

AMENDED IN SENATE JUNE 11, 2026

AMENDED IN ASSEMBLY APRIL 6, 2026

AMENDED IN ASSEMBLY MARCH 19, 2026

CALIFORNIA LEGISLATURE—2025–26 REGULAR SESSION

ASSEMBLY BILL

No. 2739

**Introduced by Assembly Member Soria
(Coauthor: Assembly Member Davies)**

February 20, 2026

An act to add Part 7.5 (commencing with Section 12965) to Division 6 of the Water Code, relating to water, and making an appropriation therefor.

LEGISLATIVE COUNSEL'S DIGEST

AB 2739, as amended, Soria. Water: affordability and system stabilization.

Existing law establishes in the Natural Resources Agency the Department of Water Resources. Existing law vests in the department powers, duties, purposes, responsibilities, and jurisdiction in matters pertaining to water or dams. Existing law 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.

Existing law, the California Safe Drinking Water Act, requires the State Water Resources Control Board to administer provisions relating to the regulation of drinking water to protect public health. Existing law declares it to be the established policy of the state that every human

being has the right to safe, clean, affordable, and accessible water adequate for human consumption, cooking, and sanitary purposes.

This bill would establish in the State Treasury the Water Affordability and System Stabilization Fund for holding the principal and income of the Water Affordability and System Stabilization Trust, which the bill would create. The bill would designate the Treasurer as trustee of the trust, as specified, and would require the trustee, among other things, to hold, manage, and invest the principal of the trust with the obligation of providing a growing perpetual source of annual funding to the Water Rate Assistance Fund, administered by the state board, and the Community Water Affordability Assistance Fund, administered by the department, beginning 25 years after the Legislature transfers funding from the General Fund to the Water Affordability and System Stabilization Fund.

This bill would require, during the first 25 years following the Legislature's transfer, 45% of the income of the trust to be transferred from the Water Affordability and System Stabilization Fund to each of the Water Rate Assistance Fund and the continuously appropriated Community Water Affordability Assistance Fund, and would continuously appropriate the remaining 10% of the income of the trust to be invested as part of the principal of the trust. After the first 25 years, the bill would require 50% of the income of the trust to be transferred from the Water Affordability and System Stabilization Fund to each of the Water Rate Assistance Fund and the Community Water Affordability Assistance Fund. The bill would continuously appropriate no more than 1% of the annual income of the trust to pay for administration of the trust. By making continuous appropriations and by transferring moneys into a continuously appropriated fund, the bill would make an appropriation.

This bill would require the department, subject to a transfer of moneys by the Legislature, to develop and administer the Community Water Affordability Program to provide funding in the form of grants to community water systems for local water system infrastructure projects, as specified, for the purpose of reducing the amount of local ratepayer funding required for those projects and for avoiding costs that would otherwise be paid for by ratepayers. The bill would require the department to develop and adopt program guidelines and project solicitation documents before disbursing grant funds, and would exempt those guidelines and documents from the rulemaking procedures of the Administrative Procedure Act. The bill would require the program

guidelines to, among other things, require an applicant for a grant to provide at least 25% of the total funding required for the project, as provided. The bill would authorize the department to waive or reduce that minimum amount if that requirement would cause extreme financial hardship to the applicant. The bill would also establish the Community Water Affordability Assistance Fund in the State Treasury and would provide for deposit into the fund of contributions from private and public entities, as specified. The bill would continuously appropriate moneys in the fund to the department for purposes of the program, including up to 5% annually for administration of the fund, thereby making an appropriation.

Vote: $\frac{2}{3}$. Appropriation: yes. Fiscal committee: yes.
State-mandated local program: no.

The people of the State of California do enact as follows:

1 SECTION 1. Part 7.5 (commencing with Section 12965) is
2 added to Division 6 of the Water Code, to read:

3
4 PART 7.5. WATER AFFORDABILITY AND SYSTEM
5 STABILIZATION
6

7 CHAPTER 1. WATER AFFORDABILITY AND SYSTEM
8 STABILIZATION ACT
9

10 Article 1. General Provisions
11

12 12965. This chapter shall be known, and may be cited, as the
13 Water Affordability and System Stabilization Act.

14 12965.5. The Legislature finds and declares all of the following:

15 (a) It is the established policy of the state, as stated in Section
16 106.3, that every human being has the right to safe, clean,
17 affordable, and accessible water adequate for human consumption,
18 cooking, and sanitary purposes.

19 (b) Addressing California's environmental justice challenges
20 requires that the state work to improve water affordability for
21 impacted communities and households.

22 (c) The cost of water has continued to rise, as has the cost of
23 living in California. The increase in the cost of water is largely

1 attributable to increases in the cost of infrastructure, energy, and
2 regulatory compliance costs.

3 (d) Most of California’s public water systems are governed by
4 Proposition 218, which was passed by voters in November 1996,
5 and requires that customers only be charged proportional, cost of
6 service-based rates. Proposition 218 has been interpreted as
7 prohibiting customers from being charged higher rates to subsidize
8 the costs of other customers.

9 (e) At the same time, climate change has added, and will
10 continue to add, significant additional cost pressure to water
11 systems, as providers must increasingly invest in climate resilience
12 and adaptive infrastructure, which in turn places cost pressure on
13 rates.

14 (f) A low-income rate assistance program will assist in
15 addressing affordability challenges for struggling households, but
16 without addressing system costs, such a program will not be
17 sufficiently effective because these cost pressures will continue to
18 result in increased water rates.

19 (g) Federal and state funding of local water infrastructure helps
20 reduce the amount of ratepayer money that a water system needs
21 to collect to ensure a reliable, safe, and clean water supply for its
22 ~~community~~, *community* and helps address system affordability
23 constraints.

24 (h) It is in the interest of the people of the state to enact this
25 chapter to establish a trust fund, funded by existing state revenues
26 over multiple years, for the governmental purpose of providing a
27 perpetual source of funding to assist with water system costs that
28 place pressure on water ~~affordability~~, *affordability* and to provide
29 low-income Californian households with direct assistance with
30 their water bills, which will provide a benefit to Californians across
31 the state.

32 (i) This chapter does not impose a levy, charge, or exaction of
33 any kind, such as a tax or fee.

34 12966. For purposes of this chapter, the following definitions
35 apply:

36 (a) “Beneficiary” means the people of the state, as represented
37 by the board in its implementation of Chapter 6.2 (commencing
38 with Section 116930) of Part 12 of Division 104 of the Health and
39 Safety Code and its administration of the Water Rate Assistance
40 Fund established pursuant to Section 116932 of the Health and

1 Safety Code, and the department in its implementation of Chapter
2 2 (commencing with Section 12968) and its administration of the
3 Community Water Affordability Assistance Fund established
4 pursuant to Section 12968. The beneficiary's interest in the trust
5 shall only be the distributions required to be made from the trust
6 pursuant to subdivision (b) of Section 12967.

7 (b) "Board" means the State Water Resources Control Board.

8 (c) "Community Water Affordability Assistance Fund" means
9 the Community Water Affordability Assistance Fund established
10 pursuant to Section 12968.

11 (d) "Department" means the Department of Water Resources.

12 (e) "Income" means the money, enhanced value, or other income
13 the trust receives as current return from the investment of the trust
14 principal.

15 (f) "Net income" means the trust income earned July 1 to June
16 30, inclusive, of the ~~previous~~ *prior* fiscal year minus all of the
17 necessary and reasonable expenses incident to the administration
18 of the trust during that same period, up to 1 percent of the trust
19 income pursuant to paragraph (2) of subdivision (e) of Section
20 12967.

21 (g) "Principal" means the trust property, ~~that~~ *which* is held in
22 trust for the beneficiary and to accomplish the purposes described
23 in Section ~~12965.5~~ 12966.5.

24 (h) "Trust" means the Water Affordability and System
25 Stabilization Trust.

26 (i) "Trust fund" means the Water Affordability and System
27 Stabilization Fund established pursuant to Section 12966.5 to hold
28 the trust property.

29 (j) "Trust property" means the money transferred to the trust
30 fund and any donation to the trust fund received and accepted by
31 the trustee on or after January 1, 2027.

32 (k) "Trustee" means the Treasurer, who shall serve as the trustee
33 of the trust having all of the fiduciary duties, responsibilities, and
34 obligations consistent with serving as a trustee of a trust under
35 existing law.

36 (l) "Water Rate Assistance Fund" means the Water Rate
37 Assistance Fund established pursuant to Section 116932 of the
38 Health and Safety Code.

1 Article 2. Water Affordability and System Stabilization Trust

2
3 12966.5. (a) (1) There is hereby created in the State Treasury
4 the Water Affordability and System Stabilization Fund for holding
5 the trust property of the Water Affordability and System
6 Stabilization Trust and for the purpose of implementing the public
7 and governmental purposes of this chapter. Notwithstanding
8 Section 13340 of the Government Code, all moneys in the trust
9 fund are continuously appropriated to the trustee, without regard
10 to fiscal year, for expenditure in accordance with this chapter.

11 (2) The distributions by the trustee from the income of the trust
12 are hereby transferred to the board and the department for deposit
13 into, and expenditure from, the Water Rate Assistance Fund and
14 the Community Water Affordability Assistance Fund, respectively,
15 in accordance with subdivision (b) of Section 12967.

16 (b) The primary purpose of the Water Affordability and System
17 Stabilization Trust, a charitable trust established pursuant to this
18 chapter, shall be to provide a perpetual source of funding each
19 year to the Water Rate Assistance Fund and the Community Water
20 Affordability Assistance Fund in furtherance of the trust fund
21 purposes described in subdivision (a).

22 (c) Moneys in the trust fund, including the trust principal and
23 trust income, shall not be available for appropriation or be
24 borrowed for use for any purpose not established in this chapter.

25 (d) Funding of the principal of the trust is hereby authorized
26 and is subject to transfer by the Legislature from the General Fund
27 into the trust fund. All future transfers to the trust fund are hereby
28 irrevocably transferred from the General Fund during the fiscal
29 year the moneys are transferred to the trustee for deposit into the
30 Water Affordability and System Stabilization Fund for distribution
31 and investment to accomplish the purposes of this chapter and ~~on~~
32 *subject to* the conditions prescribed in Section 12967.

33 (e) Notwithstanding any other law, moneys deposited into the
34 trust fund or to fund the trust shall not be transferred to the General
35 Fund.

36 12967. (a) (1) The trustee shall hold the property of the trust
37 for the primary benefit of the trust's beneficiary.

38 (2) The trustee shall hold, manage, and invest the principal of
39 the trust in accordance with existing law with the obligation of
40 providing a growing perpetual source of annual funding to the

1 Water Rate Assistance Fund and the Community Water
2 Affordability Assistance Fund, beginning 25 years after the
3 Legislature transfers funding from the General Fund to the Water
4 Affordability and System Stabilization Fund. The trustee shall not
5 invade the principal of the trust.

6 (b) The trustee shall collect, receive, and monetize, if prudent
7 and in accordance with existing law, the income of the trust, and
8 shall distribute the income of the trust annually as follows:

9 (1) During the first 25 years following the Legislature's first
10 transfer of ~~revenue moneys~~ from the General Fund to the trust
11 fund, the trustee shall distribute the income of the trust as follows:

12 (A) Transfer 45 percent of the total income deposited into the
13 trust fund during the prior fiscal year to the Water Rate Assistance
14 Fund for the board to expend in accordance with Chapter 6.2
15 (commencing with Section 116930) of Part 12 of Division 104 of
16 the Health and Safety Code.

17 (B) Transfer 45 percent of the total income deposited into the
18 trust fund during the prior fiscal year to the Community Water
19 Affordability Assistance Fund for the department to expend in
20 accordance with Chapter 2 (commencing with Section 12968).

21 (C) In accordance with existing law, invest the remaining 10
22 percent of the total income deposited into the trust fund during the
23 prior fiscal year as part of the trust principal.

24 (2) After the first 25 years following the Legislature's first
25 transfer of ~~revenue moneys~~ from the General Fund to the trust
26 fund, the trustee shall distribute the income of the trust as follows:

27 (A) Transfer 50 percent of the total income deposited into the
28 trust fund during the prior fiscal year to the Water Rate Assistance
29 Fund for the board to expend in accordance with Chapter 6.2
30 (commencing with Section 116930) of Part 12 of Division 104 of
31 the Health and Safety Code.

32 (B) Transfer 50 percent of the total income deposited into the
33 trust fund during the prior fiscal year to the Community Water
34 Affordability Assistance Fund for the department to expend in
35 accordance with Chapter 2 (commencing with Section 12968).

36 (c) Notwithstanding any other law, the trustee, and any employee
37 or agent of the trustee, shall not sell, purchase, exchange, or
38 otherwise deal with or dispose of all or any parts of the principal
39 of the trust.

(d) The trustee shall exercise its administration of the trust as a fiduciary to the beneficiary. The trustee, in its administration of the trust, shall abide by the Uniform Prudent Investor Act (Article 2.5 (commencing with Section 16045) of Chapter 1 of Part 4 of Division 9 of the Probate Code). The trustee shall have the powers, obligations, and responsibilities of a trustee prescribed in Part 4 (commencing with Section 16000) of Division 9 of the Probate Code that are not inconsistent with the purposes of this chapter.

(e) The trustee shall:

(1) Have the power to accept donations that shall be deemed property of the trust and increase the principal of the trust. Donations shall not be expended or transferred until the Legislature transfers funding from the General Fund to the Water Affordability and System Stabilization Fund.

(2) Use no more than 1 percent 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.

(f) The trustee shall provide for appropriate, as determined by the trustee, audit, accounting, and fiscal management services, plans, and reports relative to the trust fund, in accordance with generally accepted accounting principles adopted by the Governmental Accounting Standards Board.

(g) The trustee annually shall provide the board and the department with an accounting of the investments *of the trust fund* and a forecast of the projected income to be distributed from the trust fund in future fiscal years.

(h) The trust shall be deemed a charitable trust subject to the supervision of the Attorney General.

CHAPTER 2. COMMUNITY WATER AFFORDABILITY PROGRAM

12968. (a) For purposes of this chapter, the following definitions apply:

(1) "Board" means the State Water Resources Control Board.

(2) "Community water system" has the same meaning as defined in Section 116275 of the Health and Safety Code.

(3) "Department" means the Department of Water Resources.

(4) "Fund" means the Community Water Affordability Assistance Fund.

(5) “Program” means the Community Water Affordability Program.

(b) (1) The department shall, subject to transfer of moneys into the fund by the Legislature, develop and administer the Community Water Affordability Program. The program shall provide funding in the form of grants to community water systems for local water infrastructure projects that shall include, but are not limited to, projects that improve water supplies, resiliency, or quality, and projects that reduce energy costs for a community water system. The purpose of the grants shall be reducing the amount of local ratepayer funding required for those projects and for avoiding costs that would otherwise be paid for by ratepayers.

(2) (A) Before disbursing grant funds pursuant to this section, the department shall develop and adopt program guidelines and project solicitation documents, *documents* after soliciting public comment and feedback inclusive of community water systems. The guidelines and project solicitation documents developed pursuant to this section are not subject to Chapter 3.5 (commencing with Section 11340) of Part 1 of Division 3 of Title 2 of the Government Code.

(B) The program guidelines shall do all of the following:

(i) Require an applicant for a grant to provide at least 25 percent of the total funding required for the project. Federal funding and other state loans and grants may be included in this amount. The department may waive or reduce that minimum amount if that requirement would cause extreme financial hardship to the applicant.

(ii) Establish a methodology for evaluating projects for purposes of a grant award by consideration of factors that include, but are not limited to, the net present value of the cost avoided on a per account basis over a 25-year period of time, the applicant’s ability to complete the project in a timely manner, ~~and the number of households it would benefit.~~ *benefit, and the benefits the system received in the past year from the Water Rate Assistance Fund established pursuant to Section 116932 of the Health and Safety Code averaged across the system’s total residential connections.*

(iii) The established methodology for evaluating projects for purposes of a grant award shall not consider an applicant’s ability to provide the minimum amount of total funding required by clause (i) and shall not prejudice an applicant for requesting that the

1 department waive or reduce that minimum amount due to financial
2 hardship.

3 (C) Before adopting program guidelines and project solicitation
4 documents, the department shall hold at least three public
5 workshops throughout the state on draft program guidelines and
6 shall provide at least 45 days of public comment on the draft.

7 (3) The department shall annually post on its internet website
8 a report on the revenues, expenditures, and benefits of the fund
9 for the prior fiscal year. The report shall include the cumulative
10 and fiscal year number of households the Community Water
11 ~~Assistance~~ *Affordability* Program has benefited and the estimated
12 amount of cost the program has caused to be avoided.

13 (4) The department shall coordinate with the board for projects
14 that seek to combine funding from the program and the board.

15 (c) The department may undertake any of the following actions
16 to implement the fund:

17 (1) Provide for the deposit of any of the following moneys into
18 the fund:

19 (A) Federal contributions.

20 (B) Voluntary contributions, gifts, grants, or bequests.

21 (C) Financial participation by a public agency in an activity
22 authorized for funding from the fund.

23 (2) Enter into agreements for contributions to the fund from the
24 federal government, local or state agencies, or private corporations
25 or nonprofit organizations.

26 (3) Take additional action as may be appropriate for adequate
27 administration and operation of the fund.

28 (4) Expend moneys from the fund for reasonable costs associated
29 with administration of the fund, including outreach regarding the
30 availability of the funding. The department shall not expend more
31 than 5 percent of the annual revenue from the fund for reasonable
32 costs associated with the administration of the fund.

33 (d) The department may set appropriate requirements as a
34 condition of funding, including, but not limited to, any of the
35 following:

36 (1) An audit.

37 (2) Improvements to reduce costs and increase efficiencies of
38 the infrastructure project funded.

39 (3) An evaluation of alternatives.

1 (e) The Community Water Affordability Assistance Fund is
2 hereby established in the State Treasury. Notwithstanding Section
3 13340 of the Government Code, all moneys in the fund are
4 continuously appropriated to the department, without regard to
5 fiscal year, in accordance with this chapter. Moneys in the fund at
6 the close of the fiscal year shall remain in the fund and shall not
7 revert to the General Fund. Moneys in the fund shall not be
8 available for appropriation or borrowed for use for any purpose
9 not established in this chapter unless that use of the moneys is
10 authorized by statute that receives an affirmative vote of two-thirds
11 of the membership in each house of the Legislature.

O