
SENATE COMMITTEE ON ENVIRONMENTAL QUALITY

Senator Blakespear, Chair

2025 - 2026 Regular

Bill No: AB 2739

Author: Soria

Version: 6/11/2026

Hearing Date: 7/1/2026

Urgency: No

Fiscal: Yes

Consultant: Alyssa Poletti

SUBJECT: Water: affordability and system stabilization

DIGEST: This bill 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).

ANALYSIS:

Existing federal law:

- 1) Authorizes, pursuant to the federal Safe Drinking Water Act (SDWA), the United States Environmental Protection Agency (U.S. EPA) to set standards for drinking water quality and to oversee the states, localities, and water suppliers who implement those standards. (42 United States Code (USC) § 300(f) et seq.)

Existing state law:

- 2) Establishes Department of Water Resources (DWR) (Water Code (WAT) § 120) and grants it broad authority to manage and oversee various aspects of water management in California, including:
 - a) dams (WAT § 6000 *et seq.*);
 - b) flood control projects (WAT § 8300 *et seq.*);
 - c) the State Water Project (WAT § 11419 *et seq.*);
 - d) sustainable groundwater management (WAT § 10720 *et seq.*); and
 - e) the California Water Plan. (WAT § 10004 *et seq.*).

- 3) Declares the responsibility of the state to assist local governments in providing certain essential services and facilities where water resource construction projects financed, in whole or in part, by the state or by the state jointly with the federal government create an undue burden on a local area's ability to provide these services and facilities (Water Code § 12950).
- 4) Establishes the California SDWA and requires the State Water Board to maintain a drinking water program to protect public health. (Health & Safety Code (HSC) § 116270 et seq.)
- 5) Declares that it is state policy that every human being has the right to safe, clean, affordable, and accessible water adequate for human consumption, cooking, and sanitary purposes and directs all relevant state agencies to consider this policy when administering programs (Water Code § 106.3).
- 6) Defines "public water system" as a system for the provision of water for human consumption through pipes or other constructed conveyances that has 15 or more service connections or regularly serves an average of at least 25 individuals daily at least 60 days out of the year. (Health and Safety Code § 116275).
- 7) Defines "community water system" as a public water system that serves at least 15 service connections used by yearlong residents or regularly serves at least 25 yearlong residents of the area served by the system (Health and Safety Code § 116275).

This bill:

- 1) Establishes the Water Affordability and System Stabilization Trust (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 (as specified in SB 1125 (Menjivar)) 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) Provides that moneys in the Trust Fund shall not be appropriated nor borrowed for purposes inconsistent with this bill.
- 5) 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.
- 6) Provides, notwithstanding any other law, that moneys deposited into the Trust Fund shall not be transferred to the General Fund.
- 7) 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.
- 8) 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.
- 9) Provides that the State Treasurer, and any employee or agent of the State Treasurer, shall not sell, purchase, exchange, or otherwise deal with or dispose of all or any parts of the principal of the Trust Fund.

- 10) Provides that the State Treasurer shall exercise their administration of the Trust Fund as a fiduciary to the beneficiary and shall abide by the Uniform Prudent Investor Act and provides that the State Treasurer shall have the powers, obligations, and responsibilities of a trustee consistent with existing law.
- 11) Provides that the State Treasurer may accept donations to increase the principal of the Trust Fund but prohibits expenditure of donations until the Legislature transfers General Fund dollars into the Trust Fund.
- 12) Prohibits the State Treasurer from using more than 1% of Trust Fund income for costs associated with administering the Trust Fund.
- 13) Requires the State Treasurer to provide the State Water Board and DWR with an annual accounting of investments in, and an annual forecast of projected income from, the Trust Fund to be distributed in future fiscal years.
- 14) Provides that the Trust Fund shall be a charitable trust subject to supervision of the Attorney General.
- 15) 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.
- 16) Requires DWR to develop and adopt program guidelines for the Affordability Program before providing grants. DWR shall solicit public comment and feedback on guidelines. Adoption of the program guidelines shall be exempt from the Administrative Procedures Act.
- 17) 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, the number of households that will benefit from a project, and the benefits the system received in the past year from the Water Rate Assistance Fund; and
 - c) Prohibit DWR from penalizing an applicant that requests a waiver or reduction of the 25% match requirement.

- 18) Requires DWR to hold at least three public workshops throughout the state and allow for a 45-day public comment period before adopting program guidelines for the Affordability Program.
- 19) Requires DWR to report annually on the Affordability Program's expenditures and benefits, including cumulative benefits of and estimated costs avoided by the Affordability Program.
- 20) Authorizes DWR to accept federal, state, local, or private donations to advance the goals of the Affordability Program.
- 21) Authorizes DWR to expend up to 5% of the annual revenue from the Community Water Affordability Fund for administration of the Affordability Program.
- 22) 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 moneys 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.
- 23) Makes legislative findings and declarations regarding the increasing cost of water service and the need to invest in water system upgrades and a low-income rate assistance program to help Californians afford water service.
- 24) Defines various terms for the purposes of this bill.

Background

- 1) *California's drinking water program.* The federal SDWA was enacted in 1974 to protect public health by regulating drinking water. California has enacted its own safe drinking water act to implement the federal law and establish state standards under the state SDWA. Senate Bill 861 (Committee on Budget and Fiscal Review, Chapter 35, Statutes of 2014) transferred the drinking water program from the California Department of Public Health to the State Water Board effective July 1, 2014, creating the new Division of Drinking Water within the State Water Board and made other statutory changes to create efficiencies and adoption and administration of the drinking water program.

The State Water Board directly enforces the federal SDWA for all large water systems (those with 200 or more service connections), including those water systems regulated under the CPUC, Division of Corporations, or Department of

Housing and Community Development (DHCD). For small water systems (those with less than 200 connections), local health departments can be delegated to have regulatory authority as the local primacy agency. Along with the regulation of drinking water, the State Water Board and the Regional Water Quality Control Boards (Regional Water Boards) are responsible for protecting the waters of the state, including drinking water sources, both surface water and groundwater supplies.

- 2) *Human right to water.* In 2012, California became the first state to enact a Human Right to Water law, AB 685 (Eng, Chapter 524, Statutes of 2012). Public policy continues to focus on the right of every human being to have safe, clean, affordable, and accessible water adequate for human consumption, cooking, and sanitation. Water supply, contaminants, costs of treatment and distribution systems, affordability to ratepayers, the number and nature of small public water systems, especially in disadvantaged communities, and many other factors will continue to challenge progress in ensuring the Human Right to Water.
- 3) *Water utilities.* 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.
 - a) *Publicly owned water utilities.* The majority 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. As established by Proposition 218 (1996), the majority of these utilities are subject to state constitutional and statutory requirements that ensure water rates are directly tied to the cost-of-service. As a result, these utilities are currently not able to increase rates in order to fund low-income rate relief programs for customers.
 - b) *CPUC-regulated water utilities.* The CPUC has jurisdiction over water companies that provide water service to about 16% of California's residents with annual water and wastewater revenues totaling about \$1.4 billion. Approximately 95% of those residents are served by nine large water utilities, each serving more than 10,000 service connections. Combined, the nine largest utilities serve approximately 1.175 million customers. However, the majority of the CPUC-regulated water utilities (92) have service connections of 2,000 or less, and 87 of those have service connections of 500 or less. As with other investor-owned utilities, the

CPUC regulates rates of the water utilities under its jurisdiction, as well as rules regarding discontinuation of service due to nonpayment.

Both publicly owned water utilities and CPUC-regulated water utilities are community water systems. A water system with fewer than 15 service connections or a private well are examples of systems which are not community water systems.

- 4) *The growing water affordability challenge.* A 2020 State Water Board report to the Legislature required by AB 401 (Dodd), *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.”¹ 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 2023.² 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 that “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).

¹ Pierce, G., et. al. (2020). *Recommendations for Implementation of a Statewide Low-Income Water Rate Assistance Program*, California State Water Resources Control Board.

https://www.waterboards.ca.gov/water_issues/programs/conservation_portal/assistance/docs/ab401_report.pdf

² California State Water Resources Control Board (2025) *Drinking Water Needs Assessment*.

https://www.waterboards.ca.gov/drinking_water/certlic/drinkingwater/needs.html

Water systems depend on public dollars and revenue from ratepayers to maintain and improve their systems.³ Therefore, lacking sufficient public funding, a water system cannot both maintain quality drinking water and pass savings along to consumers. Providing ratepaying assistance is one means to decrease the burden on Californians, but it doesn't address the root cause: aging water infrastructure with increasing costs shouldered by ratepayers.

Comments

- 1) *Purpose of Bill.* 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.

“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 (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) *Water Rate Assistance Fund.* This bill requires that nearly 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 the associated Water Rate Assistance Program to be administered by the State Water Board that will receive funding from the Trust Fund created by AB 2739 if both bills are enacted. Should SB 1125 not be enacted, 45 to 50% of the trust established in AB 2739 would not be allocated.
- 3) *A two-pronged approach.* Complementary to the Water Rate Assistance Fund, the Affordability Program aims to decrease the cost to ratepayers through grants to community water systems, as opposed to direct rate assistance. Though AB 2739 allocates moneys to both the Water Rate Assistance fund and the Affordability Program, the Water Rate Assistance Program is not detailed in AB 2739 but instead in SB 1125 (Menjivar). The grant programs eligible for

³ Chappelle C. & Hanak E. (2021) *Water Affordability in California*, Public Policy Institute of California.
<https://www.ppic.org/publication/water-affordability/>

the Affordability Program, as specified in AB 2739, are programs which would improve water supplies, resiliency, or quality, or reduce the energy costs for the water system, with the ultimate purpose of “reducing the amount of local ratepayer funding required.” Additionally, AB 2739 may be less burdensome to implement than SB 1125 as the implementation is done by DWR rather than individual water systems. Ultimately, the Water Rate Assistance Fund and the Affordability Program provide a two-pronged approach to the water affordability crisis, should both bills be enacted.

- 4) *Build it and they will fund.* AB 2739 creates a trust but does not allocate funding to that trust. In time between the creation of the trust and a successful budget change proposal, DWR must complete the necessary rulemaking for the grant process. However, there is no guarantee that AB 2739 (and by extension, SB 1125) will ever be funded. A similar program in Texas, a trust used for water infrastructure projects, received an initial allocation of \$1 billion and an additional \$1 billion of annual allocations for 20 years.⁴
- 5) *Previously committed amendments incoming.* AB 2739 was amended in the Senate Natural Resources and Water on June 23, 2026. However, due to timing restraints, those amendments will be adopted in this committee. The amendments include creating the Community Water Affordability Assistance Fund upon appropriation along with technical amendments.

DOUBLE REFERRAL:

This measure was heard in Senate Natural Resources and Water on June 23, 2026, and passed out of committee.

Related/Prior Legislation

SB 1125 (Menijvar) establishes the Water Rate Assistance Program to provide financial assistance to help low-income customers pay their water and wastewater bills. This bill has been referred to the Assembly Environmental Safety and Toxic Materials Committee and the Assembly Utilities and Energy Committee.

SB 350 (Durazo, 2025) would have established the Water Rate Assistance Program and the Water Rate Assistance Fund to provide financial assistance to help low-income customers pay their water and wastewater bills. SB 350 was held in the Senate Appropriations Committee.

⁴ Texas Water Foundation, *Voters Approve Prop 4 – Dedication \$20B to Water Infrastructure*.
<https://www.texaswater.org/prop-4>

AB 532 (Ransom, 2025) would have authorized public urban retail water suppliers to provide water rate assistance to their ratepayers. AB 532 was held in the Senate Appropriations Committee.

SB 1255 (Durazo, 2024) would have required a retail water supplier that serves over 3,300 residential connections to establish a water rate assistance program to help eligible low-income customers pay their water and wastewater bills. Funding would come from voluntary contributions paid by other customers through charges on water bills. Would have required the State Water Board to conduct a needs assessment for a similar program for low-income customers of smaller water suppliers. SB 1255 was held in the Assembly Appropriations Committee.

SB 222 (Dodd, 2022) would have required the State Water Board to develop and administer a statewide Water Rate Assistance Program to provide rate assistance to low-income residential ratepayers of a community water system or wastewater system. SB 222 was vetoed by the Governor.

SB 200 (Monning, Chapter 120, Statutes of 2019) establishes the Safe and Affordable Drinking Water Fund (SADWF) to help water systems provide an adequate and affordable supply of safe drinking water in both the near and the long term. Beginning in fiscal year 2020-21 and until June 30, 2030, it annually transfers five percent of the proceeds of the Greenhouse Gas Reduction Fund (but no more than \$130 million) to SADWF. Further requires the State Water Board to adopt a fund implementation plan and requires expenditures of the fund to be consistent with the plan.

SB 401 (Dodd, Chapter 662, Statutes of 2015) requires the State Water Board, in collaboration with the State Board of Equalization and stakeholders, to develop a plan for the funding and implementation of a new program to provide water rate relief for low-income ratepayers by January 1, 2018, and provide a corresponding report to the Legislature by February 1, 2018.

AB 685 (Eng, Chapter 524, Statutes of 2012) enacts the Human Right to Water state policy.

SOURCE: Irvine Ranch Water District, Rancho California Water District

SUPPORT:

Association of California Cities - Orange County
Association of California Water Agencies
California Chamber of Commerce

California Council for Environmental & Economic Balance (CCEEB)

California Farm Bureau

California Municipal Utilities Association

California Special Districts Association

California State Association of Counties (CSAC)

California Water Association

Calleguas Municipal Water District

City of Delano

City of Farmersville

City of Lindsay

City of Roseville

City of Sacramento

City of Thousand Oaks

City of Tulare

Clean Water Action

Communitiy Water Center

Contra Costa Water District

Crescenta Valley Water District

East Bay Municipal Utility District

Eastern Municipal Water District

El Dorado Irrigation District

El Toro Water District

Elsinore Valley Municipal Water District

Irvine Ranch Water District

Irvine Ranch Water District

Leadership Counsel for Justice and Accountability

League of California Cities

Los Angeles County

Metropolitan Water District of Southern California

Mission Springs Water District

Municipal Water District of Orange County

Orange County Business Council

Rancho California Water District

Rancho Water

Regional Water Authority

San Diego County Water Authority

San Joaquin Valley Water Collaborative Action Program

Santa Fe Irrigation District

Santa Margarita Water District

South Coast Water District

South Orange County Economic Coalition

Southern California Water Coalition

Southwest California Legislative Committee
Sustainable Conservation
Three Valleys Municipal Water District
Upper San Gabriel Valley Municipal Water District
Valley Water
Walnut Valley Water District
West Basin Municipal Water District
Western Municipal Water District

OPPOSITION:

None received

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