

Date of Hearing: April 29, 2026

ASSEMBLY COMMITTEE ON APPROPRIATIONS

Buffy Wicks, Chair

AB 2739 (Soria) – As Amended April 6, 2026

Policy Committee: Water, Parks and Wildlife Vote: 12 - 0

Urgency: No State Mandated Local Program: No Reimbursable: No

SUMMARY:

This bill establishes the Water Affordability and System Stabilization Fund (Trust Fund) as a charitable trust to provide a perpetual source of funding annually to the Water Rate Assistance Fund (WRAF), administered by the State Water Resources Control Board (State Water Board), and the Community Water Affordability Assistance Fund (CWAAF), administered by the Department of Water Resources (DWR).

Specifically, this bill, among many other things:

- 1) Creates the Trust Fund in the State Treasury; authorizes the Legislature to transfer General Fund moneys to fund the Trust Fund principal; provides that all moneys in the Trust Fund are continuously appropriated to the trustee (the State Treasurer) for expenditure in accordance with this bill; and transfers the distributions by the trustee from the income of the trust to the State Water Board and DWR for deposit into, and expenditure from, the WRAF and CWAAF, respectively.
- 2) Requires the trustee to hold, manage, and invest the principal of the trust in accordance with existing law with the obligation of providing a growing perpetual source of annual funding to the WRAF and CWAAF, beginning 25 years after the Legislature transfers funding from the General Fund to the Trust Fund.
- 3) Requires the trustee to collect, receive, and monetize, if prudent and in accordance with existing law, the income of the trust, and distribute the income of the trust annually as follows:
 - a) During the first 25 years following the Legislature's first transfer of General Fund dollars to the Trust Fund, transfer 45% of the total income deposited into the Trust Fund during the prior fiscal year (FY) to the State Water Board for the WRAF, transfer 45% to DWR for the CWAAF, and invest the remaining 10% as part of the trust principal.
 - b) After the first 25 years, transfer 50% to the State Water Board for the WRAF and 50% to DWR for the CWAAF.
- 4) Specifies numerous requirements and restrictions for the trustee, including requirements related to auditing and accounting of investments, as well as authorization for the trustee to accept donations to increase the principal of the Trust Fund.

- 5) Establishes the CWAAF, provides all moneys in the CWAAF are continuously appropriated to DWR for the Community Water Affordability Program (CWAP), and prohibits moneys in the CWAAF at the close of the FY from reverting to the General Fund or being available for appropriation or borrowed for use for any purpose not established in this bill unless authorized by a two-thirds vote of the Legislature.
- 6) Requires DWR, subject to transfer of moneys into the CWAAF, to develop and administer the CWAP to provide grants to community water systems (CWS) for local water infrastructure projects, including projects that improve water supplies, resiliency, or quality, and projects that reduce energy costs for CWS and states the purpose of the grants is to reduce the amount of ratepayer funding required for the projects and for avoiding costs that would otherwise be paid for by ratepayers.
- 7) Requires DWR, before disbursing grants and after holding public workshops and soliciting public comment and feedback inclusive of CWSs, to develop and adopt program guidelines and project solicitation documents; exempts these guidelines from the Administrative Procedures Act; specifies numerous requirements for the guidelines, including requiring a grantee to provide a 25% match, except as provided; requires DWR to report annually on the CWAAF and CWAP, as specified; authorizes DWR to coordinate with the State Water Board for projects that seek to combine funding from the CWAP and the State Water Board; and authorizes DWR to undertake specified actions to implement the CWAAF.

FISCAL EFFECT:

- 1) General Fund cost pressure of an unknown but significant amount, potentially in the millions of dollars (one-time or annually), to fund the Water Affordability and System Stabilization Fund principal, subject to appropriation by the Legislature. The State Treasurer, acting as the trustee, must invest this principal under standard fiduciary rules, theoretically earning the Trust Fund investment income over time. For the first 25 years, the trustee must reinvest 10% of the Trust Fund's annual income to grow the principal and increase future earnings.
- 2) DWR estimates ongoing annual General Fund costs of approximately \$600,000 (three staff and contract costs) to develop and administer the CWAP, although the magnitude of the department's workload and associated costs will ultimately depend on the level of funding it receives and is required to administer. The bill allows DWR to expend up to 5% of the annual revenue from the CWAAF for reasonable costs associated with the administration of the CWAAF.
- 3) The State Water Board estimates ongoing annual General Fund costs of approximately \$1 million to hire new staff, as well as \$500,000 in one-time contracting costs, to implement this bill. Tasks include, among other things, managing and tracking WRAF disbursements; providing administrative, fiscal, and information technology support; and updating the board's loans and grants tracking system, which is used to manage financial assistance applications.

The committee notes that this bill requires that half of the income generated by the Trust Fund be transferred to the WRAF, though this fund does not currently exist and is not created by this bill. SB 1125 (Menjivar) of the current legislative session establishes the WRAF and the associated Water Rate Assistance Program (to be administered by the State Water Board) that will receive funding from the Trust Fund created by this bill if both bills are enacted.

Therefore, it is not clear to the committee whether the State Water Board's costs should be attributed to this bill.

- 4) Ongoing annual General Fund costs of an unknown amount, likely in the hundreds of thousands of dollars, for the State Treasurer to serve as the trustee for the Trust Fund and implement the requirements of the bill. The bill allows the trustee to use up to 1% of the income of the trust earned July 1 to June 30, inclusive, of each fiscal year to pay for the necessary and reasonable expenses incident to the administration of the trust during that same period.

The Legislative Analyst's Office recently warned of General Fund structural deficits of around \$35 billion per year in the 2027-28 FY and ongoing.

COMMENTS:

- 1) **Purpose.** According to the author:

The California Water Affordability and System Stabilization Act [Act] proposes a durable, California-based solution by addressing affordability at the household, system, and community levels. The Act advances a sustainable funding solution to support a statewide Low-Income Rate Assistance (LIRA) program for water while also supporting strategic investments that stabilize water systems and help reduce cost pressures before they are passed on to ratepayers.

- 2) **Background.** California residents are served by various types of water utilities or water systems, including publicly owned utilities, investor-owned utilities, and small community water systems. Most of California's residential water customers are served by cities, special districts, and mutual water companies. These utilities are governed by the city council, or other local governing body, which set their own water rates; however, the majority of these agencies are subject to Proposition 218 (enacted in 1996) that sets state constitutional and statutory requirements that ensure water rates are directly tied to the cost-of-service. As a result, these water agencies are not able to increase rates in order to fund low-income rate relief programs for customers and oftentimes face challenges relying on rate revenue to fund water conveyance, storage, and treatment infrastructure.

A 2020 State Water Board report to the Legislature required by SB 401 (Dodd), Chapter 662, Statutes of 2015, found that, adjusting for inflation, the average California household paid around 45% more per month for drinking water service in 2015 than in 2007. The 2020 report also recommends the creation of a statewide WRAP funded through taxes on personal income, business income, and bottled water, as most water systems are not able to fund low-income assistance programs.

The water affordability outlook does not appear to have improved since 2020. According to the State Water Board's 2025 Needs Assessment (2025 Assessment), there was a steady increase in drinking water rates across the state from 2020 to 2023, and the affordability challenge is even more acute in poorer communities.

Writing in support of this bill, a coalition of organizations notes that water affordability and system stability are increasingly interconnected challenges across California, and that rising

costs associated with infrastructure modernization, climate resilience, regulatory compliance, and energy continue to place pressure on water systems and the communities they serve, particularly for households living at or near poverty. The coalition writes:

The Act's proposed funding structure provides predictable, long-term resources without placing new burdens on local governments or water ratepayers. This approach strengthens water planning, and enhances statewide resilience while preserving local decision-making. Further, we support the commitment of the sponsors of the Act to create a viable, sustainable funding source that does not include any new taxes or fees.

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