

AMENDED IN ASSEMBLY MARCH 26, 2026

CALIFORNIA LEGISLATURE—2025–26 REGULAR SESSION

ASSEMBLY BILL

No. 2777

**Introduced by Committee on Environmental Safety and Toxic
Materials (Assembly Members Connolly (Chair), Ellis (Vice Chair),
Lee, and McKinnor)**

February 24, 2026

An act to ~~add Section 13402 to~~ amend Sections 13477.5, 13480, and 13551 of the Water Code, relating to water quality.

LEGISLATIVE COUNSEL'S DIGEST

AB 2777, as amended, Committee on Environmental Safety and Toxic Materials. ~~State Water Quality Control Fund: loan and grant moneys: notification. Pollution Control Revolving Fund program: loans: outdoor eating areas: water reuse.~~

(1) Existing law establishes the State Water Pollution Control Revolving Fund program, pursuant to which state and federal funds are continuously appropriated from the State Water Pollution Control Revolving Fund to the State Water Resources Control Board for loans and other financial assistance for purposes related to the federal Clean Water Act. Existing law establishes the State Water Pollution Control Revolving Fund Administration Fund (administration fund) to provide funds, upon appropriation by the Legislature, to be expended by the state board for payment of the reasonable costs of administering the State Water Pollution Control Revolving Fund. Existing law authorizes the state board to assess an annual charge for financial assistance services, not to exceed 1% of the financial assistance repayment amount and computed according to the true interest cost method, as provided, and requires those annual charges to be deposited into the

administration fund. Existing law authorizes the financial service rate to be applied at any time during the term of the financial assistance and requires the rate to remain unchanged for the duration of the financial assistance. Existing law prohibits the financial assistance rate from increasing the financial assistance repayment amount after being applied. Existing law requires the state board to, at least once each fiscal year, adjust the financial assistance service rate. Existing law requires the state board to set the total amount of revenue collected each year through the annual charges at an amount that is equal as practicable to the appropriation amount set forth in the annual Budget Act.

This bill would additionally authorize the state board to assess fees in place of an annual charge for financial assistance and would authorize the fees or annual charge to be assessed at any rate as permitted by federal law. The bill would delete the provision prohibiting the changing of the financial assistance rate during the financial assistance and the increasing of the financial assistance repayment amount. The bill would delete the requirement relating to the appropriation amount set forth in the annual Budget Act.

(2) Existing law authorizes moneys in the State Water Pollution Control Revolving Fund to be used for loans that meet specified requirements, including that the loans be made at or below market interest rates and, to the extent permitted by federal law, requiring that the combined interest and loan service rate be set at a rate not to exceed 50% of the interest rate paid by the state on the most recent sale of state general obligation bonds, as provided. Existing law requires the combined interest and loan service rate to be 0% for certain applicants who provide matching funds.

This bill would delete the provision requiring that the combined interest and loan service rate be set at a rate not to exceed 50% of the interest rate paid by the state on the most recent sale of state general obligation bonds. The bill would require the loans to be made at below market interest rates.

(3) Existing law 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 water from any source of quality suitable for potable domestic use for nonpotable uses, including, among other locations, parks, if suitable recycled water is available, as provided. Existing law provides that incidental amounts of spray, mist, or runoff are to be permitted to enter outdoor eating areas of parks and

open spaces when irrigated with disinfected tertiary treated recycled water that complies with a specified regulation regarding irrigation.

This bill would instead provide that incidental runoff is to be permitted to enter outdoor eating areas of parks and open spaces when irrigated with disinfected tertiary treated recycled water that complies with a specified regulation regarding irrigation. The bill would define “incidental runoff” as unintended amounts of runoff, such as unintended, minimal overspray from sprinklers that escapes the area of intended use.

~~Existing law continuously appropriates certain funds from the State Water Quality Control Fund for expenditure by the State Water Resources Control Board for specified purposes.~~

~~This bill would require the state board to post on its internet website the loan and grant moneys available from the State Water Quality Control Fund.~~

Vote: majority. Appropriation: no. Fiscal committee: yes.
State-mandated local program: no.

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

1 *SECTION 1. The Legislature finds and declares all of the*
2 *following:*

3 *(a) It is the intent of the Legislature to provide the State Water*
4 *Resources Control Board with the authority to offer larger*
5 *below-market rate loans that will help reinforce the long-term*
6 *solvency of the fund and support affordable recycled water,*
7 *wastewater, and water quality infrastructure in California.*

8 *(b) It is the intent of the Legislature that when the State Water*
9 *Resources Control Board adopts amendments to the Clean Water*
10 *State Revolving Fund policy to implement this act, the board will*
11 *collaborate with stakeholders and take steps to ensure projects*
12 *receiving higher interest rates incur other benefits not offered to*
13 *projects receiving the lowest offered rate.*

14 *SEC. 2. Section 13477.5 of the Water Code is amended to read:*

15 13477.5. (a) The State Water Pollution Control Revolving
16 Fund Administration Fund is hereby created in the State Treasury.

17 (b) The following moneys shall be deposited in the
18 administration fund:

1 (1) Moneys transferred to the administration fund to pay the
2 costs incurred by the board in connection with the administration
3 of this chapter.

4 (2) The amounts collected for financial assistance services
5 pursuant to subdivision (c).

6 (3) Notwithstanding Section 16475 of the Government Code,
7 any interest earned upon the moneys deposited in the administration
8 fund.

9 (c) (1) For any financial assistance made pursuant to Section
10 13480, the board may assess *fees or* an annual charge for financial
11 assistance services with regard to the financial assistance, ~~not to~~
12 ~~exceed 1 percent of the financial assistance balance computed~~
13 ~~according to the true interest cost method. as permitted by federal~~
14 ~~law.~~

15 (2) Any amounts collected under this subdivision shall be
16 deposited in the administration fund.

17 (3) The financial assistance service rate authorized by this
18 subdivision may be applied at any time during the term of the
19 financial assistance, ~~and once applied, shall remain unchanged for~~
20 ~~the duration of the financial assistance and shall not increase the~~
21 ~~financial assistance repayment amount as set forth in the terms~~
22 ~~and conditions imposed pursuant to this chapter. assistance.~~

23 (d) Moneys in the administration fund, upon appropriation by
24 the Legislature to the board, may be expended for payment of the
25 reasonable costs of administering the fund.

26 (e) ~~The board shall set the total amount of revenue collected~~
27 ~~each year through the charges authorized by subdivision (c) at an~~
28 ~~amount that is as equal as practicable to the revenue levels set forth~~
29 ~~in the annual Budget Act for this activity. At least once each fiscal~~
30 ~~year, the board shall adjust the financial assistance service rate~~
31 ~~imposed pursuant to subdivision (c) to conform with the revenue~~
32 ~~levels set forth in the annual Budget Act. (c).~~

33 *SEC. 3. Section 13480 of the Water Code is amended to read:*

34 13480. (a) Moneys in the fund shall be used only for the
35 permissible purposes allowed by the federal act or a federal grant
36 deposited in the fund, to the extent authorized and funded by that
37 grant.

38 (b) Consistent with expenditure for authorized purposes, moneys
39 in the fund may be used for the following purposes:

40 (1) Loans that meet all of the following requirements:

1 (A) Are made at or below market interest rates.

2 (B) Require annual payments of principal and any interest, with
3 repayment commencing not later than one year after completion
4 of the project for which the loan is made and full amortization not
5 later than 30 years after project completion unless otherwise
6 authorized by a federal grant deposited in the fund to the extent
7 authorized.

8 (C) Require the loan recipient to establish an acceptable
9 dedicated source of revenue for repayment of a loan.

10 (D) (i) Contain other terms and conditions required by the board
11 or the federal act or applicable rules, regulations, guidelines, and
12 policies. ~~To the extent permitted by federal law, the combined~~
13 ~~interest and loan service rate shall be set at a rate that does not~~
14 ~~exceed 50 percent of the interest rate paid by the state on the most~~
15 ~~recent sale of state general obligation bonds and the combined~~
16 ~~interest and loan service rate shall be computed according to the~~
17 ~~true interest cost method. If the combined interest and loan service~~
18 ~~rate so determined is not a multiple of one-tenth of 1 percent, the~~
19 ~~combined interest and loan service rate shall be set at the multiple~~
20 ~~of one-tenth of 1 percent next above the combined interest and~~
21 ~~loan service rate so determined.~~ A loan from the fund used to
22 finance costs of facilities planning, or the preparation of plans,
23 specifications, or estimates for construction of publicly owned
24 treatment works shall comply with Section 603(e) of the federal
25 act (33 U.S.C. Sec. 1383(e)).

26 (ii) Notwithstanding clause (i), if the loan applicant is a
27 municipality, an applicant for a loan for the implementation of a
28 management program pursuant to Section 319 of the federal act
29 (33 U.S.C. Sec. 1329), or an applicant for a loan for nonpoint
30 source or estuary enhancement pursuant to Section 320 of the
31 federal act (33 U.S.C. Sec. 1330), and the applicant provides
32 matching funds, the combined interest and loan service rate on the
33 loan shall be 0 percent. A loan recipient that returns to the fund
34 an amount of money equal to 20 percent of the remaining unpaid
35 federal balance of an existing loan shall have the remaining unpaid
36 loan balance refinanced at a combined interest and loan service
37 rate of 0 percent over the time remaining in the original loan
38 contract.

1 (2) To buy or refinance the debt obligations of municipalities
2 within the state at or below market rates if those debt obligations
3 were incurred after March 7, 1985.

4 (3) To guarantee, or purchase insurance for, local obligations
5 where that action would improve credit market access or reduce
6 interest rates.

7 (4) As a source of revenue or security for the payment of
8 principal and interest on revenue or general obligation bonds issued
9 by the state, if the proceeds of the sale of those bonds will be
10 deposited in the fund.

11 (5) To establish loan guarantees for similar revolving funds
12 established by municipalities.

13 (6) To earn interest.

14 (7) For payment of the reasonable costs of administering the
15 fund and conducting activities under Subchapter VI (commencing
16 with Section 601) of the federal act (33 U.S.C. Sec. 1381 et seq.).
17 Those costs shall not exceed 4 percent of all federal contributions
18 to the fund, four hundred thousand dollars (\$400,000) per year, or
19 one-fifth of 1 percent per year of the current valuation of the fund,
20 whichever amount is greatest, plus the amount of any fees collected
21 by the state for this purpose regardless of the source.

22 (8) For financial assistance toward the nonfederal share of the
23 costs of grant-funded treatment works projects, to the extent
24 permitted by the federal act.

25 (9) Grants, principal forgiveness, negative interest rates, and
26 any other type of, or variation on the above types of, assistance
27 authorized by a federal grant deposited in the fund.

28 *SEC. 4. Section 13551 of the Water Code is amended to read:*

29 13551. (a) A person or public agency, including a state agency,
30 city, county, city and county, district, or any other political
31 subdivision of the state, shall not use water from any source of
32 quality suitable for potable domestic use for nonpotable uses,
33 including cemeteries, golf courses, parks, highway landscaped
34 areas, and industrial and irrigation uses if suitable recycled water
35 is available as provided in Section 13550.

36 (b) Notwithstanding subdivision (a), any use of recycled water
37 in lieu of water suitable for potable domestic use shall, to the extent
38 of the recycled water so used, be deemed to constitute a reasonable
39 beneficial use of that water and the use of recycled water shall not
40 cause any loss or diminution of any existing water right.

1 (c) ~~Incidental amounts of spray, mist, or runoff~~ shall be
2 permitted to enter outdoor eating areas of parks and open spaces
3 when irrigated with disinfected tertiary treated recycled water that
4 complies with Section 493.4 of Title 23 of the California Code of
5 Regulations.

6 (d) *For purposes of subdivision (c), "incidental runoff" means*
7 *unintended amounts (volume) of runoff, such as unintended,*
8 *minimal overspray from sprinklers that escapes the area of*
9 *intended use. Water leaving an intended use area is not considered*
10 *incidental if it is part of the facility or system design, if it is due*
11 *to excessive application, if it is due to intentional overflow or*
12 *application, or if it is due to negligence.*

13 ~~SECTION 1. Section 13402 is added to the Water Code, to~~
14 ~~read:~~

15 ~~13402. The state board shall post on its internet website the~~
16 ~~loans and grant programs that are available pursuant to this chapter.~~