

THIRD READING

Bill No: AB 2777
Author: Committee on Environmental Safety and Toxic Materials
Amended: 8/17/26 in Senate
Vote: 21

SENATE ENVIRONMENTAL QUALITY COMMITTEE: 7-0, 6/17/26
AYES: Blakespear, Valladares, Allen, Dahle, Gonzalez, Hurtado, Menjivar

SENATE APPROPRIATIONS COMMITTEE: Senate Rule 28.8

ASSEMBLY FLOOR: 75-1, 5/26/26 - See last page for vote

SUBJECT: State Water Pollution Control Revolving Fund program: loans:
outdoor eating areas: water reuse

SOURCE: Author

DIGEST: This bill authorizes the State Water Resources Control Board (State Water Board) to assess a fee instead of interest for financial assistance services when administering loans under the Clean Water State Revolving Fund (CWSRF); and makes a technical change to recently enacted legislation dealing with recycled water.

Senate Floor Amendments of 8/17/26 allow, instead of permit, incidental runoff from irrigation using recycled water to enter outdoor eating areas of parks and open spaces.

ANALYSIS:

Existing federal law establishes the federal Clean Water Act (CWA) to regulate discharges of pollutants into the waters of the United States and to regulate quality standards for surface waters. (33 United States Code (U.S.C.) §§ 1251 et seq.)

Existing state law:

- 1) Declares the intent of the Legislature, that because the federal CWA provides for establishment of a perpetual water pollution control revolving loan fund, which will be partially capitalized by federal contributions, it is in the interest of people of the state, in order to ensure full participation by the state under the federal CWA, to enact laws to authorize the state to establish and implement a state/federal water pollution control revolving fund in accordance with federal provisions, requirements, and limitations. (Water Code (WC) § 13475)
- 2) Creates the Clean Water State Revolving Fund in the State Treasury and designates the State Water Board as the state agency responsible for administering the CWSRF. (WC § 13477)
- 3) Establishes requirements for what funds could be deposited into the CWSRF and authorizes the State Water Board to assess an annual charge for financial assistance services rendered not to exceed one percent of the financial assistance balance. (WC § 13477.5)
- 4) Establishes criteria for the uses of monies in the CWSRF including that the loans are made at or below market interest rates. (WC § 13480)
- 5) Requires the State Water Board to establish uniform statewide recycling criteria for each varying type of use of recycled water where the use involves the protection of public health. (WC § 13521)
- 6) Prohibits a person or public agency, including a state agency, city, county, city and county, district, or any other political subdivision of the state, from using potable water for nonpotable uses, including cemeteries, golf courses, parks, highway landscaped areas, and industrial and irrigation uses if suitable recycled water is available. (WC § 13551)
- 7) Defines “incidental runoff” as unintended amounts (volume) of runoff, such as unintended, minimal overspray from sprinklers that escapes the area of intended use. Water leaving an intended use area is not considered incidental if it is part of the facility or system design, if it is due to excessive application, if it is due to intentional overflow or application, or if it is due to negligence. (23 California Code of Regulations (CCR) § 995)

This bill:

- 1) Authorizes the State Water Board to assess fees for financial assistance services with regard to the financial assistance as permitted by federal law.

- 2) Removes the requirement that the financial assistance service rate assessed by the State Water Board remains unchanged for the duration of financial assistance and the prohibition to increase the financial assistance repayment amount.
- 3) Removes the requirement that the State Water Board sets the total revenue collected through annual charges for financial assistance at an amount that is as equally as practicable to the revenue level set in the annual Budget Act.
- 4) Removes the requirement that the State Water Board conform the financial assistance service rate with the revenue level set in the annual Budget Act.
- 5) Requires loans from the fund to be made at below market interest rates.
- 6) Removes the rate limit, as described, and rate conditions, as specified, on the combined interest and loan service rate.
- 7) Removes the method at which the combined interest and loan service rate is computed, as specified.
- 8) Makes findings and declarations as it pertains to funding for recycled water, wastewater, and water quality infrastructure.
- 9) Precludes incidental amounts of spray or mist from being allowed to enter outdoor eating areas of parks and open spaces when irrigated with recycled water, as specified.
- 10) Defines “incidental runoff” to mean unintended amounts (volume) of runoff, such as unintended, minimal overspray from sprinklers that escapes the area of intended use. Further specifies that water leaving an intended use area is not considered incidental if it is part of the facility or system design, due to excessive application, due to intentional overflow or application, or due to negligence.

Background

- 1) *Clean Water State Revolving Fund (CWSRF)*. The federal CWA established the CWSRF program to finance the protection and improvement of water quality. Many of the projects funded by the CWSRF program address wastewater discharge violations or enforcement orders issued by the Regional Water Quality Control Boards. California’s CWSRF program operates pursuant to an operating agreement between the State Water Board and the United States Environmental Protection Agency (U.S. EPA) Region 9. The

CWSRF functions as an environmental infrastructure bank capitalized by federal and state funds – providing a sustainable source of funds for water quality protection and improvement.

The capital and its earnings of the CWSRF are used to provide financial assistance to a wide variety of water quality projects. States can target specific water quality problems, offer a variety of financing options, and customize terms to meet their water quality needs. Financing options include loans, refinancing debt, purchasing, or guaranteeing local debt, and purchasing bond insurance. Interest rates must be below the market rate. The repayment period is generally the lesser of 30 years or the expected useful life of the financed asset. Since 2009, federal CWSRF appropriations and California law have also authorized grants, negative interest rates, and principal forgiveness (PF) on a limited basis.

California's CWSRF has grown since financing its first project in 1989 and has executed more than \$14.7 billion in financial assistance agreements with over 500 unique recipients. The program has funded a broad range of projects. The CWSRF can finance publicly owned treatment facilities, nonpoint source projects, and estuary projects. The most common types of application received are for wastewater treatment plants and sewer systems. Funding recipients are government entities, tribes, or non-profit organizations responsible for these projects. The interest rate is half of the most recent General Obligation Bond rate. The most common construction financing term is 30 years. The CWSRF has significant financial assets and is capable of financing projects from less than \$1 million to more than \$100 million.

When the CWSRF loans out funds, the recipient pays back both principal and interest. Currently the principal is deposited in the CWSRF and a portion of the interest is also deposited in the CWSRF.

This bill replaces the interest that is attached to a loan from the CWSRF, with a fee (also known as a fee in lieu of interest). The fee will be set at an amount no greater than what the interest would have been. However, this change will provide the State Water Board with flexibility in administering the CWSRF and the possibility that more funds could be deposited in the CWSRF than allowed under current law.

- 2) *Implementing legislation on recycled water.* SB 31 (McNerney, Chapter 736, Statutes of 2025) clarified that the use of recycled water is authorized in

various applications and under specified circumstances. SB 31 provided that water discharged from a decorative body of water during a storm event is not an unauthorized discharge if recycled water was used to restore levels due to evaporation. Additionally, this bill authorized incidental amounts of spray, mist or runoff to enter outdoor eating areas of parks and open spaces when irrigated with disinfected tertiary treated recycled water that complies with existing regulations governing the use of recycled water. However, during implementation of SB 31, questions have arisen regarding the definition of incidental runoff.

In order to assist with the implementation of SB 31, this bill defines “incidental runoff” as unintended amounts (volume) of runoff, such as unintended, minimal overspray from sprinklers that escapes the area of intended use. Water leaving an intended use area is not considered incidental if it is part of the facility or system design, if it is due to excessive application, if it is due to intentional overflow or application, or if it is due to negligence. This definition currently exists in state regulations (23 CCR § 995). Floor amendments make technical, clarifying amendments that allow for incidental runoff to enter specified areas, rather than permit.

Comments

Purpose of Bill. According to the author, “This bill is designed to make technical, yet substantive changes to water quality law. Specifically, this bill will provide the State Water Board flexibility when administering the CWSRF at no additional cost to water agencies, with the goal of stabilizing and potentially increasing the resources available within the CWSRF. Additionally, AB 2777 makes a technical clarification to recently enacted legislation dealing with water recycling.”

FISCAL EFFECT: Appropriation: No Fiscal Com.: Yes Local: No

SUPPORT: (Verified 8/17/26)

Association of California Water Agencies
California Association of Sanitation Agencies
California Municipal Utilities Association
Cdp Rural Caucus
Central Contra Costa Sanitary District
City of Roseville
Clean Water Socal
Dublin San Ramon Services District

Eastern Municipal Water District
Elsinore Valley Municipal Water District
Inland Empire Utilities Agency
Irvine Ranch Water District
Las Virgenes Municipal Water District
Los Angeles County Sanitation Districts
Orange County Sanitation District
Rancho Water
Sacramento Area Sewer District
Water Replenishment District
Water Replenishment District of Southern California
Watereuse California
West Basin Municipal Water District
Western Municipal Water District

OPPOSITION: (Verified 8/17/26)

None received

ASSEMBLY FLOOR: 75-1, 5/26/26

AYES: Addis, Aguiar-Curry, Ahrens, Alanis, Alvarez, Arambula, Ávila Farías, Bains, Bauer-Kahan, Bennett, Berman, Boerner, Bonta, Bryan, Calderon, Caloza, Carrillo, Castillo, Chen, Connolly, Davies, Dixon, Elhawary, Ellis, Flora, Fong, Gabriel, Gallagher, Garcia, Gipson, Jeff Gonzalez, Mark González, Hadwick, Haney, Harabedian, Hart, Hoover, Irwin, Jackson, Johnson, Kalra, Krell, Lackey, Lee, Lowenthal, Macedo, McKinnor, Nguyen, Ortega, Pacheco, Papan, Patel, Patterson, Pellerin, Petrie-Norris, Quirk-Silva, Ramos, Ransom, Michelle Rodriguez, Rogers, Blanca Rubio, Schiavo, Schultz, Sharp-Collins, Solache, Soria, Stefani, Tangipa, Valencia, Wallis, Ward, Wicks, Wilson, Zbur, Rivas

NOES: DeMaio

NO VOTE RECORDED: Muratsuchi, Celeste Rodriguez, Sanchez, Ta

Prepared by: Taylor McKie / E.Q. / (916) 651-4108

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