
SENATE COMMITTEE ON LOCAL GOVERNMENT

Senator María Elena Durazo, Chair
2025 - 2026 Regular

Bill No: AB 532
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Fiscal: Yes
Consultant: Favorini-Csorba

WATER RATE ASSISTANCE PROGRAM

Allows a public urban retail water supplier to provide water rate assistance to its ratepayers.

Background

Proposition 218. The California Constitution requires voter approval for taxes and many other fees and charges. Proposition 218 (1996) added Article XIII D to the California Constitution, which imposed voter approval requirements for most “property-related fees”—any levy other than an *ad valorem* tax, a special tax, or an assessment imposed by an agency on a parcel or on a person as an incident of property ownership, including a user fee or charge for a property-related service.

Before a local government can charge a new property-related fee, or increase an existing one, Proposition 218 requires local officials to:

- Identify the parcels to be charged;
- Calculate the fee for each parcel;
- Notify the parcels’ owners in writing about the fees and the hearing;
- Hold a public hearing to consider and count protests; and
- Abandon the fees if a majority of the parcels’ owners protest.

New, increased, or extended property-related fees generally require voter approval by one of the following: a majority-vote of the affected property owners; two-thirds registered voter approval; or weighted ballot approval by the affected property owners.

Fees or charges for property-related services cannot exceed the proportional cost of providing service to the parcel and must be used only for the purposes for which they were collected. Property-related fees must also only fund services actually used by or immediately available to the property owner, not based on potential or future use. Finally, Proposition 218 prohibits local governments from imposing fees or charges for general governmental services—including fire, police, ambulance, or library services—if the service is available to the public at large in substantially the same manner as it is to property owners.

Water, sewer, and refuse collection services are exempt from Proposition 218’s voter approval requirements, but must meet all other procedural and substantive requirements in Proposition 218.

In 2010, California voters approved Proposition 26, which tightened up Proposition 218’s provisions. Among other things, it required all fees and charges that are not taxes to allocate

costs to a payor in a “fair or reasonable relationship to the payor’s burdens on, or benefits received from, the governmental activity.”

Proposition 218 Omnibus Implementation Act. Proposition 218 is a complex statute and has been the subject of many court cases and rulings that often conflict with one another. In the past, the Legislature has weighed in to provide clarity on how to apply Proposition 218’s provisions and statutorily reinforced court rulings that align with the Legislature’s priorities. In particular, immediately after the passage of Proposition 218, the Legislature enacted the Proposition 218 Omnibus Implementation Act to translate many of Proposition 218’s requirements into statutory definitions and procedures (SB 919, Rainey, 1997). Since then, the Legislature has amended the law to:

- Define “water,” in a manner that is consistent with an appellate court decision that provided greater flexibility to water agencies when setting rates (AB 2403, Rendon, 2014);
- Define “sewer,” to address issues caused by an appellate court decision that excluded stormwater from sewer services (SB 231, Hertzberg, 2017);
- State that fire hydrants are a part of water service for the purposes of Proposition 218 (SB 1386, Moorlach, 2020); and
- Explicitly authorize local agencies to use tiered rates for water service (AB 1827, Papan, 2024).

Water rate assistance programs. Proposition 218 constrains the use of water agencies’ rate revenues. Because property-related fees, including water rates, must be proportional to the cost of providing services to the parcel, courts have ruled that cross-subsidies amongst ratepayers are generally not allowed.¹ Water agencies have interpreted this to mean that they cannot use revenue from water rates to support water rate assistance programs. This limitation has left water agencies that want to help lower-income Californians with their water bills to rely on non-rate revenues—revenues derived from sources other than ratepayers, including lease revenues, property taxes, and others—to fund water rate assistance programs.

Some water agencies, such as the East Bay Municipal Utilities District, have principal acts that specifically authorize water rate assistance programs. Others that have adopted such programs rely on the general authority their principal acts grant them to provide water service in a manner as they see fit.

AB 401 (Dodd, 2015) required the State Water Resources Control Board (SWRCB) to develop a plan for funding and implementing a Low-Income Water Rate Assistance Program. According to the SWRCB’s February 2020 report to the Legislature, “Recommendations for Implementation of a Statewide Low-Income Water Rate Assistance”:

“[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 See, for example, *Capistrano Taxpayers Assn., Inc. v. City of San Juan Capistrano* (2015) 235 Cal. App. 4th 1493.

“The burden of rapidly rising drinking water costs falls disproportionately on the 13 million Californians living in low-income households, many of whom have seen their incomes stagnate during the same period. The high and rising costs of other basic needs for California residents, including housing, food, and other utility services, means that cost increases for any single need, such as water, can force families to make difficult and risky tradeoffs which could harm their health and welfare. Expenditures to meet basic water needs are expected to continue to rise rapidly due to the need for water systems to replace aging infrastructure, meet treatment standards, diversify supplies, and maintain a well-trained workforce.”

Because many water systems are not able to fund low-income assistance programs, the report recommended the creation of a statewide water rate assistance program funded through taxes on personal income, business income, and bottled water. Aside from financial assistance provided to water agencies for this purpose on a temporary basis during the COVID-19 pandemic, broad-based state-funded water rate assistance programs have not yet been enacted.

The California Municipal Utilities Association wants the Legislature to authorize public water suppliers to offer water rate assistance programs.

Proposed Law

Assembly Bill 532 allows a public urban retail water supplier to provide water rate assistance to its ratepayers. The bill defines “public urban retail water supplier” to mean a public water supplier that directly provides potable municipal water to more than 3,000 end users or that supplies more than 3,000 acre-feet of potable water annually at retail for municipal purposes.

AB 532 allows a public urban retail water supplier to provide water rate assistance to:

- Residential ratepayers with an annual household income at or below 200 percent of the federal poverty guideline level;
- Residential ratepayers with an arrearage or those likely to have an arrearage without assistance; or
- Other ratepayers if a supplier determines that offering assistance would allow it to better meet its community’s needs, better administer or provide for a more sustainable program, or better balance competing policy objectives, such as water quality, water efficiency, and water affordability.

The bill specifically authorizes a public urban retail water supplier to use voluntary funds from ratepayers and others, or any funding it has available to provide water rate assistance, provided it does not use any revenue from property-related fees under the California Constitution. It also allows the water supplier to use a third party to administer the assistance.

AB 532 also requires, beginning January 1, 2028, urban retail water suppliers, including private suppliers, to include in a technical report that water suppliers must annually submit to the State Water Resources Control Board:

- Whether the supplier provides water rate assistance;
- The amount of funding used to provide any water rate assistance;

- An explanation for any progress made towards implementing a rate assistance program or barriers encountered if the supplier did not provide rate assistance;
- Whether the supplier sought voluntary contributions and the total amount; and
- The total number of eligible households that received rate assistance.

The State Water Resources Control Board must, by July 1, 2026, conduct a voluntary survey of urban retail water suppliers, including private suppliers, on whether the supplier provides water rate assistance.

Comments

1. Purpose of the bill. According to the author, “California families are struggling with the affordability of water, despite the right to safe, clean, and affordable water for basic needs. A 2020 report from the State Water Resources Control Board found that 34% of households earning less than 200% of the federal poverty level needed water rate assistance, and 21% of the state’s water systems had unaffordable rates. The pandemic further highlighted this issue, with the federal Low-Income Household Water Assistance Program helping over 85,000 households in California, but the program ended in 2024 with no state program to replace it. AB 532 aims to address water affordability by providing legal certainty for local water agencies to run their own assistance programs. This legislation affords an opportunity for more Californians to have access to affordable water.”

2. Nothing new. A variety of local agencies already offer water rate assistance programs to their customers using various authorities in existing law, in some cases without explicit authorization. AB 532 establishes clear authorization for these programs, but in doing so, it may cast doubt on whether local agencies had the ability to offer these programs because courts may interpret the prior lack of direct legislative authorization as a prohibition. Additionally, AB 532 provides certain criteria for ratepayers that existing programs may or may not meet. Finally, AB 532’s authority only applies to specified large public water suppliers, raising questions about the authority of smaller water agencies to provide assistance. To ensure that AB 532 does not unintentionally undermine existing water rate assistance programs, the Committee may wish to consider amending AB 532 to extend its authorization to all public water suppliers, specify that AB 532 does not prohibit alternative water rate assistance programs, and state that the bill is declaratory of existing law.

3. Opt-in versus opt-out. AB 532 authorizes voluntary contributions as a means of collection of non-ratepayer funds to support a water rate assistance program. One challenge with such a voluntary program is that if the program relies on customers to opt-in to the program, uptake can be relatively low due to various factors. In other contexts, such as with retirement savings programs, research into behavioral economics has shown that opt-out programs increase participation while still giving participants a choice. To maximize the ability of water agencies to use these tools to fund water rate assistance programs, the Committee may wish to consider amending AB 532 to specifically authorize opt-in and opt-out voluntary contribution programs.

4. Incoming! The Senate Rules Committee has ordered a double referral of AB 532: first to the Committee on Environmental Quality, which approved AB 532 at its July 2nd hearing on a vote of 8-0, and second to the Committee on Local Government.

5. Related legislation. The Legislature has considered several previous measures to enable the development of water rate assistance programs, including:

- SB 350 (Durazo, 2025) would have established the Water Rate Assistance Program, administered by the SWRCB, to provide rate assistance for drinking water and wastewater services to low-income residential ratepayers. SB 350 was held in the Senate Appropriations Committee.
- SB 1255 (Durazo, 2024) would have required large retail water suppliers to establish a water rate assistance program to help eligible low-income customers pay their water and wastewater bills, with funding from voluntary contributions paid by other customers through charges on water bills. This bill was held in the Assembly Committee on Appropriations.
- SB 222 (Dodd, 2021) was substantially similar to SB 350. Governor Newsom vetoed SB 222 with the following message:

“I am returning Senate Bill 222 without my signature.

“This bill establishes a Water Rate Assistance Program and Water Rate Assistance Fund to provide water affordability assistance for drinking and wastewater services to low-income ratepayers. The State Water Resources Control Board would be required to administer the program, and community water systems and wastewater systems would be subsequently required to provide rate assistance to residential ratepayers. This is a permanent program that would not be implemented or initiated until funding is provided. At this time, there is no sustainable, ongoing funding identified.

“Lowering costs and making sure that Californians have access to safe and affordable drinking water is a top priority of this administration. The last two budgets have provided billions in rebates, debt relief, assistance grants, and free support services. For water costs alone, the 2021-22 Budget provided \$1 billion to the State Water Board for the California Water and Wastewater Arrearage Payment Program, which cleared unpaid water and wastewater debts resulting from the pandemic. This year, our 2022-23 budget added an additional \$200 million to the Low-Income Household Water Assistance Program at the Department of Community Services and Development. These are programs that were both approved and funded by the Legislature.

“I commend the author and stakeholders for their work during this Legislative session to craft a vision for such a program. However, this bill does not have any funding identified, and because it is an ongoing program that would require all community water systems and wastewater systems to participate, signing this policy would result in significant General Fund pressures in the billions of dollars to continuously provide such assistance.

“With our state facing lower-than-expected revenues over the first few months of this fiscal year, it is important to remain disciplined when it

comes to spending, particularly spending that is ongoing. The Legislature sent measures with potential costs of well over \$20 billion in one-time spending commitments and more than \$10 billion in ongoing commitments not accounted for in the state budget. Bills with significant fiscal impact, such as this measure, should be considered and accounted for as part of the annual budget process.

“For these reasons, I cannot sign this bill.

Assembly Actions

Assembly Environmental Safety and Toxic Materials Committee:	7-0
Assembly Utilities and Energy Committee:	18-0
Assembly Appropriations Committee:	11-0
Assembly Floor:	78-0

Support and Opposition (7/11/25)

Support: California Municipal Utilities Association (Sponsor)
 Association of California Water Agencies
 Burbank Water and Power
 Ca-nv American Water Works Association
 California Council for Environmental & Economic Balance (CCEEB)
 California Special Districts Association
 California Water Association
 City of Roseville
 City of Sacramento
 City of Santa Rosa
 City of Thousand Oaks
 Clean Water Action
 Community Water Center
 Contra Costa Water District
 East Bay Municipal Utility District
 East Valley Water District
 Eastern Municipal Water District
 El Dorado Irrigation District
 Elsinore Valley Municipal Water District
 Inland Empire Utilities Agency
 Irvine Ranch Water District
 Las Virgenes Municipal Water District
 Leadership Counsel Action
 Metropolitan Water District of Southern California
 Mission Springs Water District
 Palmdale Water District
 Placer County Water Agency
 Rancho California Water District
 Regional Water Authority
 San Diego County Water Authority
 West Valley Water District
 Western Municipal Water District

Opposition: None Submitted

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