

SENATE THIRD READING
SB 1005 (Caballero)
As Amended June 4, 2026
2/3 vote. Urgency

SUMMARY

Allows local agencies to round the amount to the nearest \$0.05 for any payment made wholly or partly in cash to the local agency, and any refund or other amount tendered wholly or partly in cash by said agency.

Major Provisions

- 1) Authorizes a local agency to round the amount of any payment made wholly or partly in cash to the local agency, or any refund or other amount tendered wholly or partly in cash by the local agency, to the nearest \$0.05 cents.
- 2) Specifies that the provisions outlined in this bill only apply to a local agency if the governing body of the local agency adopts, by majority vote, a resolution to make its provisions applicable to the local agency.
- 3) Contains an urgency clause.

COMMENTS

- 1) *Local Taxes, Fees and Charges.* 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) A charge for a benefit or privilege conveyed directly to the payor and not conveyed to those not charged.
 - b) A charge for a service or product provided directly to the payor and not provided to those not charged.
 - c) A fee to cover certain costs of regulation.
 - d) Entrance fees for state or local property.
 - e) Fines imposed by a court or local government.
 - f) A charge imposed as a condition of property development.

g) 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.

- 2) *Pennies*. 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. 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 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. 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.

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 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."

Arguments in Support

According to the California Association of County Treasurers and Tax Collectors and the Rural County Representatives of California, the co-sponsors of this bill, "On February 9, 2025, President Trump ordered the Treasury Secretary, Scott Bessent, to stop producing new pennies at the U.S. Mint."

"Beginning in October 2025, local agency treasurers were notified by their commercial banks that, once existing penny supplies are exhausted, banks will no longer be able to fulfill penny orders for public agency clients. As a result, local agencies will be unable to consistently provide

exact change to taxpayers and residents who prefer to make their payments to government agencies in cash. Current statute does not account for the elimination of the penny and does not authorize public agencies to round cash payments to the nearest five cents."

"SB 1005 provides this critical relief to local agencies that must accept cash payments. This measure does not change any payment options available to those making their payments to public agencies; it simply reflects a new reality in how local agencies will conduct cash payments due to changes at the Federal level. This is a vital piece of public policy that will be urgently needed as the availability of the US Penny rapidly diminishes in the coming months."

Arguments in Opposition

According to SFV Alliance, "SB 1005, like AB 1793 succumbs to the United States Executive desire to no longer have the USA one cent penny. It is fitting for a billionaire to not value that our money supply needs to be able to subdivided in order for it to have a functioning exchange. I expect someone with that amount of financial wealth to not appreciate the need for the penny. It is very disappointing to me that of all the issues that the super-majority party of the state legislature has decided to fight the current Presidential administration, a divisible money supply was not one of the issues."

"While it may not be a big deal to a class of people like yourselves who make close to \$200k per year, it is to those of your constituents whom every cent matters. I don't say that to guilt you for the money you earn doing the people's work (you all work very hard and make great sacrifices to serve the people of California), I say that to remember those in the state who are not doing financially as well as many of us are. For those of lesser income, every penny counts."

"Pennys are not extinct, there are plenty still in existence. I personally carry them with me to not strain business that might be short of them at the moment of purchase. To allow local agency to round to cents is premature and not needed at this time."

"The desire of the legislature to adapt with the current president in getting rid of the penny is fostering a policy that is not honest. Creating legislation that does not honor the true cost of fees and taxes will create mistrust and resentment. Having true accounting of each cent helps people balance their budgets and work towards better a financial situation. Be it a business starting out where every loss could break the future existence or an indigent person trying to survive, PENNYS MATTER! The rounding of taxes is ultimately a regressive tax on the poor."

FISCAL COMMENTS

None.

VOTES

SENATE FLOOR: 37-0-3

YES: Allen, Alvarado-Gil, Archuleta, Arreguín, Ashby, Becker, Cabaldon, Caballero, Cervantes, Choi, Cortese, Dahle, Durazo, Gonzalez, Grayson, Grove, Hurtado, Jones, Laird, Limón, McGuire, McNerney, Menjivar, Niello, Ochoa Bogh, Padilla, Pérez, Richardson, Rubio, Seyarto, Smallwood-Cuevas, Strickland, Umberg, Valladares, Wahab, Weber Pierson, Wiener
ABS, ABST OR NV: Blakespear, Reyes, Stern

ASM LOCAL GOVERNMENT: 10-0-0

YES: Carrillo, Ta, Johnson, Pacheco, Caloza, Ransom, Blanca Rubio, Stefani, Ward, Wilson

UPDATED

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