## SENATE COMMITTEE ON APPROPRIATIONS
**Senator Sabrina Cervantes, Chair**
**2025 - 2026 Regular Session**

**AB 2739 (Soria) - Water: affordability and system stabilization**

**Version:** July 2, 2026
**Urgency:** No
**Hearing Date:** August 3, 2026
**Policy Vote:** N.R. & W. 7 - 0, E.Q. 7 - 0
**Mandate:** No
**Consultant:** Ashley Ames

**Bill Summary:** This bill would establish the Water Affordability and System Stabilization Trust, a perpetual charitable trust in the State Treasury administered by the Treasurer and funded by legislative transfers from the General Fund, and would direct its annual investment income to the existing Water Rate Assistance Fund and to a new Community Water Affordability Program providing infrastructure grants to community water systems, as specified.

**Fiscal Impact:**
- The State Water Board estimates ongoing costs of about $1.5 million in the first year and $1 million annually thereafter (General Fund) to manage and track fund disbursements. update to the Loans and Grants Tracking System, and provide administrative, fiscal, and IT support, among other things.
- The Department of Water Resources (DWR) estimates ongoing costs of approximately $600,000 (General Fund) to develop and administer the Affordability Program. However, the magnitude of the department's workload and associated costs would ultimately depend on the level of funding it receives and must administer. This bill allows DWR to expend up to 5% of the Fund's annual revenue on reasonable administrative costs.
- The State Treasurer's Office raises concerns that it does not traditionally administer Trusts, and estimates that its costs are unknown but significant (ongoing, General Fund).
- 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 transfer by the Legislature from the General Fund. 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.

**Background:** 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." 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 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).

Water systems depend on public dollars and revenue from ratepayers to maintain and improve their systems. 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.

**Proposed Law:** This bill would:

1. Establish the Water Affordability and System Stabilization Act and make legislative findings and declarations, including that every human being has the right to safe, clean, affordable, and accessible water under Water Code §106.3; that rising water costs are largely attributable to infrastructure, energy, and regulatory compliance costs; that Proposition 218 requires proportional, cost-of-service-based rates and has been interpreted as prohibiting customers from being charged higher rates to subsidize other customers; that climate change will add further cost pressure as providers invest in resilience and adaptive infrastructure; that a low-income rate assistance program alone will not be sufficiently effective without addressing system costs; and that the chapter does not impose a levy, charge, or exaction of any kind, such as a tax or fee.

2. Create in the State Treasury the Water Affordability and System Stabilization Fund to hold the trust property, continuously appropriate all moneys in the trust fund to the Treasurer as trustee without regard to fiscal year, and provide that trust moneys would not be available for appropriation or borrowing for any purpose outside the chapter and would not be transferred to the General Fund.

3. Authorize funding of the trust principal by legislative transfer from the General Fund, with all future transfers irrevocably transferred during the fiscal year they are made.

4. Require the Treasurer, as trustee, to hold, manage, and invest the principal to provide a growing perpetual source of annual funding beginning 25 years after the first transfer, and prohibit the trustee from invading the principal or from selling, purchasing, exchanging, or otherwise disposing of any part of it.

5. Require the trustee to distribute trust income annually as follows:

    a. During the first 25 years following the first transfer, 45% of the prior fiscal year's income to the Water Rate Assistance Fund, 45% to the Community Water Affordability Assistance Fund, and 10% reinvested as principal.

    b. After the first 25 years, 50% to the Water Rate Assistance Fund and 50% to the Community Water Affordability Assistance Fund.

6. Require the trustee to administer the trust as a fiduciary subject to the Uniform Prudent Investor Act, limit administrative expenses to no more than 1% of annual trust income, authorize the trustee to accept donations that would become trust property, require audit and accounting services consistent with Governmental Accounting Standards Board principles, require an annual accounting and income forecast to the State Water Resources Control Board and the Department of Water Resources, and deem the trust a charitable trust subject to Attorney General supervision.

7. Require DWR, subject to transfer of moneys into the fund, to develop and administer the Community Water Affordability Program, providing grants to community water systems for local water infrastructure projects — including projects improving water supplies, resiliency, or quality, and projects reducing a system's energy costs — for the purpose of reducing local ratepayer funding required for those projects and avoiding costs otherwise paid by ratepayers.

8. Require DWR to adopt program guidelines and project solicitation documents, exempt from the Administrative Procedure Act, after at least three public workshops throughout the state and at least 45 days of public comment, and require the guidelines to:

    1. Require an applicant to provide at least 25% of total project funding, which may include federal funding and other state loans and grants, subject to waiver or reduction where the requirement would cause extreme financial hardship.

    2. Establish a methodology for evaluating projects considering factors including the net present value of cost avoided per account over 25 years, the applicant's ability to complete the project timely, the number of households benefited, and benefits the system received in the past year from the Water Rate Assistance Fund averaged across total residential connections.

    3. Provide that the methodology would not consider an applicant's ability to provide the minimum match and would not prejudice an applicant for requesting a hardship waiver.

9. Require DWR to post an annual report on the fund's revenues, expenditures, and benefits, including cumulative and fiscal year household counts and estimated costs avoided, and to coordinate with the Water Board on projects seeking combined funding.

10. Authorize DWR to accept federal contributions, voluntary contributions, gifts, grants, or bequests, and public agency participation; to enter into contribution agreements; to set funding conditions including audits, efficiency improvements, and alternatives evaluation; and to expend no more than 5% of annual fund revenue on administration, including outreach.

11. Establish the Community Water Affordability Assistance Fund in the State Treasury, make moneys available to DWR upon appropriation by the Legislature, provide that moneys would not revert to the General Fund at fiscal year close, and bar appropriation or borrowing for other purposes absent a two-thirds vote of each house.

**Related Legislation:**

SB 1125 (Menjivar, 2026) would establish the Water Rate Assistance Program to provide financial assistance to help low-income customers pay their water and wastewater bills.

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. The bill died in this committee.

AB 532 (Ransom, 2025) would have authorized public urban retail water suppliers to provide water rate assistance to their ratepayers. The bill died in this 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 have 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. The bill died 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.

**Staff Comments:** Amendments taken in the Senate Natural Resources and Water Committee removed the continuous appropriation for administrative activities. State Water Board and DWR costs would now be contingent upon appropriation, consistent with the state's traditional approach to budgeting departmental workload.

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