
SENATE COMMITTEE ON LOCAL GOVERNMENT

Senator María Elena Durazo, Chair

2025 - 2026 Regular

Bill No:	SB 1005	Hearing Date:	3/18/26
Author:	Caballero	Fiscal:	No
Version:	2/9/26	Consultant:	Peterson

LOCAL AGENCY: PAYMENT: ROUNDING AMOUNT

Allows local agencies to round payments or refunds made wholly or partly in cash to the nearest five cents if that agency passes a resolution by majority vote.

Background

The California Constitution and various statutes grant local agencies the authority to impose various fees, charges, and taxes to pay for public services. Prior to 1978, local agencies could enact taxes by ordinance. Proposition 13 (1978) amended the Constitution to require a 2/3 vote of the electorate to enact a local special tax. Proposition 62 (1986) prohibited local agencies from imposing general taxes without majority approval of local voters, and clarified the 2/3 vote necessary to impose special taxes. Proposition 218 (1996) extended those vote thresholds to charter cities and required local agencies' to obtain voter approval to levy new assessments, fees, and taxes, which was subsequently limited by Proposition 26 (2010). Under Proposition 26, any levy, charge, or exaction of any kind imposed by a local government is a tax, requiring voter approval, except for:

- A charge for a benefit or privilege conveyed directly to the payor and not conveyed to those not charged;
- A charge for a service or product provided directly to the payor and not provided to those not charged;
- A fee to cover certain costs of regulation;
- Entrance fees for state or local property;
- Fines imposed by a court or a local government;
- A charge imposed as a condition of property development; and
- Assessments and property related fees governed by Proposition 218.

State law allows local officers to receive payment of local taxes, fees, or charges by cash, check, credit or debit card, or electronic funds transfer. Local agencies can then use one of these payment methods to return any change due to the payor.

In early 2025, the U.S. Department of the Treasury (Treasury) announced that it would discontinue the minting of pennies as (1) the cost to produce them exceeds their monetary value, and (2) pennies have lower utility as more transactions shift away from cash.¹ While Treasury announced that it will continue to accept pennies as valid currency, they also warned that at one point, there will be penny shortages. Treasury's decision to discontinue pennies forced public and private entities to consider how to prepare for a penniless world. While over 114 billion

¹ <https://home.treasury.gov/news/featured-stories/penny-production-cessation-faqs>

pennies remain in circulation, the National Council for State Legislatures advised its members to begin considering regulations to prepare their states for this new era. According to its report *Elimination of the Penny: Cents-able Considerations*, NCSL's framework recommends, "While states may approach this issue differently due to their own unique circumstances, there is a growing consensus among retailers, economists, and other stakeholders, recognizing symmetrical rounding, (up or down) to the nearest nickel, as the fairest method to all parties when applying to cash transaction."²

If local agencies no longer have pennies at their disposal, they cannot provide exact change to the payor unless the local agency writes a check. However, in some cases, the cost to produce the check may exceed the change due to the payor and may not be producible at the time of transaction. For example, if a resident pays for a parking permit in cash but does not have exact change, they may have to wait for the local agency to produce a check for a relatively small value

To ensure local agencies can provide change as pennies begin to disappear from circulation, the California Association of Treasurers and Tax Collectors wants to allow local agencies to round their payments to the nearest five cents.

Proposed Law

Senate Bill 1005 allows local agencies to round payments or refunds made wholly or partly in cash to the nearest five cents if that agency passes a resolution by majority vote.

SB 1005 makes findings and declarations to further its intent and also defines its terms.

Comments

1. Purpose of the bill. According to the author, "The penny has been part of our monetary system since 1793. When the Trump administration elected to stop production of the penny through executive order, it created practical challenges for California's taxpayers, small businesses, and local governments. Without pennies in circulation, the ability to provide exact change has become a nationwide challenge.

"Californians who pay for fees, charges, or taxes in cash, and do not have exact change may not receive the appropriate change as a result of the penny shortage. For example, individuals who wish to pay their property tax in cash and do not have exact change are required to wait weeks to receive a check for the few cents owed to them, an administrative burden that costs more to process resulting in an inefficient use of taxpayer dollars. Local governments will be forced to issue checks for amounts worth less than the price of the paper they are printed on.

"Unlike private businesses, local governments do not have authority to retain excess change or round transactions without express authorization. SB 1005, the Public Entities Navigating the Need for Immediate Efficient Small-Change Act or PENNIES Act offers a practical solution that allows local governments to round cash transactions to the nearest five cents. This flexibility will save time, reduce administrative burdens, protect taxpayer dollars, and avoid confusion and litigation."

² <https://www.ncsl.org/fiscal/elimination-of-the-penny-cents-able-considerations>

2. A nickel for your thoughts. While rounding cash payments sounds easy enough, state law does not explicitly authorize public agencies to round transactions, and some constitutional and statutory provisions appear to conflict with rounding. For example, if the local agency rounds a refund of \$10.08 up to \$10.10, the local agency is giving the payor more money than they are owed. Article XVI, Sec. 6 of the State Constitution prohibits a gift of public funds. Could these two additional pennies constitute a constitutional violation? Similarly, if the local agency rounds a refund of \$10.08 down to \$10.05, the local agency is taking away three cents the payor is due. Could these three additional pennies constitute a tax, which the State Constitution requires voters to approve? While local agencies could avoid either question by using checks, that could prove less timely and more costly. SB 1005 gives local agencies the option to address these issues without this legal uncertainty.

3. Related legislation. AB 1793 (Ward) enacts the Californians for Common Cents Act, which addresses the same issue for merchants doing business in the state using a similar symmetrical rounding policy. The measure is currently pending in the Assembly Committee on Banking and Finance.

Support and Opposition (3/13/2026)

Support: California Association of County Treasurers and Tax Collectors (Sponsor)
California Special Districts Association
California State Association of Counties (CSAC)
City of Glendale
City of Rancho Cucamonga
League of California Cities
Rural County Representatives of California (RCRC)
Urban Counties of California (UCC)

Opposition: None Submitted

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