Valve Appurtenances	LS	1	$ 75,000.00	$ 75,000.00
	Misc. Improvements	LS	1	$ 50,000.00	$ 50,000.00
				Pipeline Subtotal	**$ 205,000.00**
Desalination Plant*					
	Property/Land Purcahse	LS	1	$ 3,500,000.00	$ 3,500,000.00
	Seawater Catchment	LS	1	$ 400,000.00	$ 400,000.00
	Pre-treatment System	LS	1	$ 450,000.00	$ 450,000.00
	Reverse Osmosis System	LS	1	$ 2,500,000.00	$ 2,500,000.00
	Chemical Post-treatment	LS	1	$ 550,000.00	$ 550,000.00
	Brine Management System	LS	1	$ 400,000.00	$ 400,000.00
	Power/Energy for Desalination Plant	LS	1	$ 400,000.00	$ 400,000.00
				Desalination Plant Subtotal	**$ 8,200,000.00**
Reservoir					
	Replacement Reservoir	EA	4	$ 1,250,000.00	$ 5,000,000.00
	Misc. Site Improvements	LS	1	$ 300,000.00	$ 300,000.00
				Reservoir Subtotal	**$ 5,300,000.00**
Distribution System**					
	Pipeline Replacement	LF	10500	$ 500.00	$ 5,250,000.00
	Hydrant Replacement	EA	31	$ 5,000.00	$ 155,000.00
	Misc. Pipeline Improvements	LS	1	$ 25,000.00	$ 25,000.00
				Distribution System Subtotal	**$ 5,430,000.00**
				Grand Subtotal	**$ 19,135,000.00**
				Special Desalination Permitting (30%)	**$ 2,521,500.00**
				Construction Cost Contingency (30%)	**$ 5,740,500.00**
				Estimated Engineering and Administrative Costs (15%)	**$ 2,870,250.00**
				Successor Agency Staffing Costs (30%)	**$ 5,740,500.00**
				Grand Total	**$ 36,007,750.00**

* Special Desalination Permitting applies to force main and Desal plant only.

** Suggest replacement of distribution system at 1% equivalent annual rate to align with proposed design life of replacement system components.

Sewer Service

Schaaf acting as a subconsultant to NBS prepared the Wastewater Collection and Treatment Assessment Report dated May 4, 2026 (the "Schaaf Sewer Report")[18]. The Schaaf Sewer Report is summarized below.

SYSTEM OVERVIEW

SSCSD's wastewater system collects wastewater from the community mostly through 6-inch vitrified clay pipe ("VCP"), which was largely constructed in the 1960s and 1970s. The system includes a collection system consisting of approximately 1.6 miles of predominantly 6-inch VCP gravity mains (one 8-inch to the headworks) with 29 manholes, and a WWTP located at 9245 Balboa Avenue. The WWTP provides the common stages of treatment. First, it passes through screening, then grit and sludge removal. After that, it enters the aeration basins, followed by final sedimentation and disinfection before being discharged to an ocean outfall. Wastewater operations are also contracted to FRM. The service area includes flows from the San Simeon community and California State Parks' Hearst San Simeon Historical Monument. The State Parks collection system includes a connection serving the Old Simeon area. Those flows are captured at the State Parks meter to SSCSD.

Figure 3. SSCSD Sewer System Overview

CONDITION & USEFUL LIFE

Based on the age of the SSCSD wastewater collection and treatment system (60 + years), the components are near or past their design lifespan. However, with diligent maintenance and triage of maintenance items as they occur, operation of the system could continue indefinitely. Schaaf reports that conversations with

[18] *Attached within Exhibit 2*

FRM and field observations indicate that the wastewater system requires improvements to multiple items. The main concerns observed during Schaaf's field visit:

- Water infiltration into gravity system.
- Reduced structural integrity in surrounding walls of existing treatment plant and in basins.
- Repair of the Ocean Outfall[19].

Collection System: The VCP collection system is beyond a typical service life and exhibits wet-weather inflow & infiltration. Schaaf recommends a collection system rehabilitation be performed over approximately 10 years with the following considerations:

- Conducting CCTV inspections for all pipelines would provide a more accurate assessment of their condition. This would show any major infiltration into the pipeline that needs repair or replacement as a majority of the system is past its service life.
- As stated in the Master Plan, an option for extending the life of the pipelines is to install a Cured-in-Place piping (CIPP) liner throughout.

The Master Plan notes there are a total of four pipelines identified for upsizing. The pipelines would be upsized to 8-inch PVC pipe and one 10-inch PVC for the pipeline to the headworks vault.

FRM staff observed a significant increase in wastewater influent to the treatment plant during the wet season and visually confirmed water infiltration into manholes during system checks. Based on these observations and staff input, most manholes appear to be in satisfactory condition with an estimated remaining life of 5 to 10 years. However, the manholes showing signs of infiltration should be repaired or replaced as soon as possible. Schaaf recommends conducting video inspections of all manholes to identify any additional structures requiring repair or replacement.

WWTP: The WWTP shows structural cracking, staining, corrosion of aeration piping and perimeter fencing, and corrosion on other exposed equipment. Given the age and poor condition of much of the core WWTP infrastructure, Schaaf estimates it has exceeded its designed useful life, though continued operation is clearly possible through diligent monitoring and repairs.

Ocean Outfall: Per the J.F. Brennan Company, Inc.'s ("Brennan") outfall Inspection performed on 8/5/25 (the "Brennan Report")[20], the ocean outfall is in poor to serious condition. Heavy deterioration and unsupported sections of pipe were discovered which require ballast repairs as soon as possible.

PERMITTING

Coastal Development Permit CDP 3-19-0020 the (the "CDP")[21] limits improvements at the existing site to critical maintenance and requires relocation of the WWTP by July 11, 2029 (the "expiration date"). The CDP provides for potential modification of the expiration date subject to submission of documentation showing significant and diligent progress towards meeting the relocation requirement. This is the primary driver of near-term capital planning. Per the CDP requirements, the existing treatment plant requires relocation immediately. As such, the SSCSD should budget for the plant relocation as soon as possible. In order to avoid a wholesale reconfiguration of the collection system, it is assumed that a below-grade sewage pump

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[19] Per the Brennan Report - Attached within Exhibit 2
[20] Attached within Exhibit 2
[21] Attached within Exhibit 3

station would be installed at the headworks of the existing treatment plant to convey the sewage to the replacement treatment plant. As discussed later in this report, the fastest feasible timeline for replacement of the wastewater treatment plant is 5 to 10 years. The CDP requires planning for relocation of wastewater treatment functions and states that planning should include an analysis of alternatives involving the construction of a package plant or combining services with other existing WWTPs.[22]

It should be noted that the Central Coast Regional Water Board Order R3-2022-0003 permits 0.2 MGD average dry-weather and 0.45 MGD peak wet weather flows. Historical flows (2019–2025) range ~0.058–0.088 MGD AAF with peaks up to ~0.379 MGD. The WWTP is operating within this permit envelope.

PLANT RELOCATION

In 2008, Rincon Consultants, Inc. ("Rincon") reviewed and developed alternate locations in San Simeon for the relocation of the existing WWTP. Their report used multiple criteria to screen potential properties that would meet the needs of a relocated WWTP. The list of criteria from the report included:

- Size: areas approximately one-acre or greater in size.
- Topography: Flat or gently sloping topography considered and not steep slopes or on or near coastal bluffs.
- Land Use Designations and Zoning: County of San Luis Obispo North Coast Area Plan and Coastal Zone Land Use Ordinance were considered.
- Sensitive Receptors: potential impacts to neighboring properties resulting from construction and operation of the WWTP, including odor, noise and obstruction of ocean views.
- Visibility: where general visibility was limited, including visibility from roads, residences or hotels, and the beach.
- Important Farmland: the California Department of Conservation Farmland Mapping and Monitoring Program (FMMP) was referenced to determine the presence of Prime or Unique Farmland and with the intent of avoiding those areas.
- Biological Resources: areas not supporting sensitive habitat or special-status plant and animal species were considered.
- Cultural Resources: consideration was given to areas that have been previously disturbed, as the areas are not likely to contain important cultural resources.

Rincon located nine potential sites, labeled A through I with the map shown in Figure 4 below. After reviewing the criteria for all nine potential sites, Rincon rejected seven of them. The remaining two potential sites, D and E, were deemed satisfactory with the caveat of possibly requiring an amendment to the North Coast Area Plan to change the land use designation to Public Facility and a zone change.

In 2021, SSCSD engaged Dudek to provide consulting services for preparation of a Coastal Hazards Response Plan ("CHRP") as a condition of the WWTP CDP. The CHRP was intended to evaluate alternatives for relocation of wastewater treatment functions, including the identification of a preferred inland site or sites, the evaluation of a package plant treatment system, and the possibility of combining services with other nearby existing WWTPs. The CHRP was also intended to provide details of costs, funding and timing for relocation and restoration of the existing site. The Dudek effort was paused at the draft stage in 2023. SSCSD records indicate the work was put on hold for multiple reasons, including organizational instability at

[22] *Per CDP Special Condition 3 – Attached within Exhibit 4*

the board and administrative levels; community division and uncertainty over potential inland sites; and lack of funding for the remaining work. A 2023 public presentation for stakeholder input was the only deliverable finalized by Dudek.

This Dudek presentation included preliminary cost estimates for construction and operation of a replacement WWTP. The analysis included conventional activated sludge ("CAS") and a package plant, identified as a membrane bioreactor ("MBR"). Dudek's construction estimates included contingencies of 30% construction, 20% engineering design, and 25% land, easement and permitting. The estimated capital cost for a package plant in 2023 was $15.7M. Additional capital costs of $2.1M to $8.6M were estimated for a new conveyance system from the existing plant to the new treatment location. The combined WWTP and conveyance costs presented for a package plant range from $17.8M to $23.8M. The Dudek cost estimates are provided for WWTP and conveyance only and do not include rehabilitation and replacement costs for the existing collection system.

Dudek provided the presentation for community discussion of alternatives in March 2023. District records do not include any recording or minutes of that workshop. Anecdotal information indicates that the community was divided on potential locations for wastewater treatment within existing SSCSD boundaries, and the concept of WWTP relocation on Hearst property was the preferred alternative among residents.

The San Simeon community proposed an updated LOI with Hearst to include discussion of WWTP relocation near the water reservoir. The 2017 LOI from Hearst referenced treatment of existing wastewater flows from Hearst properties in Old San Simeon noted as 3,000-5,000 gpd and requested additional capacity up to 15,000 gpd for future potential construction. Pursuing this location as an alternative would require Hearst preliminary agreement and negotiation of terms with as well as approvals from Hearst, California Rangeland Trust and other stakeholders.

The Rincon study was conducted in 2008, with the Dudek presentation providing additional information in 2023, with additional discussion held during the intervening years. The site analysis should be updated to evaluate current conditions and potentially expand the suitability criteria.

Figure 4. SSCSD Potential WWTP Relocation Site Map (prepared 2008)

IMPROVEMENT SCHEDULE

1. WWTP - immediately begin siting, CEQA/permitting, design, and delivery of a replacement facility. The fastest feasible replacement timeline is 5 to 10 years.
2. Ocean Outfall – immediate repairs to ballast and pipe[23].
3. Service Area - formalize a new wastewater service agreement with State Parks, meter any external flows, and confirm the practical service area boundary.
4. Piping and associated manholes - rehabilitate at a rate of 10% of per year over a 10-year horizon with piping repairs and manhole sealing prioritized by infiltration and capacity needs.

IMPROVEMENT COSTS

The estimated costs to implement the equipment replacements identified above are shown in the table below. Note that costs are presented in May 2026 dollars and include a include a 30% hard construction cost contingency, a 30% allocation of estimated construction costs to fund engineering designs, permits and administration. Also included is a 30% allocation of estimated project costs to fund Successor Agency staffing efforts associated with planning, negotiations, and execution of siting the facilities, connections, etc. These costs do not include costs associated with rights-of-way, studies, extending necessary electrical services to sites not currently supplied with sufficient electrical power, etc.

[23] *Per Brennan Report - Attached within Exhibit 2*

Table 5. SSCSD Preliminary WWTP Replacement Cost Estimate

Item		Units	Quantity	Unit Cost	Extended Cost
Collection System					
	Pipeline Rehabilitation (CIPP)	LF	8500	$ 250.00	$ 2,125,000.00
	Pipe Replacement	LF	1200	$ 1,000.00	$ 1,200,000.00
	Manhole Rehabilitation	EA	29	$ 7,500.00	$ 217,500.00
Collection System Subtotal					**$ 3,542,500.00**
Construction Cost Contingency (30%)					**$ 1,062,750.00**
Estimated Engineering and Administrative Costs (30%)					**$ 1,062,750.00**
Successor Agency Staffing Costs (30%)					**$ 1,062,750.00**
Collection System Grand Total					**$ 6,730,750.00**

Item		Units	Quantity	Unit Cost	Extended Cost
Wastewater Treatment Plant and Appurtenances					
	Influent Pump Station	LS	1	$ 1,000,000.00	$ 1,000,000.00
	Piping to New WWTP	LS	1	$ 750,000.00	$ 750,000.00
	Package Treatment System	LS	1	$ 1,250,000.00	$ 1,250,000.00
	Outfall Improvements*	LS	1	$ 1,000,000.00	$ 1,000,000.00
	Misc. Improvements	LS	1	$ 250,000.00	$ 250,000.00
	Real Estate Aqcuisition	LS	1	$ 1,250,000.00	$ 1,250,000.00
Treatment System Subtotal					**$ 5,500,000.00**
Construction Cost Contingency (30%)					**$ 1,650,000.00**
Estimated Engineering and Administrative Costs (30%)					**$ 1,650,000.00**
Successor Agency Staffing Costs (30%)					**$ 1,650,000.00**
Treatment System Greand Total					**$ 10,450,000.00**
Collection and Treatment System Grand Total					**$ 17,180,750.00**

* Extents and total costs of outfall improvement is unknown and cannot be fully understood until more detailed design is evaluated.

ALTERNATIVE SEWER SERVICE OPTION

Considering the permitting restrictions requiring the WWTP to be re-sited by July 11, 2029, there are two potential wastewater treatment alternatives; 1) relocating the WWTP within the SSCSD (estimated above) or, 2) provide a connection to CCSD for treatment. No other local municipalities or wastewater service providers exist in proximity to the SSCSD.

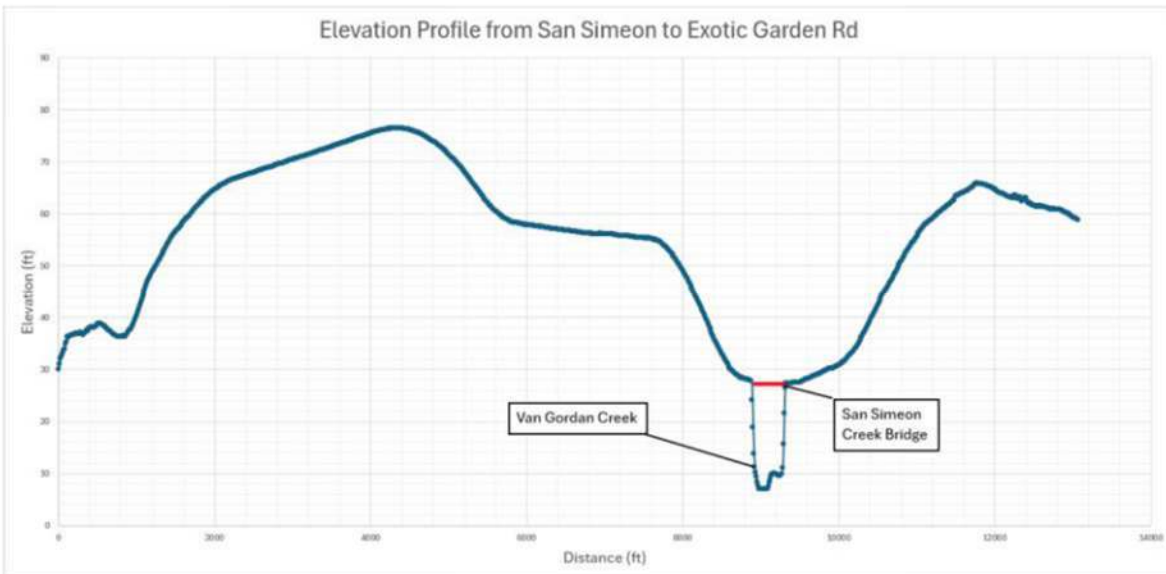
Connection to CCSD: The connection to CCSD would require SSCSD to route sewage to CCSD's WWTP. CCSD's average annual flows are well below the design flow given by the General Order[24]. SSCSD's average wet weather flow according to the Master Plan is 81,900 gallons per day (gpd) or about 0.082 MGD. Taking CCSD's inflows into account, the CCSD WWTP would likely be able to accommodate this small increase of daily wastewater inflow. Detailed negotiations with CCSD are required to verify the feasibility and acceptability of this connection.

[24] *General Order No. R3-2020-0020*

HYDRAULICS TO CCSD

The elevation profile between SSCSD and CCSD is not flat. Figure 5 below shows the elevation profile across the span. Schaaf prepared cost estimates for two conveyance configurations using a 6-inch force main (single and dual pump stations).

Figure 5. SSCSD Hydraulics to CCSD



For the single pump station configuration, a station would be constructed at the SSCSD WWTP plant head works, and pump through a dedicated force main to the connection point on Exotic Garden Rd. Schaaf anticipates that sufficient power would be available at the SSCSD WWTP to serve the anticipated 20 horsepower pumps. The dual pump station option would include a pump station at the SSCSD WWTP and a second pump station near San Simeon Creek Bridge. While sufficient power is present at the SSCSD WWTP, it is unlikely that sufficient electrical service exists at the midpoint. A new electrical service should be planned at the second pump station site.

COSTS TO CONNECT TO CCSD

Connecting to CCSD's WWTP will require pump station(s) as outlined above. It also requires coordinating with Caltrans and CCSD to know where trenching will occur on Highway 1 and within the city limits of Cambria. These kinds of costs are difficult to estimate without further contact and coordination with these entities.

The costs of the two pump station alternatives are shown in Tables 6 and 7. Note that costs are presented in May 2026 dollars and include a include a 30% hard construction cost contingency, a 30% allocation of estimated construction costs to fund engineering designs, permits and administration. Also included is a 30% allocation of estimated project costs to fund Successor Agency staffing efforts associated with planning, negotiations, and execution of siting the facilities, connections, etc. These costs do not include costs associated with rights-of-way, studies, extending necessary electrical services to sites not currently supplied with sufficient electrical power, etc.

Table 6. SSCSD Costs to Connect to CCSD Single Pump Station

Item		Units	Quantity	Unit Cost	Extended Cost
Collection System					
	Pipeline Rehabilitation (CIPP)	LF	8500	$ 250.00	$ 2,125,000.00
	Pipe Replacement	LF	1200	$ 1,000.00	$ 1,200,000.00
	Manhole Rehabilitation	EA	29	$ 7,500.00	$ 217,500.00
Collection System Subtotal					**$ 3,542,500.00**
Construction Cost Contingency (30%)					**$ 1,062,750.00**
Estimated Engineeering and Administrative Costs (30%)					**$ 1,062,750.00**
Successor Agency Staffing Costs (30%)					**$ 1,062,750.00**
Collection System Grand Total					**$ 6,730,750.00**

Item		Units	Quantity	Unit Cost	Extended Cost
Single Pump Station Configuration					
	Lift Station - Civil	LS	1	$ 450,000.00	$ 450,000.00
	Lift Station - Electrical	LS	1	$ 550,000.00	$ 550,000.00
	20 HP Pumps, 2 Each Installed	LS	1	$ 350,000.00	$ 350,000.00
	Flow Meter	LS	1	$ 50,000.00	$ 50,000.00
	Diesel Generator	LS	1	$ 110,000.00	$ 110,000.00
	6-inch Force Main	LF	12000	$ 200.00	$ 2,400,000.00
	6-inch Gravity Pipe via Trenching	LF	1100	$ 300.00	$ 330,000.00
	AC Repaving	SY	2000	$ 150.00	$ 300,000.00
	Outfall Improvements*	LS	1	$ 1,000,000.00	$ 1,000,000.00
Single Pump Station Subtotal					**$ 5,540,000.00**
Construction Cost Contingency (30%)					**$ 1,662,000.00**
Estimated Engineeering and Administrative Costs (30%)					**$ 1,662,000.00**
Successor Agency Staffing Costs (30%)					**$ 1,662,000.00**
Single Pump Station Grand Total					**$ 10,526,000.00**
Collection and Single Pump Station Grand Total					**$ 17,256,750.00**

* Extents and total costs of outfall improvement is unknown and cannot be fully understood until more detailed design is evaluated.

Table 7. SSCSD Costs to Connect to CCSD Dual Pump Station

Item		Units	Quantity	Unit Cost	Extended Cost
Collection System					
	Pipeline Rehabilitation (CIPP)	LF	8500	$ 250.00	$ 2,125,000.00
	Pipe Replacement	LF	1200	$ 1,000.00	$ 1,200,000.00
	Manhole Rehabilitation	EA	29	$ 7,500.00	$ 217,500.00
				Collection System Subtotal	**$ 3,542,500.00**
				Construction Cost Contingency (30%)	**$ 1,062,750.00**
				Estimated Engineeering and Administrative Costs (30%)	**$ 1,062,750.00**
				Successor Agency Staffing Costs (30%)	**$ 1,062,750.00**
				Collection System Grand Total	**$ 6,730,750.00**

Item		Units	Quantity	Unit Cost	Extended Cost
Dual Pump Station Configuration					
	Lift Station 1 - Civil	LS	1	$ 300,000.00	$ 300,000.00
	Lift Station 1 - Electrical	LS	1	$ 375,000.00	$ 375,000.00
	6 HP Pumps, 2 Each Installed	LS	1	$ 100,000.00	$ 100,000.00
	Diesel Generator	LS	1	$ 60,000.00	$ 60,000.00
	Lift Station 2 - Civil	LS	1	$ 350,000.00	$ 350,000.00
	Lift Station 2 - Electrical	LS	1	$ 450,000.00	$ 450,000.00
	12 HP Pumps, 2 Each Installed	LS	1	$ 225,000.00	$ 225,000.00
	Flow Meter	LS	2	$ 50,000.00	$ 100,000.00
	Diesel Generator	LS	2	$ 100,000.00	$ 200,000.00
	6-inch Force Main	LF	9100	$ 200.00	$ 1,820,000.00
	6-inch Gravity Pipe via Trenching	LF	4000	$ 300.00	$ 1,200,000.00
	AC Repaving	SY	2000	$ 150.00	$ 300,000.00
	Real Estate Aqcuisition	LS	1	$ 500,000.00	$ 500,000.00
	Outfall Improvements*	LS	1	$ 1,000,000.00	$ 1,000,000.00
				Dual Pump Station Subtotal	**$ 6,980,000.00**
				Construction Cost Contingency (30%)	**$ 2,094,000.00**
				Estimated Engineeering and Administrative Costs (30%)	**$ 2,094,000.00**
				Successor Agency Staffing Costs (30%)	**$ 2,094,000.00**
				Dual Pump Station Grand Total	**$ 13,262,000.00**
				Collection and Dual Pump Station Grand Total	**$ 19,992,750.00**

* Extents and total costs of outfall improvement is unknown and cannot be fully understood until more detailed design is evaluated.

The single pump option is obviously the most economical option. However, the dual pump system cost information is provided in recognition that a single pump system may not be adequate due to the complications of distance and elevation changes. Further engineering study will be required to determine the adequacy of any solution.

ADDITIONAL CONSIDERATIONS

Schaaf identified a number of additional hurdles and estimate it is likely to take 5-10 years to resolve them. It is important to note that the costs of addressing the hurdles listed below are not included in this study.

- Interagency agreements and coordination – Negotiating terms and operational aspects including pricing structure, priority of service definitions, and agreement clauses will require time.
- Environmental limitations – This will require preparation of an EIR as well as coordination with Caltrans for potential encroachment into their ROW. Furthermore, construction may require a coastal development permit from the California Coastal Commission.

CCSD's feasibility study from MKN & Associates discusses a transmission main from CCSD's Emergency Advanced Water Treatment Plant (AWTP) to San Simeon's WWTP to dispose of brine through the SSCSD's existing ocean outfall. This could be part of the overarching consolidation of SSCSD and CCSD systems. Construction of this transmission main is not included in the cost estimates shown herein and could substantially increase the project costs expected to be covered by CCSD. Some efficiencies could also be realized with a combined effort versus design and construction of separate wastewater and brine connections.

Legacy Agreement: The SSCSD had a fifty-year agreement with California State Parks to serve Hearst Castle Visitor's Center and a portion of San Simeon State Beach. Old San Simeon Village (Hearst Ranch houses, Hearst Ranch Winery and Sebastian's Deli) also discharges wastewater through a connection to the State Parks system. These flows are included in the total volume metered at State Parks' connection to the SSCSD collection system. The agreement allowed a wastewater capacity total of 50,000 gpd to be treated by the SSCSD's WWTP. The agreement recently expired in 2021 and a new agreement and billing arrangement are needed for wastewater services for the Hearst San Simeon Historical Monument. Though a formal agreement isn't in place, SSCSD continues to receive and treat sewage from the Hearst San Simeon Historical Monument. This inflow is discharged into the SSCSD sewer system at a manhole near the intersection of Highway 1 and Pico Ave. Given the previous agreement, and current accommodations, Schaaf recommends that any selected alternative continue to provide sewer treatment services to the Hearst San Simeon Historical Monument.

Hearst's 2017 LOI estimates wastewater volume from Old San Simeon in the range of 3,000 – 5,000 gpd. The LOI requests continuation of services and agreement to accommodate a future increase up to 15,000 gpd. The Successor Agency should consider Hearst's requested future capacity in negotiations and address terms around how that capacity could be reserved, guaranteed and priced.

Road Maintenance

The roads within the SSCSD are maintained by the California Department of Transportation ("Caltrans"), the County, the SSCSD, and private property owners. The SSCSD road maintenance is funded by ad valorem property taxes[25]. The SSCSD Proposed Budget for FY 2026/27 lists the total annual estimated costs to be $0. NBS notes the SSCSD paid an invoice to Wilber Construction Inc. dated 5/3/2024 for $34,950.00 for seven asphalt patches. It is unclear where in the SSCSD the work was performed.

There are five options available for ongoing road maintenance for the roadways currently maintained by SSCSD.

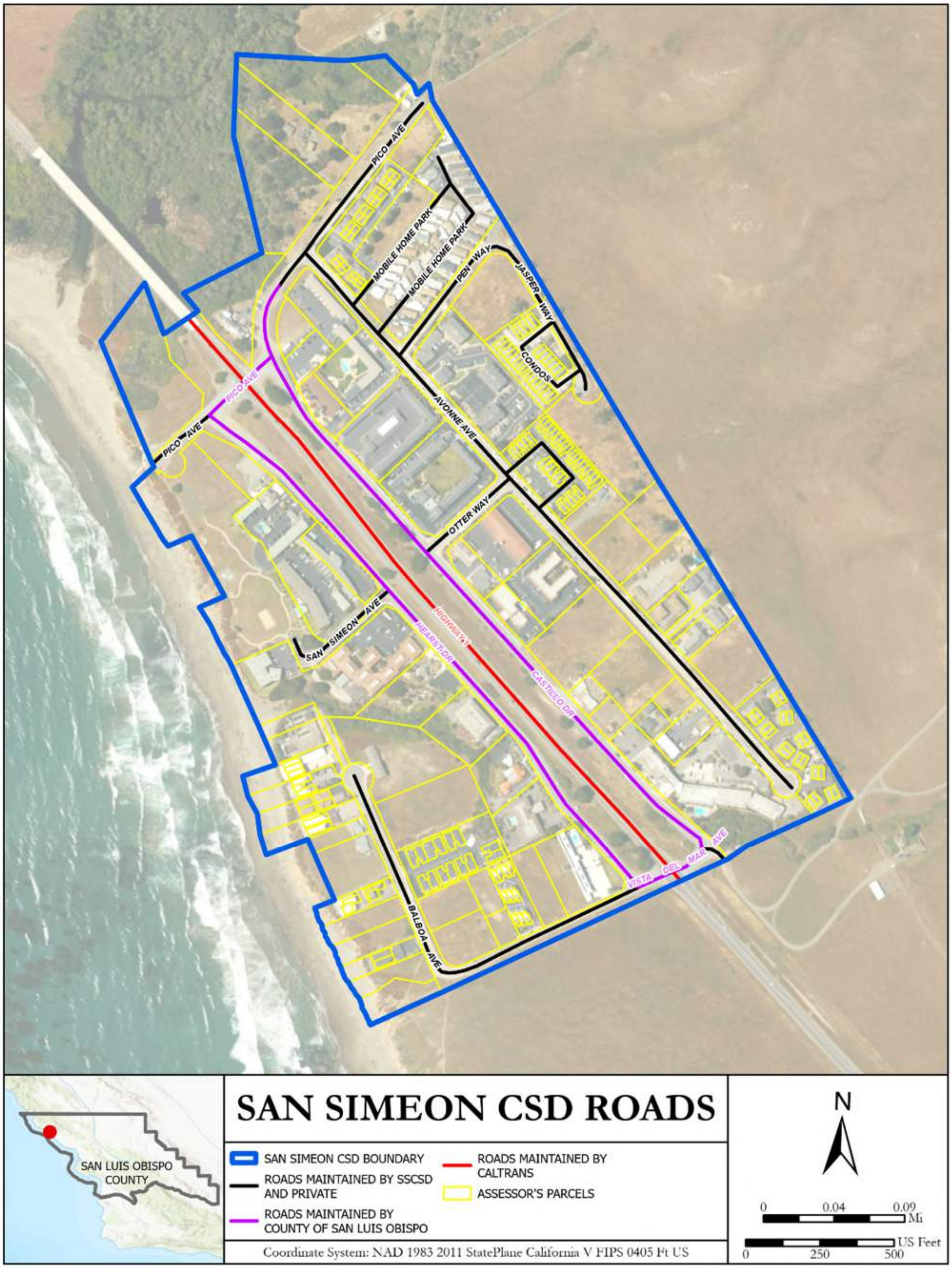
1. If the property owners want the roads upgraded to County standards, they can petition the County to include the roads into the County Maintained Road System under the County's Cooperative Road Improvement Program[26]. The program requires the roads to be brought up to County standards prior to acceptance for ongoing maintenance and provides a vehicle to fund the required improvements as well as engineering and project management to complete the improvements. This program is fully funded by the property owners, including administrative costs.
2. If a CSD is formed, the CSD may fund road maintenance services to the desired level.
3. The property owners might establish a maintenance funding instrument without application into the County Maintained Road System. This may include a special assessment district or a special tax district administered by the County. Any special district will be fully funded by the property owners, including administrative costs and subject to the policies, practice and approval of the County.
4. The property owners can cooperatively and privately maintain the roads.
5. The roads can become unmaintained public roads and there will be no public road maintenance performed.

Road maintenance does not necessarily require a successor agency and may be addressed at a future date. The figure below shows the roadways and the associated maintenance agency.

[25] *SSCSD Plan for Services pg. 6, Attached within Exhibit 1*

[26] *https://www.slocounty.ca.gov/departments/public-works/services/programs-outreach/cooperative-road-improvement-program*

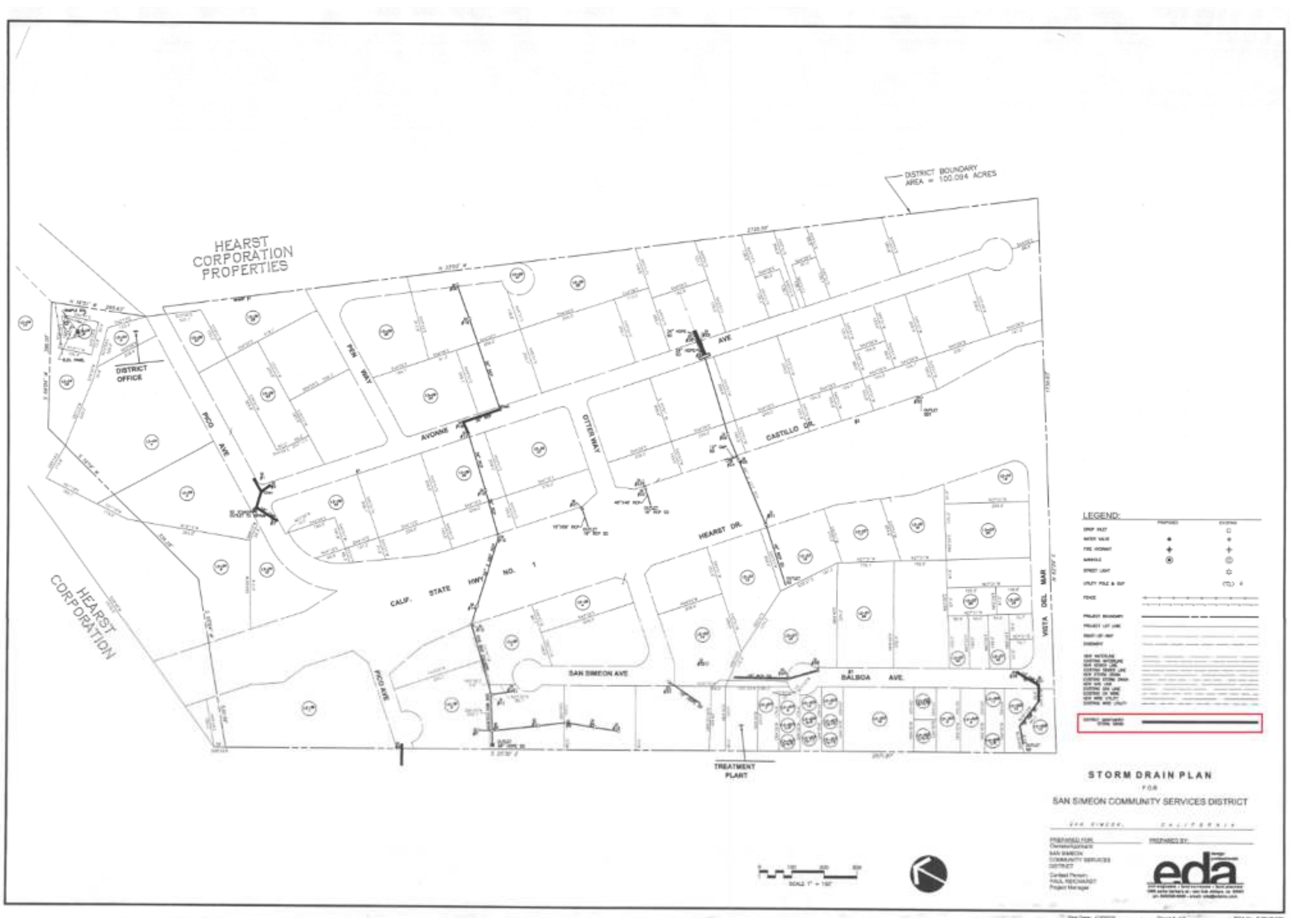
Figure 6. SSCSD Road Maintenance – Responsible Agency



APPURTENANT STORM DRAINS

A storm drain plan was located and is included in the figure below. Figure 7 identifies storm drain sections located in public roadways as "District maintained." No supporting record of SSCSD storm drain ownership or maintenance has been located, and there is contradictory information on this point. There is also no record of SSCSD costs associated with the maintenance of any storm drains. This issue requires additional research.

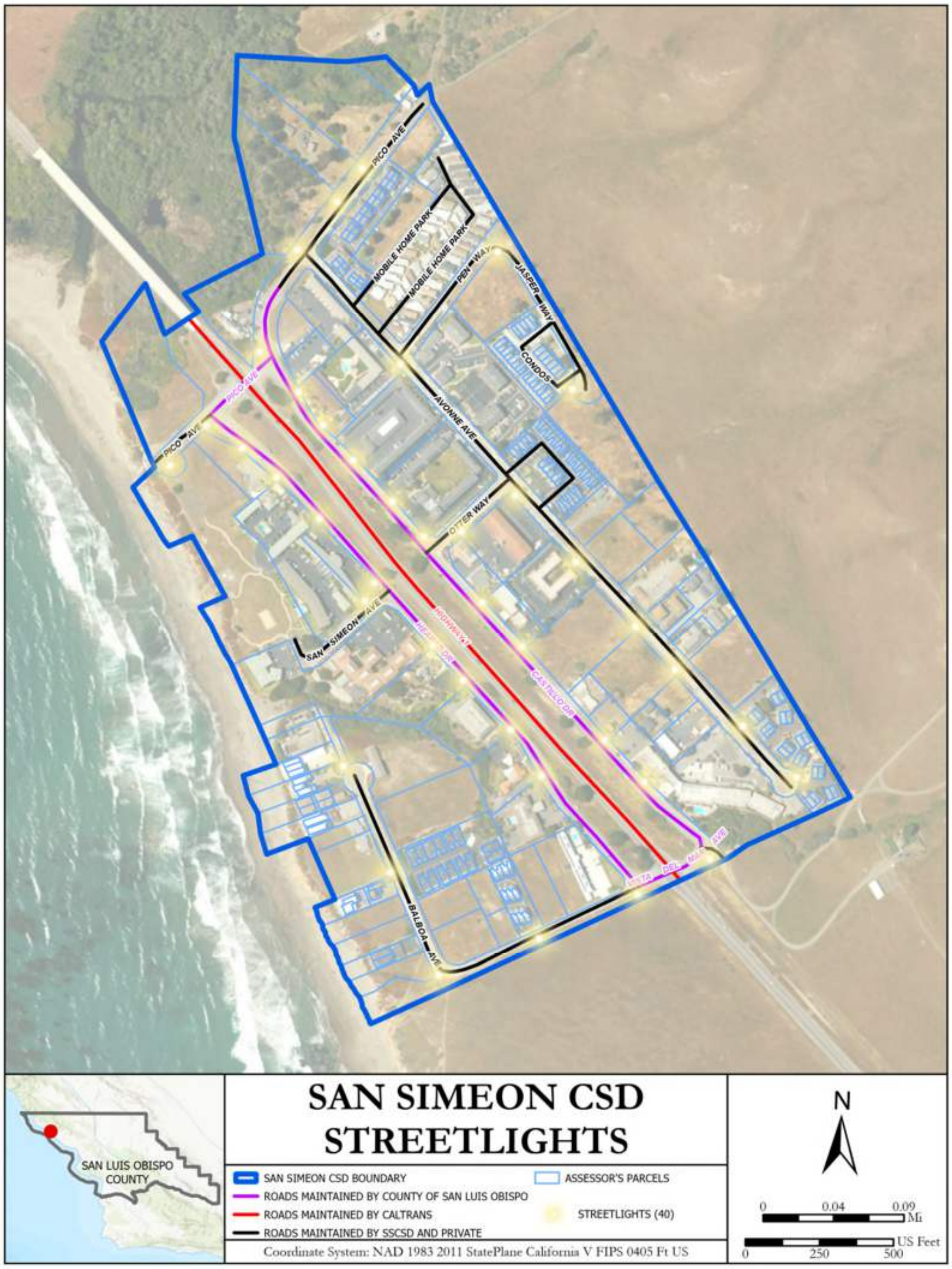
Figure 7. SSCSD Storm Drain Plan



Street Lighting

The SSCSD provides street lighting services which are currently funded by ad valorem property taxes[27]. There are approximately 40 streetlights in the SSCSD which are owned and maintained by PGE. SSCSD records indicate an average annual electric expense of $10,000 for street lighting.

Figure 8. SSCSD Streetlights



[27] *SSCSD Plan for Services pg. 6 , Attached within Exhibit 1*

Weed Abatement

The SSCSD has authority to enforce weed abatement on undeveloped parcels within the District. The costs of abatement, if unpaid by the property owner, are subject to a lien against the parcel.

Pico Stairway Maintenance

The Pico Stairway is a local beach access stairway and viewing area located at the coastal termination of Pico Avenue. This facility is maintained by the SSCSD as part of a California Coastal Commission (the "CCC") permit to operate the wastewater treatment plant. This arrangement is complicated by the fact that this facility is situated upon private property with no recorded easement. The facility is in disrepair as noted by the Ashley & Vance Engineering, Inc. Observation Memo dated June 27, 2024 (the "Observation Memo")[28]. The SSCSD has placed several signs warning the public that the stairway is unusable and dangerous. The Observation Memo concludes that the facility should be removed and/or replaced. The SSCSD does not have a cost estimate for this work. The CCC issued an enforcement warning on January 16, 2024[29] outlining the history, violations, required resolution and enforcement remedies which include various fines.

Based solely on a visual inspection of the Pico Stairway and not considering underlying structural issues, the stairway is generally usable and is being used for beach access. However, given the structural considerations, conditions may change rapidly given environmental factors.

General Administration (District Office)

The SSCSD's office space is located at 111 Pico Avenue. APN 013041005 consisting of 0.35 acres. The SSCSD lists its Building and Structures Fixed assets as having a balance sheet value of approximately $280k[30]. The building size is approximately 400 SqFt[31].

Other Assets/Equipment/Improvements

The SSCSD does not own any other material assets beyond those listed above[32].

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[28] *Attached within Exhibit 4*
[29] *Attached within Exhibit 3*
[30] *SSCSD Balance Sheet Comparison as of October 31, 2025, Attached within Exhibit 1*
[31] *Per Google Earth estimation - Construction and condition is unknown.*
[32] *SSCSD Balance Sheet Comparison as of October 31, 2025, Attached within Exhibit 1*

3. Obligations and Additional Issues

Debt Obligation

The SSCSD secured a $500k loan for rehabilitation of its water wells from the United States Department of Agriculture (the "USDA"). The loan is dated September 23, 2013, with a term not to exceed 40 years. The annual interest rate is 2.75%. The SSCSD pledged its water rate revenue to repay the loan and makes semi-annual payments of $10,345 on each March 23 and September 23. The current balance outstanding is approximately $416k[33]. The loan's Reserve Requirement is $20,690 and the SSCSD maintains this fund balance[34].

Additional Issues

The SSCSD is navigating the following special circumstances which merit mention in this report.

FUNDING NEEDS EXCEED CURRENT RATE CAPACITY

This report identified several projects required to achieve and/or maintain regulatory compliance as well as numerous additional projects that are necessary for ongoing operations. The total cost for priority projects alone will create significant rate increases if funded within standard financing timelines of 40 years or less.

San Simeon has a low median household income and is identified by State agencies as a disadvantaged community. This status provides eligibility for certain types of state funding as well as priority scoring in grant opportunities. The combination of a small, rural disadvantaged community requiring investment in utility infrastructure puts San Simeon in a competitive position for funding to support needed projects.

However, several standards need to be met before applying for grants, loans or other supplemental funding. These standards include a stable governing agency, significant progress towards project engineering and permitting, and sufficient funding through customer rates to complete the project. Identifying and obtaining supplemental funding should be a priority once a successor agency is established, stabilizing rates are approved, and defined projects are advanced to the point of funding qualification.

CAVALIER SETTLEMENT AGREEMENT

The SSCSD entered into a Settlement Agreement with Cavalier Inn & V&H Holdings[35] (collectively "Cavalier") on August 31, 2022 (the "Settlement Agreement"). The SSCSD holds approximately $680k[36] of capacity fee deposits for Cavalier. The Settlement Agreement acknowledges Cavalier is in Position No. 1 of the Hook-up Waiting List and that Cavalier has a vested contractual right and entitlement to water and sewer service capacity. The Settlement Agreement and associated issues should be reviewed by any PSA's Counsel to determine which obligations and/or liabilities may follow to the PSA. This information may also inform requirements (capacities) for service when estimating the required infrastructure for the water and sewer systems.

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[33] Per Oct 31, 2025 Balance Sheet Acct: 2520, Attached within Exhibit 1
[34] In account 1017c, Attached within Exhibit 1
[35] Attached within Exhibit 3
[36] Balance of $678,999 in account 1017f, Attached within Exhibit 1

PIPE BRIDGE

The SSCSD utilizes a pipe bridge on to convey water and sewer service across the Arroyo Del Padre Juan. There are a few issues with the pipe bridge. Needed maintenance repairs are completed but the bridge should be re-evaluated and routinely monitored due to the ongoing effects of the coastal environment. Approximately two years ago, a major rain event deposited a large number of tree limbs just above the pipe bridge. The property owner (Cavalier) required the SSCSD to obtain an easement prior to accessing the debris for removal. The easement is not yet recorded and the debris removal work remains to be performed. In the intervening time, the number and location of limbs has shifted. The remaining limbs may be a threat to the pipe bridge structure during another heavy rain event. The situation should be reviewed and addressed.

STATE PARKS (HEARST CASTLE)

The SSCSD provides the California Department of Parks and Recreation's facility Hearst Castle ("State Parks") with sewer services. There is no current sewer service agreement with State Parks. Documentation of all property outside the SSCSD boundary and discharging wastewater to SSCSD should be performed so that the actual service area can be determined. This need to determine the service area boundary is also noted in Section 4 of LAFCO's Application Response. Section 4 also notes that if a CSA is selected as the successor agency, a new CSA boundary will need to include affected/served State Park (or other) areas.

Table 8. SSCSD Summary of Obligations & Issues

Obligation / Issue	Key Facts	Implication for PSA	Immediate Action
USDA Water Well Loan	Original $500k (2013, 2.75%); current balance ≈ $416k; semi-annual payments $10,345; reserve requirement $20,690.	Debt and covenants transfer to successor; pledge of water revenues must be honored.	Confirm payoff schedule; maintain reserve; disclose in reorganization terms.
Cavalier Settlement & Capacity Deposits	$679k held in capacity fees; #1 on hookup list; vested rights to water/sewer capacity.	May drive the sizing of replacement or regional facilities; legal obligations follow successor.	Counsel review; memorialize obligations in PSA agreements/rate studies.
Pipe Bridge Over Arroyo Del Padre Juan	Debris upstream; easement pending; immediate repairs completed. Needs eval, replacement estimate ~$0.66–$0.70M.	Shared water/sewer risk; coastal permitting; potential emergency repairs.	Secure easement; remove debris; plan replacement with CCC noticing.
State Parks/Hearst Castle Service	Flows received without current agreement; historic allowance up to 50,000 gpd expired in 2021.	Must formalize service boundary, cost recovery; include State Parks in CSA boundary if applicable.	Negotiate new agreement; document actual service area.

4. RECOMMENDED NEAR-TERM ACTIONS

NBS recommends the following actions to be completed by the SSCSD in the next 6-18 months.

1. Continue Cal-WARN agreement with County of San Luis Obispo Public Works.
2. Continue operating the CSD throughout the LAFCO proceedings.
3. Cooperatively define service structures with amenable PSA (County, CSA, CCSD) and jointly prepare LAFCO submittals, including boundary adjustments to include State Parks if required.
    - See the Services Summary Tables below for an outline of the services, options, estimated costs, timelines, and key risks.
4. As existing funding allows:
    - Execute interim outfall ballast repair (~$150k).
    - Negotiate and adopt a formal wastewater service agreement with State Parks.
    - Evaluate current status of debris behind pipe bridge. Secure pipe bridge access easement; remove debris; evaluate replacement schedule and funding.

The following additional actions should be undertaken as soon as practicable once a PSA has established authority to proceed.

1. Select preferred wastewater path (local replacement vs. regional conveyance) and initiate CEQA/permitting accordingly.
    - Start WWTP siting, zoning/plan amendments (if needed), OR advance CCSD intertie preliminary design and MOUs.
    - Apply to CCC for time extension to complete relocation of WWTP.
    - Perform legal review of Cavalier Settlement obligations and review the SSCSD capacity/connection policies and planning requirements.
    - Authorize collection system CCTV and prioritize a rehabilitation plan to reduce inflow/infiltration.
2. Begin phased water reservoir replacement project definition and fire authority coordination on alternative fire protection strategies.

Services Summary Tables

Table 9. SSCSD Water Service Options and Costs Summary

Option	Scope / Notes	Capex (Appx)	Timeline	Permits / Agreements	Key Risks
Reinvest in SSCSD System	Replace reservoir (critical) and upsize; well replacement + standby generator; cartridge/RO with mid-life rehab.	**$21.9M**, excl. addtl. power.	Phased approach, near-term incremental reservoir replacement; long term funding requirements to meet priorities.	DDW coordination; fire authority strategy; CEQA for tank & mains.	Fire flow non-compliance without source upgrade; supply-chain for filters.
Local Seawater Desalination	New SWRO plant sized to maximum day demand; intake/discharge; power upgrades; not fire compliant.	**$36.0M**, excl. addtl. power.	≥10 years (permitting-intensive).	Multiple State/Federal permits + CEQA/EIR.	Permitting, high ongoing energy cost; environmental scrutiny; public opposition risk. Fire flow non-compliance

Table 10. SSCSD Sewer Service Options and Costs Summary

Option	Scope / Notes	Capex (Appx)	Timeline	Permits / Agreements	Key Risks
Replace / relocate WWTP in SSCSD	Site, permit, design, and construct replacement WWTP; add headworks pump station; rehab collection (CIPP/upsizes); repair outfall.	**$17.2M**, WWTP replacement, Collection rehab.	5–10 years.	CEQA; CDP compliance; RWQCB Order R3-2022-0003; site zoning/plan amendments as needed.	CDP relocation deadline vs delivery time; land acquisition; power extension; construction in coastal zone.
Convey to CCSD WWTP (regional treatment)	New force main (~5 miles) with pump station(s) to CCSD headworks; decommission/repurpose SSCSD WWTP; rehab collection, coordinate service to State Parks.	Single PS: **$17.3M**; Dual PS: **$20.0M**; Collection rehab.	5–10 years.	EIR; Coastal Dev. Permit; Caltrans encroachment; interagency agreement (capacity, pricing, curtailment, term).	Mid-point power availability; public acceptance; additional AWTP/ brine line concepts not included in cost.

Table 11. SSCSD Other Services, Options and Costs Summary

Service	Current Provider / Ownership	Annual Cost (Budget)	Funding Source	PSA Requirements
Road Maintenance / Storm Drains	Shared: Caltrans, County, SSCSD, private	Cost dependent on selected solution	Ad valorem property tax, or other depending on service level.	None or adopt maintenance program; coordinate roles.
Street Lighting	Approx. 40 lights owned/maintained by PG&E	$10,000/yr	Ad valorem property tax or other	Maintain PG&E service; ensure continued funding.
Weed Abatement	SSCSD Authority for undeveloped parcels within District	Pass through when powers exercised	Actual cost levied to parcels serviced	Ensure program continuity.
Pico Stairway	Facility on private property; SSCSD maintenance per CCC permit	No estimate available; CCC enforcement active.	N/A (capital TBD)	Resolve property rights/easement; coordinate removal or replacement; address CCC enforcement to avoid fines.
General Administration (District Office)	111 Pico Ave (APN 013041005); ~400 sf building; book value ~$280k	N/A (asset value)	N/A	Decide on disposition/continued use; account for asset transfer at dissolution.

5. Exhibits

Exhibit 1) Combined Financial and LAFCO Documents

a) SSCSD FY 2025/26 Preliminary Budget
b) SSCSD Financial Summary as of October 31, 2025
c) SSCSD Audited Financials FY 2023/24
d) SSCSD Resolution of Application for Dissolution
e) SSCSD Application for Dissolution (Includes Plan for Services)
f) LAFCO 30-day Review Letter

Exhibit 2) Combined Utility Studies

a) Schaaf Water Report
b) Schaaf Sewer Report
c) Brennan Report

Exhibit 3) Combined Obligations, Agreements & Misc. Information

a) USDA Loan Agreement
b) Cavalier Settlement Agreement
c) Wilbur Construction Invoice
d) 1972_Easement Agreement & Deed Hearst Corporation
e) Hearst LOI 2-1-17 Final Executed

Exhibit 4) Additional Supporting Information Vol. 1

a) Akel Water Report
b) Ashley Vance Pico Stairs Observation Letter
c) CCC Pico Stairs Enforcement Warning Letter
d) Coastal Development Permit 3-19-0020

Exhibit 5) Additional Supporting Information Vol. 2

a) Pico Creek Stream Flow Management Plan for Dissolution report
b) Dudek FINAL_SHM NO.2_CHRP PPPrez Mar 8_2023

San Luis Obispo Local Agency Formation Commission

TO: **MEMBERS OF THE COMMISSION**

FROM: **ROB FITZROY, EXECUTIVE OFFICER**

DATE: **SEPTEMBER 17, 2026**

SUBJECT: **MUNICIPAL SERVICE REVIEW POLICIES AND GUIDELINES**

RECOMMENDATION

Action: Approve, by motion, the proposed policies and guidelines related to the Municipal Service Review program.

BACKGROUND

On June 18, 2026, the Commission was provided with an overview of the existing Municipal Service Review (MSR) program, LAFCO's authority, available tools to address identified issues, and potential policy solutions. The Commission directed staff to return with draft policies for consideration. Specifically, the Commission directed staff to develop policies that:

1. Reinforce the Executive Officer's authority to request information reasonably necessary to conduct MSRs.
2. Establish criteria for determining when the Commission should hold a study session in order to provide direction and input on significant matters prior to the consideration and adoption of an MSR.
3. Create consistency regarding when the Commission may utilize conditions of approval or establish remediation periods to correct deficiencies.
4. Establish that delinquent financial audits are a serious concern and warrant appropriate follow-up in coordination with the County Auditor.
5. Establish the Commission's expectation that major Sphere of Influence requests be supported by sufficient analysis and data.

Accordingly, staff has prepared five draft policies consistent with the Commission's direction. Further, to maintain consistency with the Commission's adopted *Policies, Procedures and Bylaws* Manual, which includes both policies *and* implementation guidelines, staff has prepared implementation guidelines that provide additional detail regarding the criteria and procedures for implementing the respective policies. These draft policies and guidelines represent the initial versions presented to the Commission for consideration. If adopted, the proposed policies would be incorporated into Section 2.6, *Sphere of Influence Policies and* Section 2.7, *Municipal Service Review Policies*, of the Commission's *Policies, Procedures and Bylaws* Manual, while the implementation guidelines would be incorporated into Section 3.5, *Municipal Service Review Guidelines*, of the same manual.

The Commission may choose to adopt the policies as proposed, modify them during the meeting, or direct staff to return with additional revisions. The draft policies and guidelines, as they would appear in the *Policies, Procedures and Bylaws* Manual, are included in their entirety as Attachment A and shown in tracked changes for clarity.

Executive Officer Authority to Request Information to Facilitate Resolution
Policy Intent – State Government Code Sections 56378 and 56386 authorize the Commission and the Executive Officer to request information from and conduct studies of local agencies. The intent of this policy is to reinforce the authority of the Commission and Executive Officer to directly address issues with the affected agency prior to consideration by the Commission. To the extent feasible, the Executive Officer will communicate with affected agencies and seek clarification, additional information, and potential resolution of identified issues before matters are brought forward for formal Commission consideration. Issues will not always be resolved; however, the Executive Officer has the authority and support of the Commission to work with affected agencies to resolve issues during preparation of the MSR, prior to final consideration by the Commission. This policy is not intended to delegate to the Executive Officer any authority reserved by law to the Commission.

Proposed Policy

- 2.7.4 - The Commission and the Executive Officer may request information reasonably necessary to conduct MSRs, evaluate deficiencies, monitor corrective actions, evaluate SOI proposals, and prepare recommendations for Commission consideration pursuant to Government Code Section 56378 and 56386, in addition to other relevant state regulations.

Proposed Implementation Guidelines

- 3.5.8 – The Commission and Executive Officer may request information from an affected agency for purposes, including, but not limited to, the following:
  a. Conducting an MSR;
  b. Verifying an MSR finding;
  c. Evaluating a service, governance, or operational deficiency;
  d. Determining whether an identified deficiency has been corrected;
  e. Evaluating an SOI proposal;
  f. Evaluating the financial or operational conditions of an agency;
  g. Monitoring a remediation period; or
  h. Evaluating compliance with a condition imposed by the Commission.

- 3.5.9 – When an issue may reasonably be resolved before a Commission hearing, staff should, when practical:
  a. Notify the affected agency of the issue;
  b. Explain the information, documentation, or corrective action needed;
  c. Provide the agency with a reasonable opportunity to respond;
  d. Review information provided by the agency;
  e. Determine whether the issue has been resolved; and
  f. Incorporate the outcome into the staff report and MSR as appropriate.

Policy and Guidelines Related to MSR Study Sessions
Policy Intent – Study sessions provide an opportunity for the Commission to become familiar with significant issues, consider alternatives, identify additional information or analysis that may be needed, and provide direction to staff before an MSR or related action is brought forward for formal consideration. A study session is not a final decision on the MSR or any related matter, rather, it is intended to be an opportunity for the Commission to provide input early in the MSR process.

Proposed Policy

- 2.7.5 – The Commission may utilize study sessions, when appropriate and recommended by the Executive Officer, for significant matters identified through an MSR that would benefit from Commission feedback prior to formal consideration.

Proposed Implementation Guidelines

- 3.5.10 – A study session should be considered when an MSR involves:
  a. A significant level-of-service issue;
  b. A substantial change in the manner or level of service;
  c. A significant proposed Sphere of Influence change;
  d. A substantial financial, governance, or operational issue;
  e. A matter involving significant disagreement between LAFCO staff and the affected agency;
  f. A significant issue affecting another local agency; or
  g. Any other matter that, in the judgment of the Executive Officer, would benefit from preliminary Commission feedback.

- 3.5.11 – The Executive Officer should identify the need for a study session as early in the MSR process as reasonably practical. Staff should provide sufficient information for the Commission to understand the issue and consider potential alternatives. Following the study session, staff should incorporate Commission direction, as appropriate, into the subsequent MSR and associated staff report.

MSR Conditions of Approval and Remediation of Deficiencies
Policy Intent – When appropriate and legally authorized, the Commission may establish conditions of approval, corrective actions, or preliminary remediation periods to address unresolved deficiencies and foster good governance within the County. The Commission intends

to apply remediation periods consistently for substantially similar deficiencies while retaining discretion to establish different requirements based upon the nature, severity, complexity, urgency, or circumstances of the deficiency.

Proposed Policy

- 2.7.6 – At its discretion, the Commission may provide a local agency with a reasonable and consistent opportunity to remediate significant deficiencies identified through a MSR when the deficiency can reasonably be remedied and additional time is appropriate.

Proposed Implementation Guidelines

- 3.5.12 – When a MSR identifies a significant unresolved deficiency that could not be resolved prior to Commission consideration, staff should evaluate whether the matter is appropriate for one or more of the following:
    a. A condition of approval;
    b. A defined preliminary remediation period;
    c. Periodic progress reporting to the Commission; or
    d. Further Commission action.

- 3.5.13 – When recommending a formal remediation period, staff should identify:
    a. The specific deficiency;
    b. The desired corrective action;
    c. The proposed timeframe for completion;
    d. Any significant interim milestones;
    e. The information needed to demonstrate remediation; and
    f. The proposed date for Commission review.

- 3.5.14 – To promote consistency, staff should generally consider the following ranges:

Circumstance	Typical remediation period
Minor deficiency	**Up to 6 months**
Significant deficiency	**6–12 months**
Statutory remediation period per Gov Code 56375.1 intended for LAFCO initiated agency dissolution	**12 months**

These timeframes are guidelines established by the Commission's authority, as appropriate, and are not mandatory deadlines, unless a LAFCO-initiated dissolution under Government Code section 56375.1 is proposed, which requires a 12-month remediation period prior to dissolution.

- 3.5.15 – At the conclusion of a remediation period, staff will present a formal Condition Compliance Report to the Commission at a regularly scheduled Commission meeting.

The Condition Compliance Report will be appended to the adopted MSR for the record and the report will inform the Commission whether the deficiency has been:

a. Corrected;
b. Substantially corrected;
c. Partially corrected;
d. Unresolved; or
e. Unable to be evaluated because sufficient information has not been provided.

- 3.5.16 – If the deficiency remains unresolved or unable to be evaluated because sufficient information has not been provided, the Commission may consider initiating dissolution as specified in Government Code Section 56375.1. If the Commission does not wish to pursue a LAFCO initiated dissolution, it may extend or modify the remediation period, establish additional corrective actions, or consider other action within its statutory authority.

Significant Sphere of Influence Changes

Policy Intent – Significant SOI changes proposed by an agency may have substantial regional effects and therefore should be supported by sufficient analysis and data so that the Commission may make a fully informed decision. The intent of this policy is to ensure the Commission has the information required to make sound policy and regional planning decisions.

Proposed Policy

- 2.6.13 – It is the policy of the Commission that significant changes to a local agency's SOI, or other significant proposals, should be supported by sufficient analysis to determine the implications of the proposed change for future service delivery, governmental organization, and long-range planning.

Proposed Implementation Guidelines

- 3.5.17 – Staff should consider an SOI change to be potentially significant when the proposal:
  a. Adds or removes a substantial geographic area relative to its existing service area or SOI;
  b. Affects another agency's SOI, service area, governance structure, or service responsibilities;
  c. Has significant implications for City or County planning;
  d. Otherwise is significant due to the nature of the proposal; or
  e. Significant changes should be studied and analyzed in detail and supported by data, when applicable, prior to Commission consideration. The analysis should be prepared by the respective agency. A study session should be considered when an SOI change is substantial enough that early Commission feedback would benefit staff's subsequent analysis or recommendation.

Financial Audits

Policy Intent – State law requires agencies to prepare annual financial audits. However, some agencies within the County experience difficulty fulfilling this requirement. The Commission recognizes the distinction between an isolated or temporary audit delay and a recurring pattern of chronic audit delinquency. The intent of this policy is to address chronic issues related to financial audits or otherwise serious financial issues.

Proposed Policy

- 2.7.7 – It is the policy of the Commission that delinquent financial audits represent a financial accountability deficiency that warrants appropriate review and follow-up. The nature and extent of the Commission's response should be proportionate to the duration, frequency, and circumstances of the delinquency, in coordination with the County Auditor, as appropriate. When appropriate and legally authorized, the Commission, in coordination with the County Auditor, may establish corrective actions, conditions of approval, or a remediation period to facilitate completion of delinquent audits and address other serious financial-related issues.

Proposed Implementation Guidelines

- 3.5.18 – When staff identifies a delinquent audit, staff should determine the following:
  a. The applicable statutory requirement;
  b. The length of the delinquency;
  c. Whether the agency has retained an independent auditor or initiated the audit process;
  d. The reason for the delay;
  e. The estimated completion date for the delinquent audit(s);
  f. Whether previous audit delinquencies exist;
  g. Whether other financial or governance deficiencies are present; and
  h. Whether the agency has coordinated with the County Auditor to explore options or alternatives to comply with auditing requirements of Government Code Section 26909.

- 3.5.19 – For an isolated or relatively recent audit delinquency, staff should generally contact the agency to determine the status of the audit and provide an opportunity for the agency to resolve the matter. Staff should request a reasonable completion schedule when appropriate and report the result in the MSR.

- 3.5.20 – When an agency has repeated or extended audit delinquencies, staff should evaluate whether the issue indicates broader concerns regarding:
  a. Financial management;
  b. Internal controls;
  c. Administrative capacity;
  d. Governance;
  e. Transparency; or
  f. The agency's ability to provide services,

- 3.5.21 – For significant or chronic deficiencies, staff should consider recommending a preliminary remediation period, a formal remediation period as specified in Government Code Section 56375.1(a)(2) as applicable, or other Commission action. When a preliminary remediation period is established, the MSR should identify a clear completion deadline. Periodic reporting may be required when the remediation period extends beyond a reasonable period or when the Commission determines that interim monitoring is warranted.

- 3.5.22 – If the agency fails to complete the required audits or demonstrates inadequate progress towards compliance, staff should advise the Commission regarding available options under applicable law and provide a status update on any agency and County Auditor coordination.

OUTCOMES

The proposed policies directly address the concerns raised by the Commission and enhance both the value and effectiveness of the MSR process. While no policy framework can guarantee that every issue will be fully resolved, these updates would increase transparency and encourage agencies to address identified deficiencies and improve operations when appropriate.

It is important to recognize that many agencies within the County operate effectively and generate few, if any, concerns. For these agencies, MSRs will continue to be presented to the Commission through the standard review process, with no additional action required. The proposed policies are primarily intended to apply to agencies experiencing operational, governance, financial, or service-related challenges. Nevertheless, implementation of these policies would have implications for staff workload and may extend the time required to complete certain MSRs.

LAFCO's long-term objective is to complete an MSR for each agency approximately every five years, and significant progress has been made toward achieving that goal. However, in certain cases, the proposed policies may necessitate additional analysis, coordination, and follow-up when issues are identified during the review process. As a result, the timeframe for completing an MSR may be extended in those cases.

Under current practices, a standard MSR generally takes between six and twelve months to complete, with smaller agencies typically requiring less time and larger agencies, such as cities, requiring more extensive review. However, for agencies with issues that trigger one or more of the proposed policies, the completion timeline may be extended by several months. While this may increase the overall processing time, staff believe the resulting improvements in accountability, transparency, and the quality of the final MSR justify the additional effort and time required.

With respect to staffing, the Executive Officer believes the current staffing model of four employees is sufficient to accommodate the additional workload associated with these policies. However, staff also recognizes the benefit of reverting the existing Commission Clerk position back to a Clerk Analyst position and, potentially, converting the current 0.75 FTE allocation to a full-time position. Implementation of the proposed policy framework will increase the need for analytical, research, and coordination duties. A Clerk Analyst position could continue to perform Commission Clerk functions while also providing valuable support in areas such as research, data collection, agency coordination, and special projects. The budgetary impact of these changes could be absorbed through salary savings during the current fiscal year and would result in only a modest increase in expenditures in future fiscal years. Should staffing modifications become necessary, staff would return to the Commission at a later date with specific recommendations or actions related to staffing adjustments for consideration.

CONCLUSION

The Commission may accept the proposed policies and implementation guidelines, modify as desired, or direct staff to return with changes at a later date.

ATTACHMENTS

Attachment A: Proposed Amendments to the Commission's Policies, Procedures and Bylaws

Attachment A

Proposed Amendments to the
Commission's Policies, Procedures and
Bylaws

2.6 Sphere of Influence Policies

The CKH Act provides the legislative authority and intent for establishing a Sphere of Influence and is included by reference in these policies. A Sphere of Influence is the probable 20-year growth boundary for a jurisdiction's physical development. These policies are intended to be consistent with the CKH Act and take into consideration local conditions and circumstances. All procedures and definitions in the CKH Act are incorporated into these policies by reference.

2.6.1. LAFCO intends that its Sphere of Influence determination will serve as a master plan for the future organization of local government within the County. The spheres shall be used to discourage urban sprawl and the proliferation of local governmental agencies and to encourage efficiency, economy, and orderly changes in local government.

2.6.2. The Sphere of Influence lines shall be a declaration of policy which shall be a primary guide to LAFCO in the decision on any proposal under its jurisdiction. Every determination made by the Commission shall be consistent with the spheres of influence of the agencies affected by those determinations.

2.6.3. No proposal which is inconsistent with an agency's adopted Sphere of Influence shall be approved until the Commission, at a noticed public hearing, has considered an amendment or revision to that agency's Sphere of Influence.

2.6.4. The adopted Sphere of Influence shall reflect city and county general plans, growth management policies, annexation policies, resource management policies, and any other policies related to ultimate boundary area of an affected agency unless those plan or policies conflict with the legislative intent of the CKH Act (Government Code Section 56000 et seq.).

Where inconsistencies between plans exist, LAFCO shall rely upon that plan which most closely follows the legislature's directive to discourage urban sprawl, direct development away from prime agricultural land and open space lands, and encourage the orderly formation and development of local governmental agencies based upon local conditions and circumstances.

In accordance with the CKH Act a municipal service review shall be conducted prior to the update of a jurisdiction's Sphere of Influence. The service review is intended to be a basis for updating a jurisdiction's Sphere of Influence.

2.6.5. LAFCO will designate a Sphere of Influence line for each local agency that represents the agency's probable physical boundary and includes territory eligible for annexation and the extension of that agency's services within a zero to twenty-year period.

2.6.6. LAFCO shall consider the following factors in determining an agency's Sphere of Influence:

a. Present and future need for agency services and the service levels specified for the subject area in applicable general plans, growth management plans, annexation policies, resource management plans, and any other plans or policies related to an agency's ultimate boundary and service area (CKH 56425 (e)(1)).
b. Capability of the local agency to provide needed services, taking into account evidence of resource capacity sufficient to provide for internal needs and urban expansion (CKH 56425 (e)(2)).
c. The existence of agricultural preserves, agricultural land and open space lands in the area and the effect that inclusion within a Sphere of Influence shall have on the physical and economic integrity of maintaining the land in non-urban use (CKH 56426.5 (a)).
d. Present and future cost and adequacy of services anticipated to be extended within the Sphere of Influence.
e. Present and projected population growth, population densities, land uses, and area, ownership patterns, assessed valuations, and proximity to other populated areas.
f. The agency's capital improvement or other plans that delineate planned facility expansion and the timing of that expansion.
g. Social or economic communities of interest in the area (CKH 56425 (e)(4)).

h. For an update of a Sphere of Influence of a city or special district that provides public facilities or services related to sewers, municipal and industrial water, or structural fire protection, a written determination regarding the present and probable need for those public facilities and services of any disadvantaged unincorporated communities within the existing Sphere of Influence shall be prepared.

2.6.7. LAFCO may adopt a zero Sphere of Influence encompassing no territory for an agency. This occurs if LAFCO determines that the public service functions of the agency are either nonexistent, no longer needed, or should be reallocated to some other agency of government. The local agency which has been assigned a zero Sphere of Influence should ultimately be dissolved.

2.6.8. Territory not in need of urban services, including open space, agriculture, recreational, rural lands, or residential rural areas shall not be assigned to an agency's Sphere of Influence unless the area's exclusion would impede the planned, orderly and efficient development of the area.

2.6.9. LAFCO may adopt a Sphere of Influence that excludes territory currently within that agency's boundaries. This occurs where LAFCO determines that the territory consists of agricultural lands, open space lands, or agricultural preserves whose preservation would be jeopardized by inclusion within an agency's Sphere of Influence. Exclusion of these areas from an agency's Sphere of Influence indicates that detachment is appropriate.

2.6.10. Where an area could be assigned to the Sphere of Influence of more than one agency providing needed service, the following hierarchy shall apply dependent upon ability to serve:

a. Inclusion within a municipality Sphere of Influence.
b. Inclusion within a multipurpose district Sphere of Influence.
c. Inclusion within a single-purpose district Sphere of Influence.

In deciding which of two or more equally capable agencies shall include an area within its Sphere of Influence, LAFCO shall consider the agencies' service and financial capabilities, social and economic interdependencies, topographic factors, and the effect that eventual service extension will have on adjacent agencies.

2.6.11. Sphere of Influence boundaries shall not create islands or corridors unless it can be demonstrated that the irregular boundaries represent the most logical and orderly service area of an agency.

2.6.12. Nonadjacent publicly owned properties and facilities used for urban purposes may be included within that public agency's Sphere of Influence if eventual annexation would provide an overall benefit to agency residents.

2.6.13. It is the policy of the Commission that significant changes to a local agency's Sphere of Influence, or other significant proposals, should be supported by sufficient analysis to determine the implications of the proposed change for future service delivery, governmental organization, and long-range planning.

2.6.14. At the time of adoption of a city Sphere of Influence LAFCO may develop and adopt in cooperation with the municipality, an urban area boundary pursuant to policies adopted by the Commission in accordance with Government Code Section 56080. LAFCO shall not consider any area for inclusion within an urban service area boundary that is not addressed in the general plan of the affected municipality or is not proposed to be served by urban facilities, utilities, and services within the first five years of the affected city's capital improvement program.

2.6.15. LAFCO shall review Sphere of Influence determinations every five years or when deemed necessary by the Commission consistent with an adopted work plan. If a local agency or the County desires amendment or revision of an adopted Sphere of Influence, the local agency, by resolution, may file such a request with the LAFCO Executive Officer. Any local agency or county making such a request shall reimburse the Commission for the actual and direct costs incurred by the Commission. The Commission may waive such reimbursement if it finds that the request may be considered as part of its periodic review of spheres of influence.

2.6.16. LAFCO shall adopt, amend, or revise Sphere of Influence determinations following the procedural steps set forth in CKH Act 56000 et seq.

2.7 Municipal Service Review Policies

The following policies are meant to guide San Luis Obispo LAFCO in the preparation of the municipal service review for jurisdictions:

2.7.1. The Commission shall use the Municipal Service Review Guidelines found in Chapter 3 as a framework for preparing a municipal service review for a jurisdiction.

2.7.2. In order to prepare an update of spheres of influence in accordance with Section 56425, the Commission shall conduct a municipal service review of the municipal services provided by the local agency or service jurisdiction.

2.7.3. LAFCO shall complete a municipal service review consistent with the provisions contained in the CKH Act including identification of disadvantaged unincorporated communities located contiguous to the Sphere of Influence of a jurisdiction.

2.7.4. The Commission and the Executive Officer may request information reasonably necessary to conduct municipal service reviews, evaluate deficiencies, monitor corrective actions, evaluate sphere of influence proposals, and prepare recommendations for Commission consideration pursuant to Government Code Section 56378 and 56386, in addition to other relevant state regulations.

2.7.5. The Commission may utilize study sessions, when appropriate and recommended by the Executive Officer, for significant matters identified through a municipal service review that would benefit from Commission feedback prior to formal consideration.

2.7.6. At its discretion, the Commission may provide a local agency with a reasonable and consistent opportunity to remediate significant deficiencies identified through a municipal service review when the deficiency can reasonably be remedied and additional time is appropriate.

2.7.7. It is the policy of the Commission that delinquent financial audits represent a financial accountability deficiency that warrants appropriate review and follow-up. The nature and extent of the Commission's response should be proportionate to the duration, frequency, and circumstances of the delinquency, in coordination with the County Auditor, as appropriate. When appropriate and legally authorized, the Commission, in coordination with the County Auditor, may establish corrective actions, conditions of approval, or a remediation period to facilitate completion of delinquent audits and address other serious financial-related issues.

3.5 Municipal Service Review Guidelines

The following questions are designated to help agencies and LAFCO compile information needed to complete municipal service reviews. Questions and Information sources will vary depending upon jurisdictions. Answers to these questions will be used by LAFCO to prepare service reviews and will be used to update jurisdictions' spheres of influence.

3.5.1 Growth and Population projections for the affected area.

a. How does the projected growth of the proposed sphere of influence areas compare with present County land use designations?
b. How have surrounding County land use patterns evolved and what impacts have they caused on infrastructure, e.g., roads, water, sewer, fire, police?
c. Will changes as proposed in the sphere of influence increase pressure to develop surrounding County lands causing an increase in growth potential?

d. Information Sources: City and County general plans, EIRS, US Census website, State Department of Finance, planning departments, Council of Governments, and economic reports.

3.5.2 For an update of an SOI of a city or special district that provides public facilities or services related to sewers, municipal and industrial water, or structural fire protection, the present and probable need for those public facilities and services of any disadvantaged unincorporated communities within the existing sphere of influence.

Disadvantaged unincorporated communities, or "DUCs," are inhabited territories (containing 12 or more registered voters) where the annual median household income is less than 80 percent of the statewide annual median household income.

a. Does the subject agency provide public services related to sewers, municipal and industrial water, or structural fire protection?
b. Are there any "inhabited unincorporated communities" within or adjacent to the subject agency's sphere of influence that are considered "disadvantaged" (80% or less of the statewide median household income)?
c. Information Sources: City and County general plans, US Census, California Rural Legal Assistance, and Council of Governments reports.

3.5.3 Present and planned capacity of public facilities and adequacy of public services, including infrastructure needs or deficiencies.

a. Are the jurisdiction's water resources and facilities adequate to serve the area in the existing boundaries? What about future growth or expansions?
b. What is the jurisdiction's current status with regard to wastewater collection, treatment, and disposal? What are the plans for the future?
c. What is the present condition of the streets, roads, and circulation? Where are the problem areas and what are the future needs and plans?

d. Does the jurisdiction have adequate police and fire resources to meet the existing needs of the community? What about future needs?

e. Information Sources: Water master plans, urban water management plans, Department of Water Resources annual reports, wastewater master plans, general plans, EIRs, circulation elements, regional transportation plans and EIRs, capital improvement plans, Insurance Service Office (ISO) ratings, police and fire department websites, questionnaires, and interviews.

3.5.4 Financial ability of agencies to provide services.

a. What is the current fiscal status of the jurisdiction? What are the indicators?

b. Will the fiscal impacts of the proposed changes to the sphere of influence be greater or lesser than the fiscal benefits?

c. Does the jurisdiction have financial reserves? If so, what percentage of the general fund do their reserves represent?

d. How will the jurisdiction fund needed capital improvement projects, i.e., bonds, loans, other?

e. How does the jurisdiction analyze and establish rates and fees?

f. How will the sphere of influence action impact the rates and fees within the jurisdiction?

g. How will the sphere of influence territories pay their share of the jurisdictions' costs for services?

h. Information Sources: Budgets for the last three years, city managers, state and city annual reports, Department of Finance, retail sales and transient occupancy tax (TOT), city fiscal policies, development impact fee information, debt information, joint-financing efforts, and UCSB Economic Report, Budget processes, special purchasing contracts, bidding policies, service studies, and interviews rates and fees studies, EIRs, cost-of-service studies, and rates and fees policies.

3.5.5 Status of, and opportunity for, shared facilities.

a. Does the jurisdiction share facilities with other agencies?

b. Has either the jurisdiction or County suggested sharing facilities in the SOI/Annexation areas?
c. Are there presently any shared relationships for services between agencies in the sphere of influence areas? Are there opportunities for sharing in the future?
d. Is there any or will there be any duplication of facilities in the sphere of influence area?
e. Information Sources: Capital improvement plans, shared road construction plans, open space preservation plans, City and County recreational facilities, and shared water storage and distribution facilities.

3.5.6 Accountability for community service needs including governmental structure and operational efficiencies.

a. Does the jurisdiction strive to involve the public in decision-making?
b. Does the jurisdiction facilitate local media coverage and public information programs?
c. Are elected and appointed representatives accessible and attentive to their constituents?
d. Are annual budget and audit reports available to the public?
e. Does the jurisdiction have the administrative capacity to assume expanded responsibilities over the SOI areas without decreasing existing services?
f. Does the jurisdiction have a customer-oriented service philosophy, including written goals and mission statements, master services plans, customer outreach programs, and an active quality control program?
g. Does the jurisdiction maintain capital improvement programs and enterprise fund management plans?
h. Does the jurisdiction maintain sound accounting principles and best practice fiscal management programs?
i. Does the Jurisdiction have a reasonably good record of safety, environmental and permit compliance?
j. How will services to the sphere of influence areas be enhanced by the jurisdiction?
k. Will services to the sphere of influence areas proposed for exclusion be enhanced, decreased, or remain the same?

l. Will opportunities for public participation in the development review process be enhanced in the jurisdiction or the County for the SOI areas?

m. Information Sources: Interviews, websites, public involvement policies, public information programs, customer complaint processes, customer surveys, budgets for the last three years, city managers, state and city annual reports, fiscal management policies, and indicator reports.

3.5.7 Any other matter related to effective or efficient service delivery, as required by commission policy.

3.5.8 The Commission and Executive Officer may request information from an affected agency for purposes, including, but not limited to, the following:

a. Conducting a municipal service review;
b. Verifying a municipal service review finding;
c. Evaluating a service, governance, or operational deficiency;
d. Determining whether an identified deficiency has been corrected;
e. Evaluating a Sphere of Influence proposal;
f. Evaluating the financial or operational conditions of an agency;
g. Monitoring a remediation period; or
h. Evaluating compliance with a condition imposed by the Commission.

3.5.9 When an issue may reasonably be resolved before a Commission hearing, staff should, when practical:

a. Notify the affected agency of the issue;
b. Explain the information, documentation, or corrective action needed;
c. Provide the agency with a reasonable opportunity to respond;
d. Review information provided by the agency;
e. Determine whether the issue has been resolved; and

f. Incorporate the outcome into the staff report and municipal service review as appropriate.

3.5.10 A study session should be considered when a municipal service review involves:

a. A significant level-of-service issue;
b. A substantial change in the manner or level of service;
c. A significant proposed sphere of influence change;
d. A substantial financial, governance, or operational issue;
e. A matter involving significant disagreement between LAFCO staff and the affected agency;
f. A significant issue affecting another local agency; or
g. Any other matter that, in the judgment of the Executive Officer, would benefit from preliminary Commission feedback.

3.5.11 The Executive Officer should identify the need for a study session as early in the municipal service review process as reasonably practical. Staff should provide sufficient information for the Commission to understand the issue and consider potential alternatives. Following the study session, staff should incorporate Commission direction, as appropriate, into the subsequent municipal service review and associated staff report.

3.5.12 When a municipal service review identifies a significant unresolved deficiency that could not be resolved prior to Commission consideration, staff should evaluate whether the matter is appropriate for one or more of the following:

a. A condition of approval;
b. A defined preliminary remediation period;
c. Periodic progress reporting to the Commission; or
d. Further Commission action.

3.5.13 When recommending a formal remediation period, staff should identify:

a. The specific deficiency;
b. The desired corrective action;

c. The proposed timeframe for completion;

d. Any significant interim milestones;

e. The information needed to demonstrate remediation; and

f. The proposed date for Commission review.

3.5.14 To promote consistency, staff should generally consider the following ranges:

Circumstance	**Typical remediation period**
Minor deficiency	**Up to 6 months**
Significant deficiency	**6–12 months**
Statutory remediation period per Gov Code 56375.1 intended for LAFCO initiated agency dissolution	**12 months**

These timeframes are guidelines established by the Commission's authority, as appropriate, and are not mandatory deadlines, unless a LAFCO-initiated dissolution under Government Code section 56375.1 is proposed, which requires a 12-month remediation period prior to dissolution.

3.5.15 At the conclusion of a remediation period, staff will present a formal Condition Compliance Report to the Commission at a regularly scheduled Commission meeting. The Condition Compliance Report will be appended to the adopted MSR for the record and the report will inform the Commission whether the deficiency has been:

a. Corrected;

b. Substantially corrected;

c. Partially corrected;

d. Unresolved; or

e. Unable to be evaluated because sufficient information has not been provided.

3.5.16 If the deficiency remains unresolved or unable to be evaluated because sufficient information has not been provided, the Commission may consider initiating dissolution as specified in Government Code Section 56375.1. If the Commission does not wish to pursue a LAFCO initiated dissolution, it may extend or modify the remediation period, establish additional corrective actions, or consider other action within its statutory authority.

3.5.17 Staff should consider a sphere of influence change to be potentially significant when the proposal:

a. Adds or removes a substantial geographic area relative to its existing service area or Sphere of Influence;
b. Affects another agency's sphere of influence, service area, governance structure, or service responsibilities;
c. Has significant implications for City or County planning;
d. Otherwise is significant due to the nature of the proposal; or
e. Significant changes should be studied and analyzed in detail and supported by data, when applicable, prior to Commission consideration. The analysis should be prepared by the respective agency. A study session should be considered when an SOI change is substantial enough that early Commission feedback would benefit staff's subsequent analysis or recommendation.

3.5.18 When staff identifies a delinquent audit, staff should determine the following:

a. The applicable statutory requirement;
b. The length of the delinquency;
c. Whether the agency has retained an independent auditor or initiated the audit process;
d. The reason for the delay;
e. The estimated completion date for the delinquent audit(s);
f. Whether previous audit delinquencies exist;
g. Whether other financial or governance deficiencies are present; and
h. Whether the agency has coordinated with the County Auditor to explore options or alternatives to comply with auditing requirements of Government Code Section 26909.

3.5.19 For an isolated or relatively recent audit delinquency, staff should generally contact the agency to determine the status of the audit and provide an opportunity for the agency to resolve the matter. Staff should request a reasonable completion schedule when appropriate and report the result in the municipal service review.

3.5.20 When an agency has repeated or extended audit delinquencies, staff should evaluate whether the issue indicates broader concerns regarding:

a. Financial management;
b. Internal controls;
c. Administrative capacity;
d. Governance;
e. Transparency; or
f. The agency's ability to provide services.

3.5.21 For significant or chronic deficiencies, staff should consider recommending a preliminary remediation period, a formal remediation period as specified in Government Code Section 56375.1(a)(2) as applicable, or other Commission action. When a preliminary remediation period is established, the municipal service review should identify a clear completion deadline. Periodic reporting may be required when the remediation period extends beyond a reasonable period or when the Commission determines that interim monitoring is warranted.

3.5.22 If the agency fails to complete the required audits or demonstrates inadequate progress towards compliance, staff should advise the Commission regarding available options under applicable law and provide a status update on any agency and County Auditor coordination.