

## ASSEMBLY THIRD READING

AB 2739 (Soria)

As Amended April 6, 2026

2/3 vote

**SUMMARY**

Establishes the Water Affordability and System Stabilization Trust (Trust Fund) as a charitable trust to generate ongoing funding for the Community Water Affordability Program (Affordability Program) administered by the Department of Water Resources (DWR) and the Water Rate Assistance Fund administered by the State Water Resources Control Board (State Water Board).

**Major Provisions**

- 1) Establishes the Trust Fund and provides that funding in the Trust Fund shall be continuously appropriated to the State Treasurer, who shall serve as trustee to the Trust Fund, to expend funds to accomplish the goals of this bill.
- 2) Provides that the income generated by the Trust Fund shall be transferred to the Water Rate Assistance Fund and the Community Water Affordability Assistance Fund (Affordability Assistance Fund).
- 3) Provides that the Trust Fund is a charitable trust established to provide a perpetual source of funding for the Water Rate Assistance Fund and the Affordability Assistance Fund.
- 4) Authorizes the Legislature to transfer General Fund moneys to fund the Trust Fund principal. Provides that transfers to the Trust Fund are irrevocably transferred from the General Fund to the Trust Fund to accomplish the purposes of this bill.
- 5) Requires the State Treasurer to hold, manage, and invest the principal of the Trust Fund in accordance with existing law and to generate a growing perpetual source of annual funding for the Water Rate Assistance Fund and the Affordability Assistance Fund. Provides that the State Treasurer shall not invade the principal of the Trust Fund.
- 6) Requires the State Treasurer to annually distribute the funding in the Trust Fund as follows:
  - a) In the first 25 years following the Legislature's first transfer of General Fund dollars to the Trust Fund:
    - i) 45% of the income shall go to the State Water Board for purposes of the Water Rate Assistance Fund;
    - ii) 45% of the income shall go to DWR for the purposes of the Affordability Assistance Fund; and
    - iii) 10% of the income shall remain in the Trust Fund to increase the Trust Fund's principal.
  - b) 25 years after the Legislature's first transfer of General Fund dollars to the Trust Fund:

- i) 50% of the income shall go to the State Water Board for purposes of the Water Rate Assistance Fund; and
  - ii) 50% of the income shall go to DWR for the purposes of the Affordability Assistance Fund.
- 7) Establishes the Affordability Program to be administered by DWR to provide grants to community water systems for local water infrastructure projects including, projects that improve water supplies and quality and reduce energy costs for a community water system. The purpose of the grants shall be to reduce the amount of ratepayer funds required for local water infrastructure projects.
- 8) Provides that the guidelines for the Affordability Program shall:
- a) Require a grantee to provide a 25% match. Allows DWR to waive or reduce this amount if it would cause extreme financial hardship on a grant applicant;
  - b) Establish a methodology to evaluate a project's net present value of the cost avoided on a per account basis over a 25-year time frame, the applicant's ability to complete a project in a timely manner, and the number of households that will benefit from a project; and
  - c) Prohibit DWR from penalizing an applicant that requests a waiver or reduction of the 25% match requirement.
- 9) Establishes the Affordability Assistance Fund in the State Treasury and provides all moneys in the Affordability Assistance Fund are continuously appropriated to DWR for the Affordability Program. Provides monies in the Affordability Assistance Fund shall not revert back to the General Fund and shall not be appropriated or borrowed unless authorized by a 2/3's vote of the Legislature.

## COMMENTS

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 vast 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 currently 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 AB 401 (Dodd), Chapter 662, Statutes of 2015 "Recommendations for Implementation of a Statewide Low-Income Water Rate Assistance," found that California households "...find it increasingly difficult to satisfy this need as the retail cost of water has risen substantially over the last decade and is expected to rise significantly over the coming years...adjusting for inflation, the average Californian 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 water rate assistance program 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 2025 Needs Assessment (2025 Assessment), there was a steady increase in drinking water rates across the state from 2020 to 2023. The 2025 Assessment compares drinking water affordability across all 2,815 community water systems and 363 non-transient non-community water systems that serve K-12 schools. Interestingly, the 2025 Assessment found that larger water systems saw the highest increase since 2020, 17% on average, even though smaller systems generally charge more per unit of water than larger systems. Overall, the 2025 Assessment found "Statewide, the average drinking water customer charges have increased by \$6.64 (10%) since 2020." The affordability challenge is even more acute in poorer communities. Of the water systems assessed, 45% are experiencing a low affordability burden, 12% are experiencing a medium affordability burden, and 3% are experiencing a high affordability burden (40% of systems are experiencing no affordability burden).

This bill requires that half of the income generated by the Trust Fund be transferred to the Water Rate Assistance Fund, though this fund does not currently exist and is not created by this bill. SB 1125 (Menjivar) of the current legislative session, however, establishes the Water Rate Assistance Fund and 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.

### **According to the Author**

"Water affordability and system stability are increasingly interconnected challenges across California. Rising costs associated with infrastructure modernization, climate resilience, regulatory compliance, and energy continue to place pressure on water systems and the communities they serve, which is especially true for households living at or near poverty.

Further, the author contends "The California Water Affordability and System Stabilization 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 program for water while also supporting strategic investments that stabilize water systems and help reduce cost pressures before they are passed on to ratepayers."

### **Arguments in Support**

The Irvine Ranch Water District and Rancho Water (co-sponsors) are co-sponsoring this bill. They note that "water affordability and system stability are increasingly interconnected challenges across California. 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 co-sponsors assert that this bill proposes a lasting solution that does not include any new taxes or fees and that will help to advance the Human Right to Water: "[This bill'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."

### Arguments in Opposition

None on file.

## FISCAL COMMENTS

According to the Assembly Appropriations Committee, this bill has the following fiscal impact:

- 1) General Fund cost pressure of an unknown but significant amount, potentially in the millions of dollars (one-time or annually), to fund the Trust 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 [Affordability Program], 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. This bill allows DWR to expend up to 5% of the annual revenue from the [Affordability Assistance Fund] for reasonable costs associated with the administration of the [Affordability Assistance Fund].
- 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 [the Water Rate Assistance Fund] 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.
- 4) The Appropriations Committee notes that this bill requires that half of the income generated by the Trust Fund be transferred to the Water Rate Assistance Fund, though this fund does not currently exist and is not created by this bill. SB 1125 (Menjivar) of the current legislative session establishes the [the Water Rate Assistance Fund] 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 whether the State Water Board's costs should be attributed to this bill.
- 5) 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. This 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.

## VOTES

### **ASM WATER, PARKS, AND WILDLIFE: 12-0-1**

**YES:** Papan, Jeff Gonzalez, Alanis, Alvarez, Ávila Farías, Bains, Bennett, Boerner, Caloza, Hart, Muratsuchi, Rogers

**ABS, ABST OR NV:** Gallagher

### **ASM APPROPRIATIONS: 15-0-0**

**YES:** Wicks, Hoover, Aguiar-Curry, Calderon, Caloza, Dixon, Fong, Mark González, Krell, Pacheco, Pellerin, Sharp-Collins, Solache, Ta, Tangipa

## UPDATED

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CONSULTANT: Pablo Garza / W., P., & W. / (916) 319-2096

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